

COMPANY UPDATE

CSE Global (CSE SP)

Good Buying Opportunity As Company Scales Up In The US

CSE, through its US subsidiary, has initiated legal proceedings against a customer over a US\$6m payment under a standby letter of guarantee, which we expect to be recovered. The company also divested a US property for US\$29m, with plans to reinvest the proceeds into a larger facility while continuing to lease the divested property. This reflects its plans to capitalise on future opportunities in the electrification sector. Maintain BUY with an unchanged target price of S\$0.59.

WHAT'S NEW

- Legal proceedings by US subsidiary against customer; expect limited impact.** CSE Global's (CSE) US subsidiary, W-Industries, is pursuing legal action in Texas against a customer over a US\$6m payment made under a standby letter of guarantee (SBLC). The SBLC is intended solely for repaying amounts owed by W-Industries under the subcontract. However, the customer called on the SBLC, and the bank disbursed the US\$6m on 20 Dec 24. CSE believes the call was unjustified and is actively seeking to recover the amount. While the legal proceedings are still in the early stages, we expect the US\$6m to be recovered, resulting in minimal impact on CSE's FY24 performance.
- Divestment of US facility to pave way for further expansion.** CSE has sold a US industrial property for US\$29.25m, primarily to monetise the asset and unlock capital for the acquisition of a larger facility in the US for further expansion. Management believes that this strategic disposal allows the company to realise the value of the property and reallocate resources to enhance asset utilisation. We expect a post-tax gain of US\$9m from the sale, which will be used to fund the new property purchase. CSE will also continue leasing the divested facility, with the lease terms yet to be finalised. This signals management's positive outlook for its electrification business and its commitment to capitalising on the anticipated growth in the US market.
- Remain confident in its healthy order pipeline; more oil and gas drilling under new US president could present opportunities.** Despite the ongoing legal proceedings, we believe CSE's strategic initiatives and healthy order backlog demonstrate its positive growth prospects. Its 9M24 orderbook reached S\$634m, with order intake of S\$565m. Although 3Q24 order wins came in lower at \$187m (-38% yoy), we expect to see a qoq recovery in 4Q24, during which there were three major order wins totalling around S\$129m in the first half of Nov 24 alone. These fall under CSE's electrification business in the US, and reflect its strengthening market position. In the oil and gas space, we note that Trump's push to increase US oil and gas drilling could create more project opportunities for CSE in the future.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	558	725	860	823	889
EBITDA	22	54	66	65	69
Operating profit	8	38	45	44	49
Net profit (rep./act.)	5	23	22	29	33
Net profit (adj.)	5	23	22	29	33
EPS (S\$ cent)	0.9	3.7	3.2	4.3	4.9
PE (x)	47.5	11.6	13.1	9.8	8.6
P/B (x)	1.2	1.2	1.2	1.1	1.0
EV/EBITDA (x)	16.1	6.5	5.4	5.5	5.1
Dividend yield (%)	6.5	6.5	6.5	6.5	6.5
Net margin (%)	0.9	3.1	2.5	3.6	3.7
Net debt/(cash) to equity (%)	34.0	35.2	22.3	8.8	1.9
Interest cover (x)	4.2	5.4	9.9	10.1	11.3
ROE (%)	2.4	10.5	9.5	11.6	12.5
Consensus net profit	-	-	25	33	37
UOBKH/Consensus (x)	-	-	0.86	0.90	0.89

Source: CSE Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.425
Target Price	S\$0.59
Upside	+38.8%

COMPANY DESCRIPTION

CSE Global 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):	706.4
Market cap (S\$m):	300.2
Market cap (US\$m):	219.7
3-mth avg daily t'over (US\$m):	0.7

Price Performance (%)

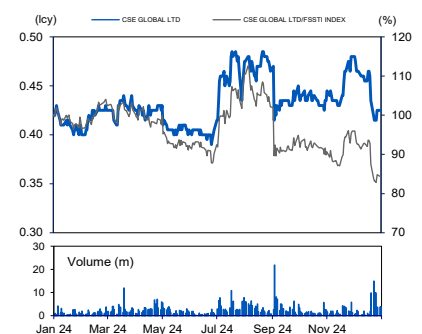
52-week high/low S\$0.495/S\$0.390

1mth	3mth	6mth	1yr	YTD
(11.5)	(3.4)	4.9	1.2	2.4

Major Shareholders

	%
Temasek Hldgs	23.0
FMR LLC	10.0
FY24 NAV/Share (S\$)	0.36
FY24 Net Debt/Share (S\$)	0.08

PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **Strong performance backed by robust orderbook.** CSE continues to enjoy strong order wins, with an order intake of S\$565m in 9M24. Orderbook reached S\$634m, signalling a healthy pipeline for the coming quarters. CSE continues to embark on its growth strategy through capitalising on emerging trends like electrification and decarbonisation, while pursuing acquisitions in the critical communications space in the Americas region. Moving forward, CSE will also continue to focus on data centre and automation projects to seize emerging market prospects.
- **Dividend yield is attractive.** We expect CSE to maintain its full-year dividend at 2.75 S cents/share for 2024, translating to an above-average dividend yield of about 6.5% vs the FSSTI's of around 4.0%.

### EARNINGS REVISION/RISK

- We maintain our earnings forecasts.

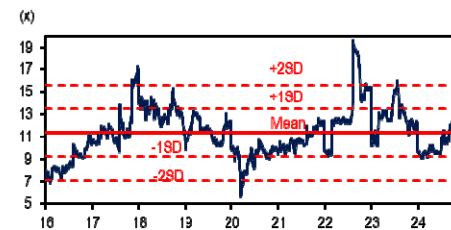
### VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged target price of S\$0.59.** Our target price is pegged to 13x 2025F PE (based on +1SD above mean).

### SHARE PRICE CATALYST

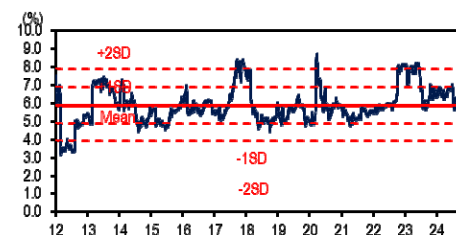
- Large infrastructure project wins.
- Accretive acquisitions.

### FORWARD PE BAND SINCE 2016



Source: Bloomberg, UOB Kay Hian

### 10-YEAR DIVIDEND YIELD BAND



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	725.1	860.1	823.5	889.4
EBITDA	54.4	65.9	64.7	69.4
Deprec. & amort.	16.9	20.7	20.7	20.7
EBIT	37.6	45.2	43.9	48.7
Total other non-operating income	1.3	(10.5)	0.0	0.0
Associate contributions	(0.0)	0.0	0.0	0.0
Net interest income/(expense)	(10.1)	(6.7)	(6.4)	(6.1)
<b>Pre-tax profit</b>	<b>28.8</b>	<b>28.1</b>	<b>37.5</b>	<b>42.5</b>
Tax	(6.3)	(6.2)	(8.3)	(9.4)
Minorities	0.1	0.0	0.0	0.0
<b>Net profit</b>	<b>22.5</b>	<b>21.9</b>	<b>29.3</b>	<b>33.2</b>
Net profit (adj.)	22.5	21.9	29.3	33.2

### CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>55.9</b>	<b>27.6</b>	<b>63.5</b>	<b>49.5</b>
Pre-tax profit	28.8	28.1	37.5	42.5
Tax	(6.6)	(6.2)	(8.3)	(9.4)
Deprec. & amort.	16.9	20.7	20.7	20.7
Associates	(0.0)	0.0	0.0	0.0
Working capital changes	6.5	(22.1)	6.4	(11.5)
Non-cash items	(0.1)	0.0	0.0	0.0
Other operating cashflows	10.4	7.1	7.1	7.1
<b>Investing</b>	<b>(24.4)</b>	<b>(14.4)</b>	<b>(14.2)</b>	<b>(14.5)</b>
Capex (growth)	(17.9)	(7.3)	(7.1)	(7.4)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	1.3	0.0	0.0	0.0
Others	(7.8)	(7.1)	(7.1)	(7.1)
<b>Financing</b>	<b>(16.8)</b>	<b>8.5</b>	<b>(16.9)</b>	<b>(16.9)</b>
Dividend payments	(16.9)	(14.7)	(16.9)	(16.9)
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.1	0.0	0.0	0.0
Others/interest paid	0.0	23.2	0.0	0.0
<b>Net cash inflow (outflow)</b>	<b>14.7</b>	<b>21.7</b>	<b>32.4</b>	<b>18.0</b>
Beginning cash & cash equivalent	24.1	39.4	60.7	92.6
Changes due to forex impact	(0.4)	(0.4)	(0.4)	(0.4)
<b>Ending cash &amp; cash equivalent</b>	<b>39.4</b>	<b>60.7</b>	<b>92.6</b>	<b>110.2</b>

### BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	70.3	62.5	53.8	45.4
Other LT assets	128.3	123.5	118.6	113.7
Cash/ST investment	39.4	60.7	92.6	110.2
Other current assets	361.6	426.1	408.3	440.3
<b>Total assets</b>	<b>599.6</b>	<b>672.7</b>	<b>673.3</b>	<b>709.5</b>
ST debt	95.9	95.9	95.9	95.9
Other current liabilities	239.8	282.1	270.8	291.2
LT debt	19.5	19.5	19.5	19.5
Other LT liabilities	28.4	28.4	28.4	28.4
Shareholders' equity	216.1	246.1	258.0	273.8
Minority interest	(0.1)	0.7	0.7	0.7
<b>Total liabilities &amp; equity</b>	<b>599.6</b>	<b>672.7</b>	<b>673.3</b>	<b>709.6</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	7.5	7.7	7.9	7.8
Pre-tax margin	4.0	3.3	4.6	4.8
Net margin	3.1	2.5	3.6	3.7
ROA	4.1	3.4	4.3	4.8
ROE	10.5	9.5	11.6	12.5
<b>Growth</b>				
Turnover	30.0	18.6	(4.3)	8.0
EBITDA	147.0	21.1	(1.9)	7.3
Pre-tax profit	246.5	(2.4)	33.8	13.3
Net profit	372.0	(2.8)	33.8	13.3
Net profit (adj.)	372.0	(2.8)	33.8	13.3
EPS	309.6	(11.4)	33.8	13.3
<b>Leverage</b>				
Debt to total capital	34.8	31.9	30.9	29.6
Debt to equity	53.4	46.9	44.7	42.2
Net debt/(cash) to equity	35.2	22.3	8.8	1.9
Interest cover (x)	5.4	9.9	10.1	11.3

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