

COMPANY UPDATE

CSE Global (CSE SP)

Earnings Accretive Acquisition And Major Contract Wins

CSE just acquired a US radio communication group for US\$11m. We view this positively as the acquisition valuation appears attractive and is highly accretive as it could lift CSE's 2023F earnings by around 20%, assuming Radio One Group's 2022 earnings can be sustained. In addition, CSE has won two major contracts worth US\$87m. We raise our 2023F EPS by 12% to factor in the positive developments. We also raise our target price by 22% to S\$0.45 (14x 2023F PE). Upgrade to BUY.

WHAT'S NEW

- **Acquisition of Radio One Group.** CSE Global (CSE) on 31 Jan 23 announced that it had successfully acquired a US radio communication group, Radio One Group, for US\$11m. Radio One is based in Florida and provides radio communications solutions, Federal Communications Commission licensing assistance, servicing and two-way radio rentals to enterprise and government customers. It also installs and manages wireless networks and video surveillance camera systems. The acquisition is part of CSE's strategy to expand and grow its communication businesses in the infrastructure industry markets. We view this positively as the acquisition valuation is attractive at around 4x 2022 PE and is highly accretive as it could lift CSE's 2023F earnings by S\$3.6m or around 20%, assuming the 2022 earnings of Radio One Group can be sustained.
- **Winning of two major contracts worth S\$87m.** On 30 Jan 23, CSE announced that it had secured two major contracts worth S\$87.3m in the US and Singapore. The first major contract is for the design, engineering, fabrication, installation and integration of complex electrical, instrumentation and control systems and equipment for wastewater treatment plants in the US, which is slated for execution from 2023 to 2027. The second major contract relates to a multi-year system maintenance contract from the Singapore Government in the infrastructure sector.
- **Expect strong order wins for 2022.** We expect CSE to achieve a record order win of more than S\$700m for 2022. To recap, 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 (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	503	469	517	675	696
EBITDA	50	35	32	46	50
Operating profit	37	20	15	27	29
Net profit (rep./act.)	28	15	10	20	21
Net profit (adj.)	26	15	10	20	21
EPS (S\$ cent)	5.2	2.9	2.0	3.2	3.4
PE (x)	6.8	12.0	19.0	11.8	10.9
P/B (x)	0.9	0.9	1.0	1.2	1.2
EV/EBITDA (x)	4.6	6.6	9.5	6.6	6.2
Dividend yield (%)	7.9	7.9	7.3	7.3	7.3
Net margin (%)	5.6	3.2	2.0	2.9	3.0
Net debt/(cash) to equity (%)	20.3	25.5	26.3	38.1	32.5
Interest cover (x)	14.5	13.2	14.6	23.8	29.8
ROE (%)	15.2	7.8	5.3	10.3	10.8
Consensus net profit	-	-	12	19	21
UOBKH/Consensus (x)	-	-	0.88	1.04	1.02

Source: CSE Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	S\$0.375
Target Price	S\$0.450
Upside	+20.0%
(Previous TP)	S\$0.370

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):	614.9
Market cap (S\$m):	230.6
Market cap (US\$m):	175.1
3-mth avg daily t'over (US\$m):	0.2

Price Performance (%)

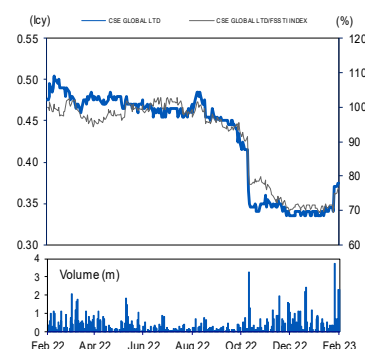
52-week high/low	S\$0.501/S\$0.335
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1mth	3mth	6mth	1yr	YTD
10.3	7.9	(17.9)	(20.5)	10.3

Major Shareholders

	%
Temasek Hldgs	25.0
FMR LLC	10.0
FY22 NAV/Share (S\$)	0.31
FY22 Net Debt/Share (S\$)	0.12

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Supply chain disruptions could ease, allowing for normalisation of project delivery.**
 We think that the supply chain disruptions, particularly in chip sets, should ease given the easing of restrictions across the regions and the falling demand of semiconductor chips recently announced by the major chip producers including Intel and Samsung. As a result, project execution timeframes which have been facing delays previously due to supply chain issues could normalise.
- 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 7.3% vs the FSSTI's of around 4.0%.

EARNINGS REVISION/RISK

- We raise our 2023/24 earnings forecast by 12%/7% to S\$19.6m/S\$21.2m after increasing our revenue forecast by 10%/3% to S\$676m/S\$696m to factor in the acquisition of Radio One Group. This acquisition is highly accretive as it could lift CSE's 2023F earnings by S\$3.6m or around 20%, assuming 2022 earnings of Radio One Group could be sustained in 2023. However, we are taking a more conservative view in our 2023 earnings estimate for the acquisition for now, pending the delivery of earnings from the new acquisition in 1H23.

VALUATION/RECOMMENDATION

- Upgrade to BUY and raise target price by 22% to S\$0.45.** Our target price is now pegged to 14x 2023 PE (based on an unchanged +1SD above mean), up from 13x previously as the PE band has increased due to the reduction in forward earnings estimates. Coupled with the 12% increase in our 2023F earnings estimates to account for the new acquisition, our target price has increased by 22% to S\$0.45. Our target price implies a 2023F dividend yield of 5% as we expect CSE to maintain a full-year dividend of 2.75 S cents/share for 2023.

SHARE PRICE CATALYST

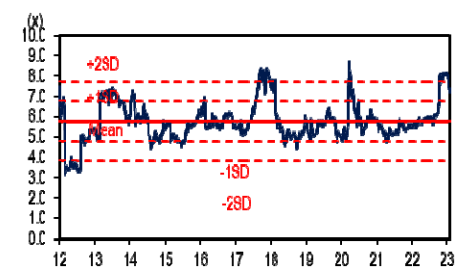
- Large infrastructure project wins.
- Healthy demand across all segments.
- Accretive acquisitions.

CSE FORWARD PE BAND SINCE 2016



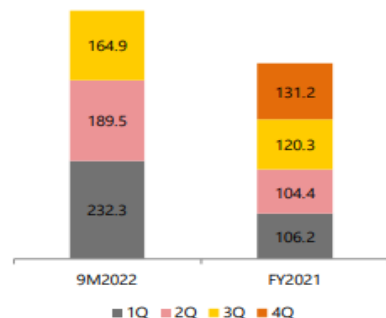
Source: Bloomberg, UOB Kay Hian

CSE 10Y DIVIDEND YIELD BAND



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	675.5	696.3
EBITDA	34.8	32.1	45.9	49.5
Deprec. & amort.	14.7	17.0	18.9	20.8
EBIT	20.1	15.1	27.1	28.7
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	25.1	27.1
Tax	(4.6)	(2.8)	(5.5)	(6.0)
Minorities	(0.0)	0.0	0.0	0.0
Net profit	15.0	10.1	19.6	21.1
Net profit (adj.)	15.0	10.1	19.6	21.1

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	62.0	57.4	53.8	48.5
Other LT assets	85.2	80.4	75.5	70.6
Cash/ST investment	46.5	45.9	21.7	31.1
Other current assets	203.8	224.4	291.4	300.2
Total assets	397.5	408.0	442.4	450.4
ST debt	47.9	47.9	47.9	47.9
Other current liabilities	88.3	104.7	133.6	137.4
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	193.5	197.7
Minority interest	(0.0)	0.7	0.7	0.7
Total liabilities & equity	397.5	408.0	442.4	450.4

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	29.4	28.6	6.2	42.7
Pre-tax profit	19.6	12.9	25.1	27.1
Tax	(4.9)	(2.8)	(5.5)	(6.0)
Deprec. & amort.	14.7	17.0	18.9	20.8
Associates	0.0	0.0	0.0	0.0
Working capital changes	(6.6)	(4.3)	(38.1)	(5.0)
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)	(16.2)	(16.5)
Capex (growth)	(9.8)	(9.2)	(10.4)	(10.7)
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)	(24.1)	9.3
Beginning cash & cash equivalent	49.4	46.5	45.9	21.7
Changes due to forex impact	0.2	0.0	0.0	0.0
Ending cash & cash equivalent	46.5	45.9	21.7	31.1

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	7.4	6.2	6.8	7.1
Pre-tax margin	4.2	2.5	3.7	3.9
Net margin	3.2	2.0	2.9	3.0
ROA	3.8	2.5	4.6	4.7
ROE	7.8	5.3	10.3	10.8
Growth				
Turnover	(6.8)	10.4	30.6	3.1
EBITDA	(30.5)	(7.8)	43.1	7.8
Pre-tax profit	(45.2)	(34.1)	94.3	7.6
Net profit	(46.4)	(32.7)	94.3	7.6
Net profit (adj.)	(43.1)	(32.7)	94.3	7.6
EPS	(43.3)	(32.7)	61.9	7.6
Leverage				
Debt to total capital	33.2	33.6	32.9	32.5
Debt to equity	49.7	50.8	49.3	48.3
Net debt/(cash) to equity	25.5	26.3	38.1	32.5
Interest cover (x)	13.2	14.6	23.8	29.8

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