

COMPANY UPDATE

CSE Global (CSE SP)

Proposed Rights Issue To Fund Potential Acquisitions

CSE has announced a proposed rights issue of 1 right for every 5 shares at an issue price of S\$0.33 (20.5% discount to the last traded price). If fully subscribed, the net proceeds of S\$33.4m will be used to fund synergistic acquisitions in the communications business in the infrastructure industry in New Zealand and the US. This cash call amid poor market sentiment will likely create an overhang to share price. Our target price is reduced by 16% to S\$0.37 after adjusting for dilution from the rights issue. Maintain HOLD.

WHAT'S NEW

- Proposed non-underwritten rights issue.** On 10 Oct 22, CSE Global (CSE) announced a proposed non-underwritten rights issue of 1 right for every 5 shares held at an issue price of S\$0.33 per share. The issue price is at a 20.5% discount to the last traded price of S\$0.415 and 17.7% discount to the theoretical ex-rights price of S\$0.401. CSE will issue up to 102.48m shares, which could raise net proceeds of up to S\$33.4m.
- Majority of net proceeds intended to be used for acquisitions.** 90% of the net proceeds will be used to fund potential acquisitions of synergistic communications businesses in New Zealand and the US. This forms part of CSE's strategy to expand and grow its communications businesses in the infrastructure industry markets and participate in an expanding sector where demand for increased connectivity and security is expected to continue to grow. Both the potential acquisitions relate to radio and critical communications business which CSE views as a natural complementary fit to its business. The potential acquisitions are expected to strengthen CSE's existing business partner and customer relationships as well as extend geographic coverage for its communications business, thereby enhancing its market position in these markets. However, there is no definitive agreement that has been entered into at this moment. On the other hand, 10% of the net proceeds will be used to partially repay some loans previously drawn down for acquisitions as part of CSE's ongoing and prudent balance sheet management.
- Irrevocable undertakings from directors, and intention to subscribe from major shareholder.** Three directors – including the CEO, Chairman and independent director – with a total stake of around 2.8%, have given their undertakings to subscribe their portion. On the other hand, Temasek, who owns 25% stake, has stated its intention to subscribe their portion of rights. Assuming that none of the other entitled shareholders other than the undertaking shares and Temasek Entities subscribe for any rights shares of 28.88m, the rights issue could raise gross proceeds of S\$9.5m. We think that this cash call amid poor market sentiment will likely create a near-term overhang to share price.

KEY FINANCIALS

Year to 31 Dec (S\$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	2.8	3.2
PE (x)	7.1	12.5	18.5	12.9	11.3
P/B (x)	1.0	1.0	1.0	1.2	1.2
EV/EBITDA (x)	4.7	6.8	7.4	5.5	5.0
Dividend yield (%)	7.5	7.5	7.5	7.5	7.5
Net margin (%)	5.6	3.2	2.0	2.8	2.9
Net debt/(cash) to equity (%)	20.3	25.5	26.3	31.8	32.0
Interest cover (x)	14.5	13.2	14.6	22.3	28.7
ROE (%)	15.2	7.8	5.3	9.2	10.3
Consensus net profit	-	-	12	20	22
UOBKH/Consensus (x)	-	-	0.83	0.89	0.92

Source: CSE Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$0.365
Target Price	S\$0.37
Upside	+1.4%
(Previous TP)	S\$0.44

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 (S\$m):	187.0
Market cap (US\$m):	130.0
3-mth avg daily t'over (US\$m):	0.1

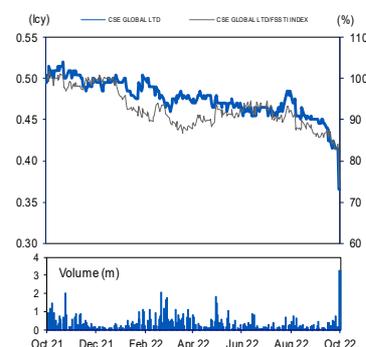
Price Performance (%)

52-week high/low	S\$0.520/S\$0.415			
1mth	3mth	6mth	1yr	YTD
(18.9)	(21.5)	(22.3)	(25.5)	(26.3)

Major Shareholders

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

PRICE CHART



Source: Bloomberg

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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) a major contract secured to provide engineering solutions for the data centre market, b) higher field service orders for the wastewater market in the Americas region, and c) stronger orders for 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.

EARNINGS REVISION/RISK

- We reduce our 2023 and 2024 EPS forecasts by 16% after increasing the share base by 102.48m to 614.88m. This is to account for the issuance of new shares from the proposed rights issue.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a 16% lower target price of S\$0.37**, pegged to an unchanged 13x 2023 PE (+1SD above mean).

SHARE PRICE CATALYST

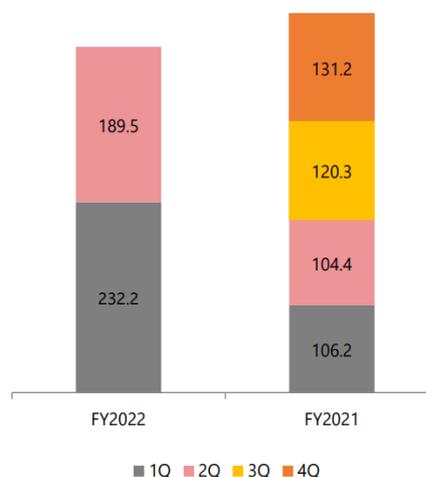
- Large greenfield O&G and infrastructure project wins.
- Recovery in oil prices.
- Accretive acquisitions.

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	34.6	33.2
Other current assets	203.8	224.4	265.9	291.4
Total assets	397.5	408.0	429.3	443.2
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	191.3	194.2
Minority interest	(0.0)	0.7	0.7	0.7
Total liabilities & equity	397.5	408.0	429.3	443.2

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)	(14.1)	(16.9)
Dividend payments	(14.1)	(14.2)	(14.1)	(16.9)
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)	(11.3)	(1.3)
Beginning cash & cash equivalent	49.4	46.5	45.9	34.6
Changes due to forex impact	0.2	0.0	0.0	0.0
Ending cash & cash equivalent	46.5	45.9	34.6	33.2

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	10.3
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)	44.1	13.5
Leverage				
Debt to total capital	33.2	33.6	33.2	32.9
Debt to equity	49.7	50.8	49.9	49.1
Net debt/(cash) to equity	25.5	26.3	31.8	32.0
Interest cover (x)	13.2	14.6	22.3	28.7

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