

COMPANY RESULTS

CSE Global (CSE SP)

1H22: Results Below Expectations Due To Supply Chain Disruptions

1H22 earnings of S\$4.5m (-55% yoy) are below our expectations, forming 26% of our full-year estimate. This was mainly due to supply chain disruptions which led to longer delivery time. Revenue grew 12% yoy due to infrastructure project revenues. CSE maintained its interim dividend at 2.75 S cents/share and continues to receive a robust amount of orders. We trim our 2022F/23F earnings forecast by 42%/10%, rolling over our valuation base year to 2023F. Maintain HOLD. Target price: S\$0.44.

1H22 FINANCIALS

Year to 31 Dec (\$m)	1H22	1H21	yoy % chg
Revenue	262.2	234.5	11.8
Gross profit	72.8	70.0	4.0
Gross margin (%)	27.8	29.9	(2.1ppt)
Net profit	4.5	10.1	(55.0)
Net margin (%)	1.7	4.3	(2.6ppt)
New orders received	421.7	210.6	100.3
Outstanding orders	388.9	212.1	83.4

Source: CSE, UOB Kay Hian

RESULTS

- Earnings below expectations due to supply chain disruptions.** CSE Global's (CSE) 1H22 earnings of S\$4.5m (-55% yoy) are below our expectations, forming 26% of our full-year estimate. Supply chain disruptions have affected CSE's operations, resulting in longer delivery time, delayed revenue recognition and increased project execution costs. CSE also encountered higher sales and quoting costs, as well as unabsorbed labour costs since it opted to keep and grow its technical workforce to secure and cater to the new orders.
- Revenue growth driven by infrastructure segment.** CSE's revenue was 11.8% higher yoy, mainly attributed to growth in infrastructure project revenues in Australia and the Americas region. Gross margin decreased by 2.1ppt in 1H22, impacted by unfavourable sales mix of higher project revenues in the energy sector at lower gross margins, particularly in the Americas region.
- Robust order pipeline.** CSE continues to receive a robust amount of orders, with orders doubling to S\$422m compared to a year ago. This signals an extremely healthy pipeline in the coming quarters. Meanwhile, CSE will continue to build its businesses through a combination of acquisitions and organic investments through sales, marketing, engineering support and capacity enhancements. As demand for projects in the alternative energy space grows, CSE will actively pursue opportunities and acquisitions in the renewables space, including solar and wind energy projects. In addition, CSE will continue its focus on automation and data centre projects, supported by requirements in digitalisation, communications and enhancements in physical and cyber security globally.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	503	469	517	615	676
EBITDA	50	35	32	43	48
Operating profit	37	20	15	24	27
Net profit (rep./act.)	28	15	10	17	20
Net profit (adj.)	26	15	10	17	20
EPS (S\$ cent)	5.2	2.9	2.0	3.4	3.8
PE (x)	9.1	16.1	23.9	13.9	12.2
P/B (x)	1.3	1.3	1.3	1.3	1.2
EV/EBITDA (x)	5.8	8.4	9.1	6.8	6.1
Dividend yield (%)	5.9	5.9	5.9	5.9	5.9
Net margin (%)	5.6	3.2	2.0	2.8	2.9
Net debt/(cash) to equity (%)	20.3	25.5	26.3	31.9	30.2
Interest cover (x)	14.5	13.2	14.6	22.3	28.7
ROE (%)	15.2	7.8	5.3	9.2	10.2
Consensus net profit	-	-	19	23	25
UOBKH/Consensus (x)	-	-	0.53	0.75	0.80

Source: CSE Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$0.470
Target Price	S\$0.440
Upside	-6.4%

COMPANY DESCRIPTION

CSE Global Limited provides systems integration and information technology solutions, computer network systems, and industrial automation. The company also designs, manufactures, and installs management information systems. CSE Global develops, manufactures, and sells electronic and micro-processor monitoring equipment.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	CSE SP
Shares issued (m):	512.4
Market cap (\$m):	240.8
Market cap (US\$m):	175.0
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

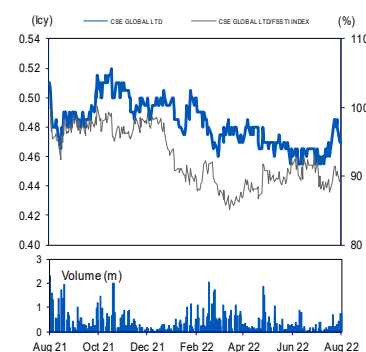
52-week high/low S\$0.520/S\$0.455

1mth	3mth	6mth	1yr	YTD
3.3	0.0	(6.0)	(9.6)	(5.1)

Major Shareholders

	%
Temasek Hldgs	25.0
FMR LLC	10.0
FY22 NAV/Share (\$)	0.37
FY22 Net Debt/Share (\$)	0.10

PRICE CHART



Source: Bloomberg

ANALYST(S)

John Cheong
+65 6590 6623
johncheong@uobkayhian.com

STOCK IMPACT

- **Strong order intake in energy and infrastructure segments.** Order intake in 1H22 surged by 100.3% to S\$421.7m, with broad-based growth registered in all industry sectors. Order intake for the energy sector rose by 124.0% yoy to S\$238m in 1H22. This was mainly due to new contracts for the maintenance of integrated control systems for production facilities and a large greenfield order in the renewables space relating to the installation and integration of solar power systems amounting to S\$79.3m, supported by higher order flows. In the infrastructure sector, order intake in 1H22 climbed by 92.9% to S\$154m as compared to S\$80m in 1H21, mainly due to a major contract secured to provide engineering solutions for the data centre market and higher field service orders for the wastewater market in the Americas region, as well as stronger orders of radio communication equipment and solutions led by utility and renewables customers in Australia. The mining & minerals sector clinched S\$30m worth of new orders in 1H22, mainly from a long-term-evolution system project secured for a mine site in Australia.

- **Dividend yield is attractive at around 6.0%.** We expect the group to maintain its full-year dividend at 2.75 S cents/share for 2022, translating into an above-average dividend yield of 6.0% vs the FSSTI's of around 4.0%.

EARNINGS REVISION/RISK

- We reduce our 2022/23/24 earnings forecasts by 42%/10%/11% after reducing our net margin estimate by 1.5ppt/1ppt/1.2ppt to factor in the higher admin costs due to supply chain disruptions, which has delayed revenue recognition and led to unabsorbed labour costs. We raise our admin costs as a percentage of sales estimate to 24.5%/23.5%/23.5% for 2022/23/24, up from 22.5%/22.0%/21.5%.
- We also raise our 2022/23/24 revenue forecasts by 3%/22%/31% after factoring in higher order wins of 39%/13%/10% to S\$720m/S\$612m/S\$618m.

VALUATION/RECOMMENDATION

- **Maintain HOLD and PE-based target price of S\$0.44**, pegged to 13x 2023 PE (+1SD above mean). We have rolled over our valuation base year to 2023 from 2022, so our target price remains unchanged despite a reduction in our earnings estimate. Our target price implies a dividend yield of 6.3%.

SHARE PRICE CATALYST

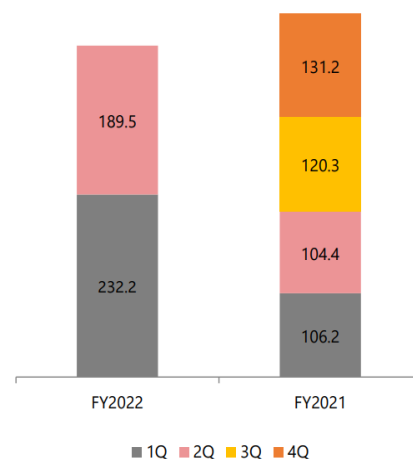
- Large greenfield O&G and infrastructure project wins.
- Recovery in oil prices.
- Accretive acquisitions.

CSE GLOBAL FORWARD PE BAND SINCE 2016



Source: Bloomberg, UOB Kay Hian

QUARTERLY ORDER INTAKE



Source: CSE

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	468.7	517.4	615.5	675.5
EBITDA	34.8	32.1	43.0	47.7
Deprec. & amort.	14.7	17.0	18.7	20.6
EBIT	20.1	15.1	24.3	27.1
Total other non-operating income	2.1	0.0	0.0	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(2.6)	(2.2)	(1.9)	(1.7)
Pre-tax profit	19.6	12.9	22.4	25.4
Tax	(4.6)	(2.8)	(4.9)	(5.6)
Minorities	(0.0)	0.0	0.0	0.0
Net profit	15.0	10.1	17.5	19.8
Net profit (adj.)	15.0	10.1	17.5	19.8

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	62.0	57.4	53.3	47.9
Other LT assets	85.2	80.4	75.5	70.6
Cash/ST investment	46.5	45.9	34.5	35.8
Other current assets	203.8	224.4	265.9	291.4
Total assets	397.5	408.0	429.2	445.8
ST debt	47.9	47.9	47.9	47.9
Other current liabilities	88.3	104.7	122.6	133.6
LT debt	47.5	47.5	47.5	47.5
Other LT liabilities	21.8	19.2	19.2	19.2
Shareholders' equity	192.0	187.9	191.2	196.8
Minority interest	(0.0)	0.7	0.7	0.7
Total liabilities & equity	397.5	408.0	429.2	445.8

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	29.4	28.6	18.4	31.8
Pre-tax profit	19.6	12.9	22.4	25.4
Tax	(4.9)	(2.8)	(4.9)	(5.6)
Deprec. & amort.	14.7	17.0	18.7	20.6
Associates	0.0	0.0	0.0	0.0
Working capital changes	(6.6)	(4.3)	(23.6)	(14.5)
Non-cash items	(0.2)	0.0	0.0	0.0
Other operating cashflows	6.8	5.8	5.8	5.8
Investing	(15.5)	(15.0)	(15.6)	(16.2)
Capex (growth)	(9.8)	(9.2)	(9.8)	(10.4)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.7	0.0	0.0	0.0
Others	(6.4)	(5.8)	(5.8)	(5.8)
Financing	(18.0)	(14.2)	(14.2)	(14.2)
Dividend payments	(14.1)	(14.2)	(14.2)	(14.2)
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(2.6)	0.0	0.0	0.0
Others/interest paid	(1.4)	0.0	0.0	0.0
Net cash inflow (outflow)	(4.1)	(0.6)	(11.4)	1.4
Beginning cash & cash equivalent	49.4	46.5	45.9	34.5
Changes due to forex impact	0.2	0.0	0.0	0.0
Ending cash & cash equivalent	46.5	45.9	34.5	35.8

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	7.4	6.2	7.0	7.1
Pre-tax margin	4.2	2.5	3.6	3.8
Net margin	3.2	2.0	2.8	2.9
ROA	3.8	2.5	4.2	4.5
ROE	7.8	5.3	9.2	10.2
Growth				
Turnover	(6.8)	10.4	19.0	9.8
EBITDA	(30.5)	(7.8)	34.1	10.8
Pre-tax profit	(45.2)	(34.1)	72.9	13.5
Net profit	(46.4)	(32.7)	72.9	13.5
Net profit (adj.)	(43.1)	(32.7)	72.9	13.5
EPS	(43.3)	(32.7)	71.7	13.5
Leverage				
Debt to total capital	33.2	33.6	33.2	32.6
Debt to equity	49.7	50.8	49.9	48.5
Net debt/(cash) to equity	25.5	26.3	31.9	30.2
Interest cover (x)	13.2	14.6	22.3	28.7