



CSE Global

(CSE SP/CSES.SI)

The next big thing

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- We upgrade CSE to Outperform (from Neutral) as we see the company accelerate its transformation into a key infrastructure player in Singapore and Australia. The backing of Heliconia Capital Management (a unit of Temasek) as the largest shareholder should provide a favourable tailwind to new project wins.
- In the near-term, the recovery of oil and gas projects and commodity upcycle should give CSE enough runway to support its above-industry 5% dividend yield.
- Valuations are currently attractive at 10-9x forward P/E while EPS growth could surprise on the upside if/when it wins increasingly higher-margin infrastructure projects.

Financials & Key Operating Statistics					
YE Dec (\$\$ m)	2019	2020	2021F	2022F	2023F
Revenue	451.8	502.8	522.9	538.6	560.1
PATMI	24.1	28.0	26.2	29.1	30.3
Core PATMI	22.6	25.6	23.8	26.7	27.9
Core EPS	4.4	5.0	4.6	5.2	5.4
Core EPS grth (%)	21.3	13.6	-7.1	12.3	4.3
Core P/E (x)	12.2	10.8	11.6	10.3	9.9
DPS (SGCents)	2.8	2.8	2.8	2.8	2.8
Div Yield (%)	5.1	5.1	5.1	5.1	5.1
Net Margin (%)	5.3	5.6	5.0	5.4	5.4
Gearing (%)	33.8	33.1	37.7	25.9	15.4
Price / Book (x)	1.6	1.4	1.4	1.3	1.2
ROE (%)	13.7	14.6	12.9	13.3	12.9

Source: Company Data, KGI Research

The three pillars. CSE's strength lies in its diversified businesses. While originally oil & gas heavy, its pivot towards infrastructure in Australia and Singapore is starting to have accelerating benefits. In our view, the group's capabilities as an asset-light system integrator in key growth/recovery industries places it in a sweet spot when global economic growth starts to pick up in the second half of 2021.

Commodities boom down under. The surge in the commodities sector, fuelled by supply-demand mismatch, and now boosted by the prospect of more fiscal stimulus (specifically to support green initiatives) in the US and elsewhere, has led to metal and agricultural prices trading at multi-year highs. The commodities upcycle is a boon to Australia where CSE generates more than half of its infrastructure revenues. In addition, the group's radio communications service also serves the mining and minerals (M&M) sector in the country. EBIT trend in CSE's M&M segment has improved from S\$0.1mn in 1H2019 to S\$2.3mn in 2H2020.

Table 1: EBIT by industry segment				
S\$'000	1H2019	2H2019	1H2020	2H2020
Oil & Gas	8.3	9.9	12.1	8.7
Infrastructure	5.8	7.4	5.9	8.8
Mining and Mineral	0.1	0.3	1.6	2.3
Total	14.1	17.7	19.5	19.8

Source: Company data, KGI Research

OUTPERFORM - Upgrade			
Price as of 16 Mar 21 (SGD)	0.54	Performance (Absolute)	
12M TP (\$)	0.61	1 Month (%)	4.9
Previous TP (\$)	0.52	3 Month (%)	12.9
Upside, incl div (%)	19%	12 Month (%)	49.0
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	274		
Issued Shares (mn)	512		
Vol - 3M Daily avg (mn)	2.2		
Val - 3M Daily avg (\$mn)	1.1		
Free Float (%)	71.5%		
Major Shareholders		Previous Recommendations	
Temasek Holdings	25.0%	6-Aug-20	NEUTRAL \$0.52
Fidelity Mgt & Research	10.0%		

Oiled up for the ride. As CSE transitions into infrastructure/M&M projects, the Oil & Gas industry still makes up more than half of revenues in the last two years. It is worth noting that in this segment, the group is well diversified between onshore and offshore projects in an almost equal split. Offshore project commitments are expected to reach a new record of almost 600 projects in the next five years, according to Rystad Energy, driven partly by better cost structure, and underinvestment over the last few years.

Infrastructure projects as the next catalyst. CSE has highlighted Singapore Infrastructure projects as a key strategy focus in 2021, in key sectors such as security and transportation-related projects. We expect major projects in this segment to be the key earnings catalyst for the group, as this would mean better diversification from the Oil & Gas sector. Having Heliconia Capital Management, a unit of Temasek Holdings, as the new major shareholder of CSE, strengthens the case for more infrastructure-related projects in Singapore.

Valuation & Action: We upgrade CSE to Outperform and raise our TP to S\$0.61, based on 12x FY2021F P/E. CSE is currently trading at 10/10/9x 2021/22/23F EPS, below its 10-year average of 12x P/E. We see its strong balance sheet as a key differentiator among peers, giving it the ability to consistently pay out steady dividends to shareholders, while also providing it the flexibility to scoop up EPS-accretive acquisitions in the current environment.

Risks: Margin pressure due to competition and lower-than-expected new order wins. Foreign exchange risks due to its exposure to USD, AUD and EUR.

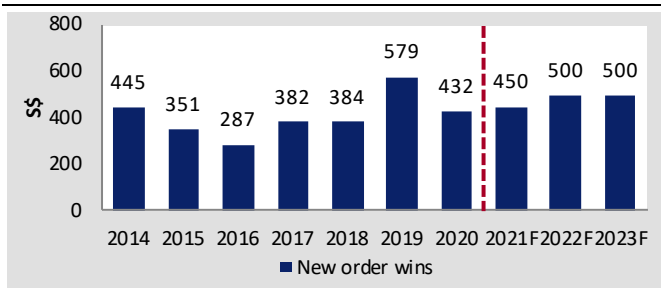
Future Focus

Figure 1: CSE's key strategies in 2021



Source: Company data

Figure 2: Order win projections



Source: Company data, KGI Research

Table 2: Order book trend by segment

\$S'mn	1Q20	2Q20	3Q20	4Q20
Oil & Gas	173	145	119	98
Infrastructure	114	126	128	121
Mining & Mineral	16	23	21	18
Total	303	294	267	236

Source: Company data, KGI Research

YE 31 Dec

INCOME STATEMENT (S\$m)	2018	2019	2020	2021F	2022F	2023F
Revenue	376.8	451.8	502.8	522.9	538.6	560.1
Cost of sales	(271.6)	(328.0)	(356.6)	(376.5)	(385.1)	(400.5)
Gross Profit	105.2	123.7	146.2	146.4	153.5	159.6
Other operating income/(expenses)	(4.3)	(3.3)	(3.7)	0.0	0.0	0.0
Selling and distribution	(4.3)	(4.5)	(2.5)	(3.7)	(3.8)	(3.9)
Admin	(71.4)	(85.8)	(103.1)	(109.8)	(113.1)	(117.6)
Profit from Operations	25.1	30.1	36.8	32.9	36.6	38.1
Finance income/(expenses)	(0.6)	(1.8)	(3.5)	(2.5)	(2.5)	(2.5)
Share of JV results	0.0	0.0	0.1	0.1	0.1	0.1
Exceptionals/Investment income	1.5	1.5	2.4	2.4	2.4	2.4
Profit before Tax	26.1	29.8	35.8	32.9	36.6	38.1
Income tax	(6.6)	(6.1)	(7.8)	(6.8)	(7.5)	(7.8)
Non-controlling interests	0.7	0.4	0.0	0.0	0.0	0.0
PATMI	20.1	24.1	28.0	26.2	29.1	30.3
PATMI Normalized	18.6	22.6	25.6	23.8	26.7	27.9
BALANCE SHEET (US\$m)	2018	2019	2020	2021F	2022F	2023F
Cash and cash equivalents	74.1	58.6	52.5	35.6	55.6	77.5
Trade and other receivables	116.2	173.7	170.3	212.7	219.1	227.9
Inventory	16.5	21.7	26.1	15.1	15.5	16.1
Other current assets	3.7	7.4	5.7	5.7	5.7	5.7
Current Assets	210.5	261.4	254.6	269.1	295.8	327.1
Property, plant and equipment	28.2	58.2	61.6	49.7	37.2	23.9
Other non-current assets	30.4	76.6	85.7	88.6	91.6	94.7
Non-current Assets	58.6	134.9	147.3	138.2	128.8	118.6
Total assets	269.1	396.3	401.9	407.3	424.6	445.8
Trade and other payables	56.4	94.1	83.9	81.1	82.9	86.2
Borrowings (current)	36.1	77.1	69.8	70.5	72.6	75.5
Other current liabilities	3.4	5.1	7.4	7.4	8.1	8.4
Current Liabilities	95.9	176.3	161.1	158.9	163.6	170.1
Borrowings (non-current)	0.0	30.4	26.5	26.1	26.9	28.0
Other non-current liabilities	0.8	13.5	22.6	18.7	15.5	13.0
Non-current liabilities	0.8	43.8	49.1	44.8	42.5	41.0
Shareholders equity	171.2	176.3	191.8	203.8	218.7	234.7
Non-controlling interests	1.1	-0.1	-0.1	-0.1	-0.1	-0.1
Total Equity	172.3	176.2	191.6	203.6	218.5	234.6
Total Liabilities and Equity	269.1	396.3	401.9	407.3	424.6	445.8
CASH FLOW STATEMENT (US\$m)	2018	2019	2020	2021F	2022F	2023F
Net income before tax	26.1	29.8	35.8	32.9	36.6	38.1
Depreciation & non cash adjustments	(3.9)	11.6	23.2	19.1	19.6	20.3
Change in Working Capital	27.5	(25.0)	(11.3)	(34.0)	(4.6)	(5.8)
Income Tax Paid	(1.7)	(2.3)	(3.9)	(6.8)	(6.8)	(7.5)
Interest Paid	(0.8)	(2.1)	(3.8)	(2.8)	(2.8)	(2.8)
CF from operating activities	47.2	11.8	40.1	8.5	42.1	42.2
Purchase/Disposal of PPE	(6.7)	(13.4)	(11.4)	(8.0)	(8.0)	(8.0)
Other CFI	(0.9)	(68.8)	1.8	0.0	0.0	0.0
CF from investing activities	(7.2)	(82.2)	(9.6)	(8.0)	(8.0)	(8.0)
Dividends Paid	(14.2)	(14.0)	(14.1)	(14.2)	(14.2)	(14.2)
Debt Raised / (Repaid)	4.7	63.9	(18.1)	(3.6)	(0.3)	1.5
Equity Raised / (Bought Back)	0.0	0.0	0.0	0.0	0.0	0.0
Other Cash from Financing	(3.3)	(2.1)	0.0	0.0	0.0	0.0
CF from financing activities	(12.7)	47.8	(32.1)	(17.8)	(14.5)	(12.7)
Net increase in cash & cash equiv.	20.7	(23.4)	(1.3)	(17.0)	20.0	21.9
FX effects	(6.6)	(0.9)	0.4	0.4	0.4	0.4
Beginning Cash	46.9	74.1	50.7	49.4	32.4	52.4
Ending Cash	67.6	58.6	52.5	35.6	55.6	77.5
KEY RATIOS	2018	2019	2020	2021F	2022F	2023F
Profitability						
Core EPS	3.6	4.4	5.0	4.6	5.2	5.4
Core EPS Growth (%)	(629.5)	21.3	13.6	(7.1)	12.3	4.3
DPS (SGD Cents)	2.8	2.8	2.8	2.8	2.8	2.8
Dividend Yield (%)	5.1	5.1	5.1	5.1	5.1	5.1
Profitability						
Gross margin	27.9%	27.4%	29.1%	28.0%	28.5%	28.5%
EBITDA margin	8.6%	8.3%	11.1%	10.1%	10.6%	10.6%
Net margin	5.3%	5.3%	5.6%	5.0%	5.4%	5.4%
ROE	11.7%	13.7%	14.6%	12.9%	13.3%	12.9%
ROA	7.5%	6.1%	7.0%	6.4%	6.9%	6.8%
Growth (% Y-o-Y)						
Revenue	4.0%	19.9%	11.3%	4.0%	3.0%	4.0%
EBITDA	173.5%	15.4%	49.3%	-5.5%	8.1%	4.0%
Net income (core)	-144.5%	19.6%	16.4%	-6.5%	11.2%	3.9%
Diluted EPS (core)	-629.5%	21.3%	13.6%	-7.1%	12.3%	4.3%
Financial Structure (x)						
Interest coverage	30.1	14.1	9.8	11.7	13.1	13.4
Total Debt/Equity	0.2	0.7	0.6	0.6	0.5	0.5
Net Gearing	-0.2	0.3	0.3	0.4	0.3	0.2
Market Valuation (x)						
Price / Earnings	14.8	12.2	10.8	11.6	10.3	9.9
Price / Book	1.6	1.6	1.4	1.4	1.3	1.2
Price / Sales	0.7	0.6	0.5	0.5	0.5	0.5
EV / EBITDA	3.1	2.7	1.8	1.9	1.8	1.7

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Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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