

COMPANY RESULTS

CSE Global (CSE SP)

3Q22: Results In Line; Mixed Outlook

3Q22 results were largely in line, with 9M22 revenue of S\$403m (+15% yoy) forming 78% of our 2022 estimate. This was due to project, time and material revenues growth across all geographical segments. Order intake grew 37% yoy due to new major contracts in the infrastructure sector and should remain healthy in the future. But chip shortages continue to delay project delivery and inflationary pressures are expected to impact gross margins. Maintain HOLD. Target price: S\$0.37.

3Q22 FINANCIALS

Year to 31 Dec (S\$m)	3Q22	3Q21	yoy % chg
Revenue	141.1	115.6	22.0%
New orders received	164.9	120.3	37.1%
Outstanding orders	412.8	216.8	90.4%

Source: CSE, UOB Kay Hian

RESULTS

- **Results in line with expectations.** CSE Global's (CSE) 9M22 revenue of S\$403m (+15.2% yoy) was largely in line with our expectations, forming 78% of our full-year estimate. This is mainly because delays in project execution from poor weather conditions and COVID-19 supply chain disruptions in 9M21 have since eased. Growth in project, time and material revenues across all geographical segments were observed during the year.
- **Revenue growth across all industry sectors for the quarter.** CSE's 3Q22 revenue growth of 22% yoy was mainly attributable to higher infrastructure project revenues of S\$54m (+44.8% yoy) across Australia, Singapore, the UK and the Americas regions. In addition, revenue in the energy sector rose 7.1% yoy to S\$72m due to greater project, time and material revenues recognised in the Americas region. Mining & minerals revenue of S\$15m (+37.7% yoy) has also improved due to better project progression, in comparison with project execution delays faced in 3Q21.
- **Order intake remains robust.** CSE's 9M22 order intake was up 77.3% yoy to S\$587m. Total orders in 9M22 have exceeded that of 2021, with improvement across all industry sectors observed. In the energy sector, orders surged 80.5% to S\$325m due to higher field services orders, new contracts for the renewables market and for maintenance of integrated control systems for production facilities secured in the Americas region. Order intake for the infrastructure sector also rose by 80.5% yoy to S\$209m in 9M22. This mainly arose from new major contracts for the data centre market and more wastewater and industrial project orders obtained upon increased infrastructure spending in the Americas region. Stronger orders of radio communication equipment and solutions by Australia and UK customers have also been recorded during the year. Mining and minerals' order intake has climbed to S\$53m (+50.4% yoy) as a robust order pipeline for radio communication network projects from Australian mining customers has been established.

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)	6.8	12.0	17.8	12.3	10.9
P/B (x)	0.9	0.9	1.0	1.1	1.1
EV/EBITDA (x)	4.6	6.6	7.2	5.3	4.8
Dividend yield (%)	7.9	7.9	7.9	7.9	7.9
Net margin (%)	5.6	3.2	2.0	2.8	2.9
Net debt/(cash) to equity (%)	20.3	25.5	26.3	31.8	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\$0.35
Target Price	S\$0.37
Upside	+5.7%

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.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	CSE SP
Shares issued (m):	512.4
Market cap (S\$m):	179.3
Market cap (US\$m):	130.5
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

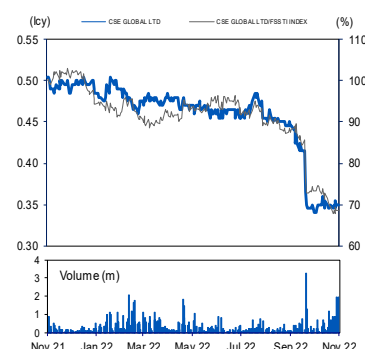
52-week high/low S\$0.505/S\$0.340

1mth	3mth	6mth	1yr	YTD
1.4	(23.1)	(24.7)	(30.7)	(29.3)

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

- **Ongoing expansion efforts in infrastructure segment.** CSE has recently proposed the acquisition of Logic Wireless, Logic Wireless, and Logic Wireless Europe (Logic Wireless), the leading communications provider in New Zealand, Australia and the UK. Logic Wireless distributes two-way radio communication and cellular solutions to governments and core industries such as transport and mining. This lends CSE the opportunity to tap on Logic Wireless' network management applications that have been developed in-house, as well as to expand its reach into the New Zealand market while strengthening its market position in Australia and the UK. Management expects to enjoy operational synergies from the proposed acquisition, and deems it earnings accretive to the group.
- **Dividend yield is attractive.** We expect CSE to maintain its full-year dividend at 2.75 S cents/share for 2022, translating to an above-average dividend yield of 7.7% vs the FSSTI's of around 4.0%.
- **Supply chain disruptions continue to impact project execution timeframes.** Despite the easing of restrictions across the regions, CSE continues to face supply chain disruptions particularly in chip sets. As a result, project execution timeframes nearly doubled, causing substantial delays in project completion. Coupled with inflationary pressures, gross margins are likely to be affected in the near term.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

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

SHARE PRICE CATALYST

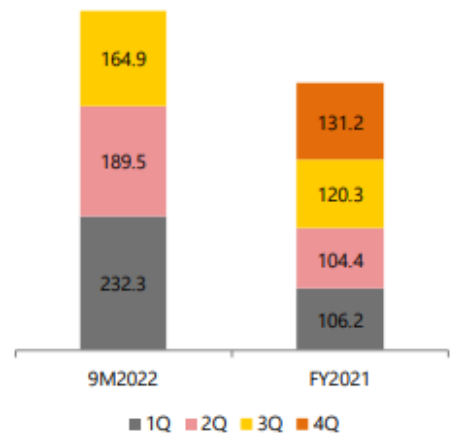
- Large infrastructure project wins.
- Healthy demand across all segments.
- Accretive acquisitions.

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

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