



CHINA
DEVELOPMENT
FINANCIAL

CSE Global
(CSE SP/CSES.SI)

Turnaround as industry fundamentals improve; offering attractive 6.4% dividend yield

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- CSE reported a huge turnaround in 2Q18, with PATMI of US\$4.2mn from a loss of S\$13.8mn in 2Q17.
- 2Q18 core-PATMI, excluding the S\$16.8mn losses arising from fines recorded in 2Q17, would have been a 44% YoY increase.
- New orders improved QoQ in 2Q18 as it secured S\$89mn in new orders, compared to S\$69mn in 1Q18. Its current S\$149mn net order book remains healthy, just slightly below the 3-year annual average of S\$177m.
- CSE's valuations are attractive given its undemanding earnings multiple (14/13/12x 2018/19/20F EPS), positive growth outlook from synergies with its new major shareholder, and its 6.4% dividend yield. Dividend yield is supported by healthy free cash flows.

Financials & Key Operating Statistics					
YE Dec (\$ m)	2016	2017	2018F	2019F	2020F
Revenue	317.8	362.4	376.8	395.7	415.5
PATMI	21.2	-45.1	17.8	18.6	19.5
Core PATMI	20.6	-3.5	16.1	16.9	17.8
Core EPS	4.0	-0.7	3.1	3.3	3.4
Core EPS grth (%)	-34.0	na	na	5.1	5.1
Core P/E (x)	10.8	-63.2	13.8	13.1	12.5
DPS (SGCents)	2.8	2.8	2.8	2.8	2.8
Div Yield (%)	6.4	6.4	6.4	6.4	6.4
Net Margin (%)	6.7	-12.5	4.7	4.7	4.7
Gearing (%)	-27.5	-8.8	-2.7	7.3	16.5
Price / Book (x)	0.9	1.3	1.2	1.2	1.2
ROE (%)	8.3	-25.7	9.9	10.2	10.4

Source: Company Data, KGI Research

Industry fundamentals improving. Schlumberger and Baker Hughes – two of the largest oil and gas (O&G) service companies globally – both see a pickup in the offshore sector, as customers go ahead with large projects that were delayed since 2015. After the deepest downturn in 30 years where annual exploration and production (E&P) capex declined by 40% over the past 3 years, the recovery in sentiment in the oil markets are flowing into 2018 E&P capex, which is expected to grow by 15-20% in North America and 5% internationally.

New shareholder opens up opportunities. Serba Dinamik (SDH MK), a mechanical maintenance service provider listed on the Malaysian exchange, acquired a 24.84% stake in CSE Global from eight shareholders in April 2018. As both companies are mainly involved in oil & gas projects, the acquisition could result in synergies between them. We believe it is highly likely that Serba Dinamik could utilise CSE's system integration products and services while CSE could open doors in markets such as the US and Australia. Serba Dinamik currently derives half of its revenues from the Middle East, a market that CSE has cut back its presence due to problems with customer payments.

Guiding for full-year 2.75 SG cents dividend; now offering an attractive 6.4% dividend yield. CSE maintained its 1.25

Not Rated			
Price as of 24 Aug 18 (SGD)	0.44	Performance (Absolute)	
12M TP (\$)	na	1 Month (%)	-0.6
Previous TP (\$)	na	3 Month (%)	-4.8
Upside (%)	na	12 Month (%)	23.9
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	221		
Issued Shares (mn)	513		
Vol - 3M Daily avg (mn)	1.3		
Val - 3M Daily avg (\$mn)	0.6		
Free Float (%)	65.7%		
Major Shareholders		Previous Recommendations	
Serba Dinamik	25.0%		
Fidelity Mgt & Research	10.1%		
CAM-GTF	6.8%		

SG cents 1H18 interim dividend, unchanged over the past 5 years. Management has maintained its guidance of 2.75 SG cents full-year dividend, which would mean a final 1.0 SG cents dividend, offering an attractive 6.4% dividend yield. It has consistently paid 2.75 SG cents p.a. over the past 4 years. We estimate that CSE can sustain this dividend amount going forward as balance sheet remains in net cash position of S\$20.9mn while free cash flows are sufficient to cover the annual dividend payout of S\$14mn.

Valuation & Action: CSE is currently trading at 14/13/12x 2018/19/20F EPS - which is attractive in our view given its solid balance sheet, asset light model and stable recurring free cash flows. We think markets may be undervaluing CSE's two key businesses as we see several positive trends that could cause a share price re-rating over the next few quarters:

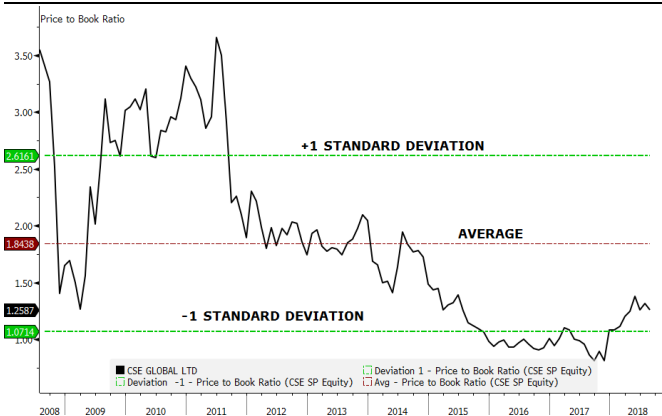
- There has been a dramatic increase in US oil production, a majority from shale production such as in the Permian basin. While the US contributed 50-57% of CSE's 2016 and 2017 revenues, it only made up 26-32% of EBIT. Hence, we see significant upside to margins and earnings from its US operations.
- Re-entry into the Middle East with its new shareholder, Serba Dinamik, which could boost its order book.
- CSE's infrastructure business has been a bright spot, contributing S\$15.2mn or 76% of EBIT in 2017. It is currently bidding for large infrastructure projects particularly in Australia and Asia.

Risks: Margin pressure due to competition and lower-than-expected new order wins.

P/B valuation still below 10-year average. Despite improving industry and company fundamentals for CSE, its valuations are still close to 1SD below its 10-year average. This may partly be due to scepticism on the industry recovery, as well as a major setback last year when it was fined S\$16mn for Iran sanction violations.

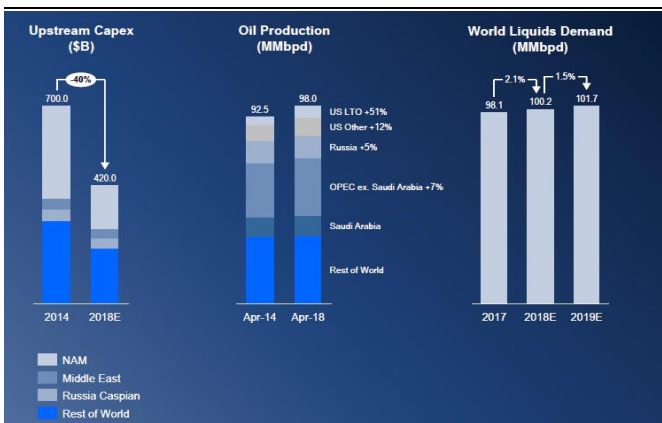
However, we believe markets may be over penalising CSE's two core businesses which are showing signs of improvement. Its investments and focus on US onshore oil & gas developments are starting to bear fruits. Meanwhile, EBIT contribution from its infrastructure business in Singapore and Australia have partially offset the decline in its oil & gas segment over the past 3 years.

Figure 1: 10-years P/B graph



Source: Bloomberg, KGI Research

Figure 2: Upstream capex was cut 40% since 2014 despite global oil demand growing at around 1-2% p.a. The underinvestment in E&P spending is creating a significant risk to future supply.



Source: Schlumberger Presentation slides

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BUY >10% total return over the next 12 months

HOLD -10% to +10% total return over the next 12 months

SELL <-10% total return over the next 12 months

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