July 24, 2023

Maybank

CSE Global (CSE SP)

Riding multiple upcycles

BUY

Share Price	SGD 0.45
12m Price Target	SGD 0.62 (+46%)

Initiate BUY with a TP of SGD0.62

We initiate coverage on CSE with a TP of SGD0.62, pegged to a 17x blended FY23/24F P/E. CSE is at an inflection point and we project profitability will surge by 250% YoY in FY23E on the oil and gas (O&G) upcycle and strong demand from datacentres and infrastructure projects in Australia and Singapore. Its order book stood at SGD480m as at 31 Mar 2023 and we expect it to hit SGD0900m by end-FY23E. Local O&G peers are trading at an average of 22.3x P/E, making CSE an undervalued counter with an attractive and sustainable 6.2% FY23E dividend yield, in our view.

Riding the O&G upcycle

In 1Q23, revenue from the energy segment increased 22% YoY to SGD71m. We believe this trend will likely strengthen in 2H23 and the years ahead as CSE benefits from more O&G projects and as global O&G demand remains strong. Years of under-investment since the oil-price crash in 2015/16 means that capex is badly needed in the near future.

The next big thing - datacentres

CSE diversified from O&G into datacentres with the move proving a strategic win and also a profitable shift. It has since secured US large multinational technology giants, aka FANGS, as customers, one of which recently launched a new social media platform to rival Twitter. We think it will likely secure more projects on the data-centre front in the US as the need for data centres continues to increase. Currently, this segment contributes below 10% of revenue but we expect its contribution to surge to 30% in the next 3-5 years.

Orderbook likely to surge - more contracts incoming

We believe that CSE is in a sweet spot to win contracts from multiple sectors and we remain confident that in the coming months, it should be able to secure some contracts for public infrastructure like water treatment facilities as well as more data-centre related solutions. All in all, we expect the current orderbook of SGD480m to surge to SGD900m by the end of FY23E with near-term contract wins.

Riding the upcycle with attractive 6.2% yield

We think the worst is over for CSE global and 1H23E should be a strong inflection point towards a multi-year upcycle. CSE Global offers a unique opportunity to ride the upcycle in attractive growth areas, accompanied by a sustainable SGD0.0275 pay out representing a 6.2% dividend yield. It is also trading at an undemanding valuation of 13.7x FY23E P/E/, as compared to peers at 22.3x P/E. We also believe corporate share-buybacks will be a possibility for this undervalued counter.

FYE Dec (SGD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	469	558	654	745	850
EBITDA	2	(6)	21	28	34
Core net profit	15	5	20	26	31
Core EPS (cts)	2.9	0.9	3.3	4.2	5.0
Core EPS growth (%)	(46.8)	(68.3)	249.7	30.2	17.7
Net DPS (cts)	2.8	2.8	2.8	2.8	2.8
Core P/E (x)	16.7	36.5	13.7	10.5	8.9
P/BV (x)	1.3	0.8	1.2	1.1	0.9
Net dividend yield (%)	5.6	8.1	6.2	6.2	6.2
ROAA (%)	3.8	1.1	3.9	4.7	5.1
EV/EBITDA (x)	170.4	nm	15.1	10.6	7.9
Net gearing (%) (incl perps)	25.5	34.0	20.0	9.8	net cash
Consensus net profit	-	-	18	22	24
MIBG vs. Consensus (%)	-	-	11.2	20.0	26.5

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Company Description

CSE Global provides integrated systems solutions globally across the Energy, Infrastructure, and Mining & Minerals sectors.

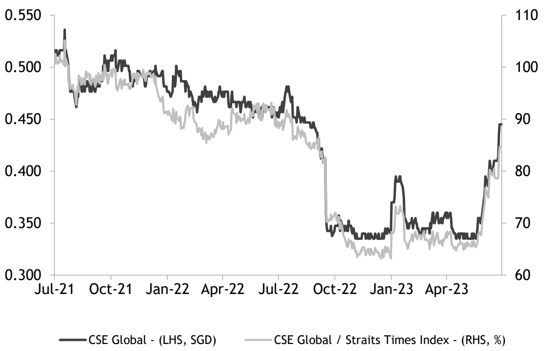
Statistics

52w high/low (SGD)	0.48/0.34
3m avg turnover (USDm)	0.3
Free float (%)	65.4
Issued shares (m)	615
Market capitalisation	SGD273.6M
	USD206M

Major shareholders:

Heliconia Capital Management Pte Ltd.	25.0%
Fidelity Management & Research Co. LLC	7.3%
Nikko Asset Management Asia Ltd.	3.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	24	24	(1)
Relative to index (%)	20	25	(4)

Source: FactSet

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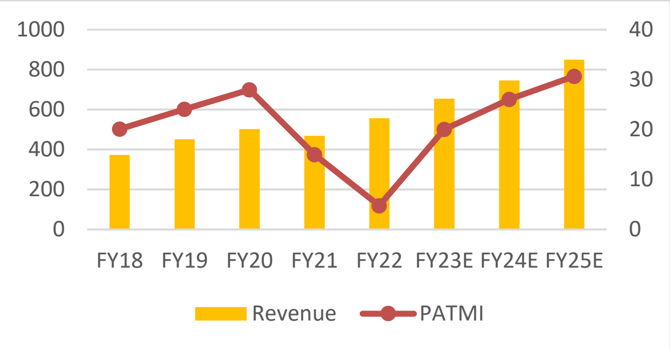
Tear Sheet Insert

Oil & Gas
Singapore

Value Proposition

- A global system integrator, CSE is currently on the verge of a multi-year upcycle in multiple sectors like O&G and data-centres.
- Its energy, public infrastructure and datacentre segments are all projected to grow strongly in the next few years.
- Attractive prospective dividend yield of 6%+.
- Trading at a significant discount compared to peers.
- Strong order book of SGD480m, projected to hit SGD900m by end FY23.

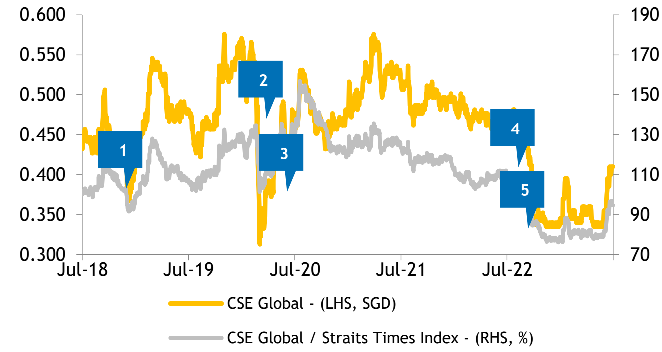
Revenue & NPAT estimates



Source: Company & Maybank Research

Price Drivers

Historical share price trend



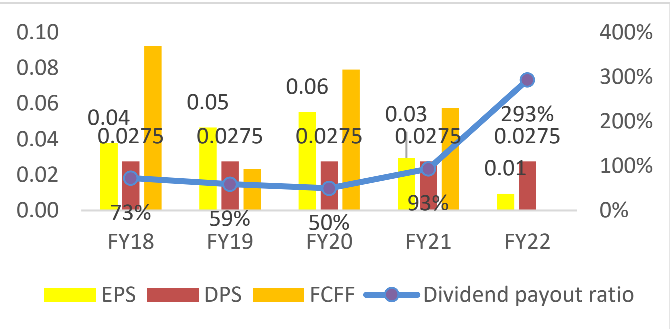
Source: Company, Maybank IBG Research

1. Net profit for FY18 surged 50.8% YoY to SGD20.1m.
2. Covid pandemic hit causing a huge sell-down across global equities.
3. Share price rebounded due to strong orders secured followed by a set of good results.
4. Cost overruns on 2 projects caused profit to drop by 68% YoY to SGD4.8m.
5. Did a right issues at SGD0.33 with management willing to subscribe for excess rights and also win more orders.

Financial Metrics

- Over time, we expect maintenance revenue to build as it completes more projects.
- We also expect gearing to continue to decrease as its financial performance and operating cash flow improves while some is used to lower its debt over time.
- Dividends are likely to be maintained at SGD0.0275/share which has been its historical pay-out for many years.
- Cash could be conserved for M&A purposes if there is a good target.

EPS, FCFF, DPS, DVD payout ratio



Source: Company & Maybank Research

Swing Factors

Upside

- Share price rerating due to strong NPAT growth of 250% in FY23E and 30% YoY in FY24E.
- Trading at a significant discount compared to peers should demand a re-rating.
- Attractive dividend yield of 6%+.
- Potential further M&As to boost profitability.
- Offers upside to the US O&G upcycle.
- Strong potential growth in datacentres in the US.

Downside

- Potential execution error causing cost overruns.
- A recession may cause business and order slowdowns.
- FX fluctuations may impact profitability CSE operates in many countries.

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Risk Rating & Score[1]	na
Score Momentum[2]	na
Last Updated	na
Controversy Score[3]	na

Business Model & Industry Issues

- As a global multi-sector systems integrator CSE Global has more room for growth in terms of its sustainability strategies, as such the group has placed great emphasis on its plans to protect the environment moving forward. Using TCFD roadmaps to help reduce their carbon emissions and plans to utilise Sustainability Linked Loans.
- CSE has been hard at work pushing for digitalisation by reducing its paper consumption index to 12.9 (kg/SGD m)2 in FY2022 as compared to 76.6 (kg / SGD million)2 in FY2020 base year.
- CSE currently has a healthy gearing level of 34.0% with adequate headroom for working capital requirements. With a healthy orderbook along with stringent supplier evaluation and screening to select key suppliers to produce the best quality service and product. With that its customer satisfaction index has seen a return to 82% in FY22 as compared to 75% in FY21.

  The biggest risk would be supply chain disruptions to CSE Global as it is dependent of the movement of goods and services in the global supply chain. Another risk would be its plans to reduce emissions as currently targets are still far away from actual emissions. However, the group is actively formulating means to reduce emissions and drive for more sustainable growth

Material E issues

- CSE Global plans to measure its Scope 3 emissions and plans to hit its long-term target of reducing greenhouse gas carbon emissions.
- Financing wise, CSE Global is negotiating with banks for possible Sustainability Linked Loans (SLL).

  Currently FY22 targets of reducing carbon emissions have not been met, this has occurred for the past few years. However, paper consumption index of the company has been consistently decreasing. CSE Global is also planning to disclose its Task Force on Climate-Related Financial discussion roadmap as part of an effort to drive climate action.

Material S issues

- The company recognises that its employees are its greatest asset and have put in ample effort to diversify and create an inclusive environment. As such new hire rates stand at 30% and the turnover rates at 27% as at end-2022.
- Additionally, CSE adopts flexible work arrangements for its employees, but more work can be done in terms of increasing workplace gender diversity and training hours for employees.
- In 2022, CSE donated SGD5,000 to Yellow Ribbon Singapore to support and help inmates and ex-offenders rebuild their lives and lower the recidivism rate through skills and long-term career development. CSE continues to invest in the development of employees and granted a total of 30 bursaries to its Singapore employees to further their studies at various higher learning institutions in Singapore.

Key G metrics and issues

- The board has 8 directors, including the Executive Chairman, the CEO and 7 non-executive directors, of which all are independent.
- 25% of the board are females, which demonstrates a decent level of diversity.
- Management has also implemented a whistle-blowing policy that ensures there is a safe and confidential avenue for employees and external persons to communicate and lodge an alleged incident.
- CSE conducts a Risk Assessment and Control Self-Assessment exercise which entails the identification, assessment and documentation of material risks and corresponding internal controls. Such material risks include fraud and corruption, environmental, health and safety, and human capital risks which are ESG-relevant. In FY2022, the company recorded zero confirmed incidents relating to corruption. CSE has a zero-tolerance stance against fraud, bribery and corruption.

  CSE is planning to conduct climate-related training for all Board Members and Management Team to help bolster and minimise their environmental footprint and achieve resource efficiency. However, this can be fleshed out more and more work can be done in terms of being a part of a climate action committee.

[1]*Risk Rating & Score* - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]*Score Momentum* - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]*Controversy Score* - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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Quantitative Parameters (Score: 22)						
	Particulars	Unit	2020	2021	2022	STE SP 2022
E	Scope 1 emissions	tCO2e	2,300	2,234	2,720	22,585
	Scope 2 emissions	tCO2e	44	41	45	156,866
	Total	**tCO2e**	**2,344**	**2,275**	**2,765**	**179,451**
	Scope 3 emissions (operational)	tCO2e	NA	NA	NA	NA
	Total	**tCO2e**	**2,344**	**2,275**	**2,765**	**179,451**
	GHG intensity (Scope 1 and 2)	tCO2e/million hour	2,344.000	2,275.000	2,765.000	8.700
	Electricity Consumption	kWh	6,017.96	5,597.12	6,062.77	7,355.60
	Electricity Consumption Index	kWh/ SGD million	11.97	11.94	10.87	NA
	Paper Consumption index	kg/SGD million	77	11	13	NA
S	% of women in workforce	%	15.0%	14.0%	15.0%	27.5%
	% of women in senior management roles	%	12%	14%	16%	NA
	Economic performance	SGD(m)	483	443	510	8747
	Number of fatalities		0	0	0	0
	Rate of high-consequence work-related injuries	%	0	0	0	NA
G	MD/CEO salary as % of reported net profit	%	8.66%	5.50%	18.12%	0.01%
	Board salary as % of reported net profit	%	18.28%	25.35%	80.28%	0.07%
	Independent directors on the Board	%	90%	90%	88%	60%
	Female directors on the Board	%	22%	22%	25%	20%

Qualitative Parameters (Score: 67)

a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?

Yes. Through the Corporate Sustainability Work Group ("CSWG"), their Champion engages businesses and functions in collectively executing the CSR plan, identifying, and managing material ESG factors as well as engaging sustainability stakeholders.

b) is the senior management salary linked to fulfilling ESG targets?

No

c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?

Yes

e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?

No but there are plans to develop a scope 3 emission inventory

f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?

Investing in green technology such as energy efficient electronic equipment, LED lighting and solar power.

g) Does carbon offset form part of the net zero/carbon neutrality target of the company?

Yes

Target (Score: 75)

Particulars	Target	Achieved
Reduce greenhouse gas CO2 index by 10% by 2030	10%	0
Zero confirmed incidents of corruption	0	1
Zero cases of non-compliance with all applicable laws and regulations	0	1
Reduce paper by 1% annually	1%	1%

Impact

NA

Overall Score: 47

As per our ESG matrix, CSE Global has an overall score of 47.

ESG score	Weights	Scores	Final Score
Quantitative	50%	22	11
Qualitative	25%	67	17
Target	25%	75	19
Total			**47**

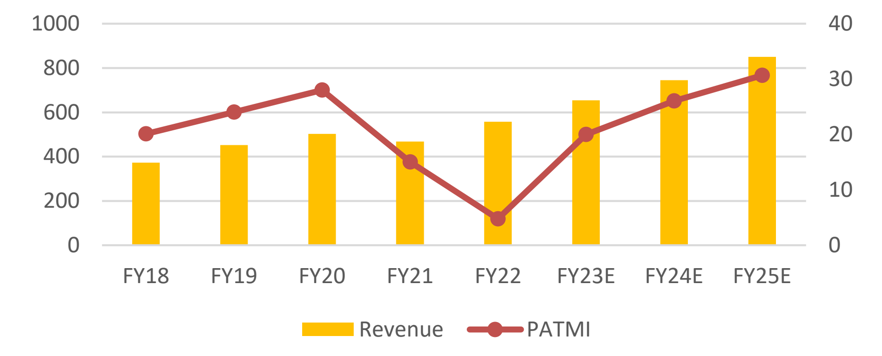
As per our ESG assessment, CSE Global has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics YoY. CSE Global overall ESG score is 47, which makes its ESG rating below average in our view (average ESG rating = 50)

1. Investment thesis

1.1 Inflection point into strong profitability

CSE Global's profitability was initially hit by Covid-19 disruption and subsequently by cost overruns for two projects which incurred a loss of SGD5.9m in 2H22. However, management has since restructured the business division in the US and will now focus on profitable income streams. It has also made 2 key acquisitions, Logic Wireless and Radio One Group, which will further strengthen its offerings in the radio communications space. We believe infrastructure projects in Singapore, Australia as well as the US, coupled with increased activity in the O&G industry in the US will likely drive CSE's earnings growth. We expect CSE Global to bounce back strongly this year with earnings growth of 250% YoY to SGD20m and a further 30% growth in FY24E.

Fig 1: Revenue and PATMI (SGDm)

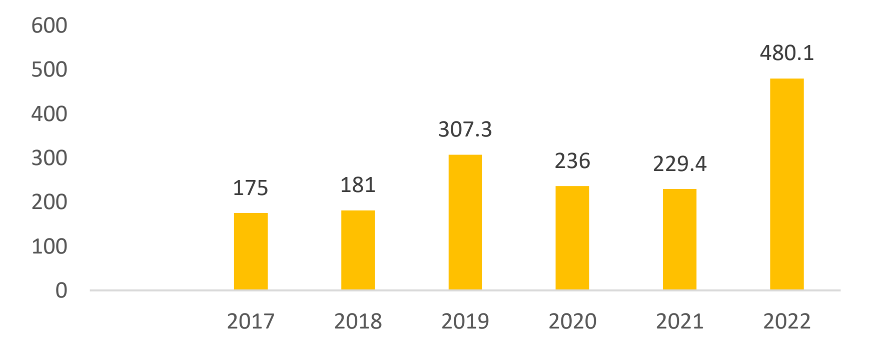


Source: Company, Maybank IBG Research

1.2 Strong orderbook to drive earnings

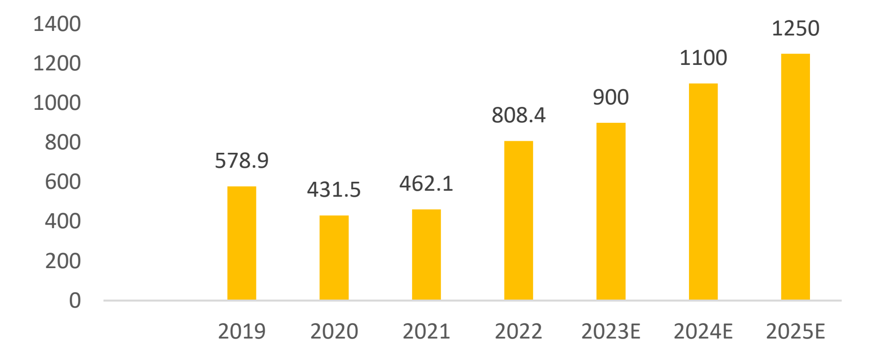
As of 31 Mar 2023, CSE had a robust order-book of SGD480m, 40% higher than SGD344m a year ago. Orders have already surged in 2022 which points to a much stronger 2023E. We also expect more orders from its infrastructure projects, especially in Singapore, Australia and the US coupled with projects involving datacentres in the US in the near term. In the medium term, we expect contract wins from the energy segments, especially in the O&G space where we expect activity in the US to pick-up while energy accounted for 44% of its total revenue in 1Q23. These new contract wins should fuel growth for FY24E and 25E. All in, we expect CSE to reach SGD900m of order wins by the end of FY23E, which is an 11% increase YoY compared to SGD808.4m in FY22.

Fig 2: Orderbook as of end Dec (SGDm)



Source: Company, Maybank IBG Research

Fig 3: Orderbook intake from continuing operations (SGDm)



Source: Company, Maybank IBG Research

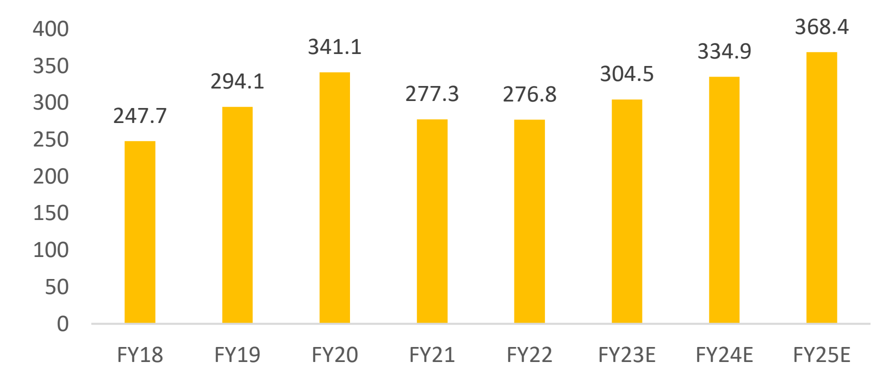
1.3 Recurring maintenance base comes after each project

Maintenance contracts are separate contracts which come after the commissioning and completion of the project. Maintenance contract value is typically 10% annually of the base value of the project. As a result, as CSE secures and completes more projects, its maintenance revenue is slated to build up, giving the company better margins and a more recurring sources of revenue. Maintenance margins are also typically 5-10ppt higher than its original flow revenues.

1.4 O&G activity in the US likely to pick up

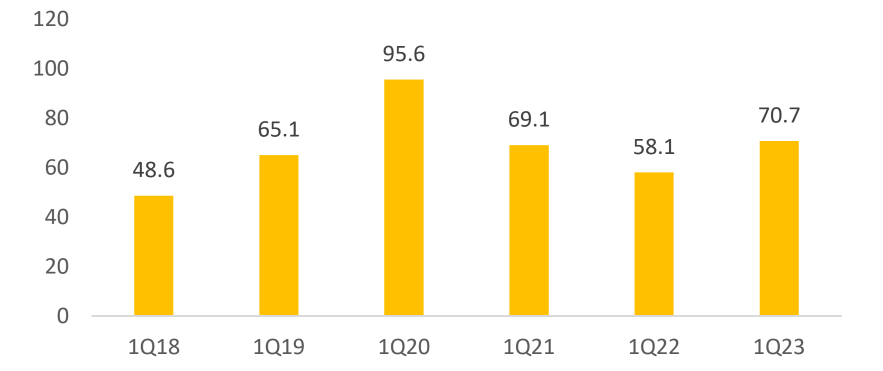
CSE provides integrated process control solutions such as safety shutdown systems and fire & gas detection systems to its oil & gas customers, forming > 65% of total revenue. It operates in the Permian and Eagle Ford shale basins, which together with the Bakken field, account for 81% of total shale oil production in the US.

Fig 4: Revenue from O&G yearly (SGDm)



Source: Company, Maybank IBG Research

Fig 5: Revenue from O&G quarterly for 1Q (SGDm)

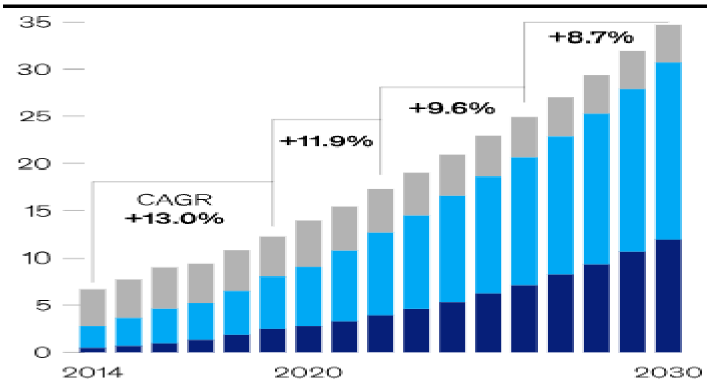


Source: Company, Maybank IBG Research

1.5 Diversifying into system integration for data-centres

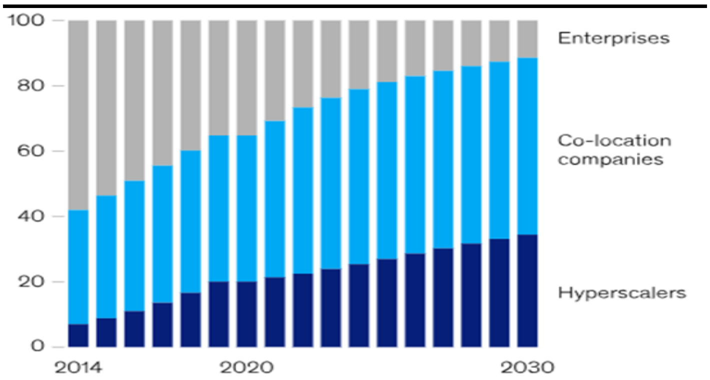
CSE Global made a strategic shift to further diversify its revenue streams and recently moved into system integration for data centres. Its customers are mainly from the US and mostly from the technology sector - FANGs. One of its key customers recently launched a new social media platform in competition with Twitter which will likely increase its need for more data centres. We believe that data centres are an extremely attractive sector to pivot into and margins are also more attractive. The ever increasing need for more data/cloud storage point to a strong outlook for CSE. McKinsey & Co. projects US data centre memory demand to grow at 10% pa until 2030. We believe that CSE Global will be a key beneficiary of this trend. Currently, this segment contributes below 10% of revenue but we expect contribution to surge to 30% in the next 3-5 years despite a larger revenue base.

Fig 6: Data centre power consumption by provider/enterprises



Source: McKinsey & Co.

Fig 7: Data centre power consumption by provider/enterprise



Source: McKinsey & Co.

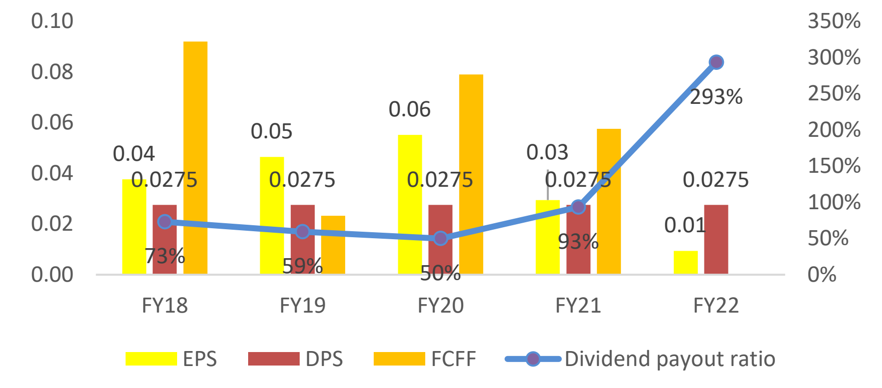
1.6 Beneficiary of infrastructure and security projects from the Singapore government

CSE is a part of the international consortium that developed the technology behind the free-flow Electronic Road Pricing (ERP) system for the Singapore government. It is also one of the qualified vendors to provide high-level security solutions to Singapore and Australian government agencies. These projects typically include the provision of control, communications and security solutions for correctional facilities and airports in Australia. We believe that CSE has an existing relationship and strong track record that makes it well-placed to clinch more private and public projects, especially in Singapore and Australia.

1.7 High sustainable dividend yield of 6.2%

CSE has been rewarding shareholders with an attractive dividend for the past decade fixed at a nominal value of SGD2.75 cents, comprising an interim SGD1.25cents and a final SGD1.5cents, even when it incurred losses in some segments in FY22. With earnings projected to rebound strongly, we believe that management will likely keep to its dividend pay-out which represents an attractive yield of 6.2% to investors. As it generates more positive operating cash-flow, it should be able to maintain such dividends and still pare down its debt.

Fig 8: DPS,EPS,FCFF and payout ratio



Source: Company, Maybank IBG Research

1.8 Potential return of share-buybacks

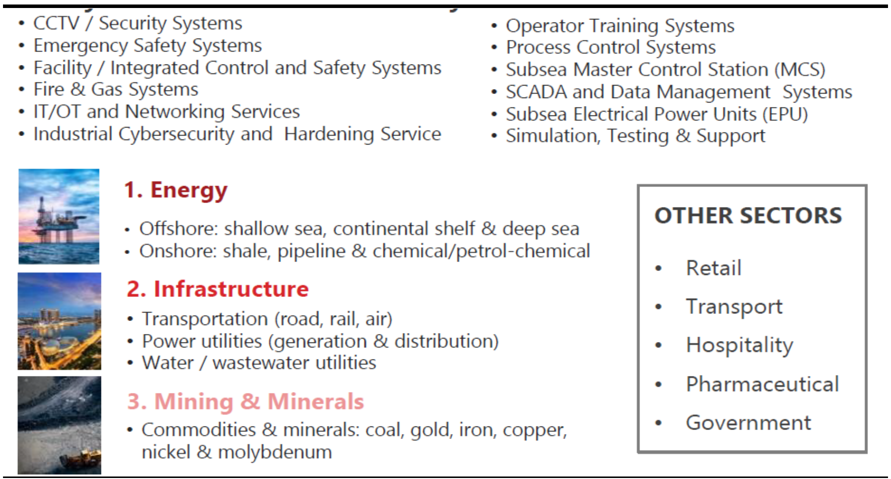
CSE Global has a track record of buying back shares when management thinks its shares are undervalued. Now that its outlook has improved tremendously with a strong orderbook and prospective strong profitability its share price is trading at the lower end of its price range. We think that management will likely resume its share buybacks in the near future.

2. Corporate information

2.1 A regional system integrator

CSE Global is a systems integrator with a heavy emphasis on provision and installation of process control systems, turnkey telecommunication and security solutions in the energy, infrastructure and mining & minerals sectors. Its process control solutions are specialised in providing SCADA (Supervisory Control & Data Acquisition), DCS (Distributed Control Systems), PLCs (Programmable Logic Controllers) and plant systems, most of which are used heavily in oil, gas & power facilities.

Fig 9: Sectors



Source: Company

CSE global also undertakes communication solutions projects ranging from installing and maintaining two-way radio communications to fibre optics systems, as well as VSAT Satellite communication networks and IP (internet Protocol) based network security design. CSE Global is also able to help its customers integrate new systems with legacy ones.

The group commenced its operations in 1985 and was the engineering project division of the Chartered Electronic arm of Singapore Technologies (ST). Afterwards, there was a management buy-out in January 1997. In February 1999, CSE went on to list on the main board of SGX. CSE has over the years grown to now more than 1,800 employees worldwide and operates a network of 57 offices across the globe. More than 90% of CSE's revenue is earned outside of Singapore and it serves as a global player in system integrations.

Fig 10: Global roadmap

Source: Company

Fig 11: Key milestones

1985-	Commencement of operations in CSE.
1999-	Listed on Singapore Exchange (SGX) Main-board listing.
2000-	North America Acquisition of W-Industries and acquired 66% share in Power Diesel (Singapore)
2004-	Uniserve Acquisition in Australia. Accommodates utility and mining sectors
2008-	W Arthur Fisher (New Zealand) Acquisition. Boosting capabilities in process control and automation equipment
2011-	Astib (Australia) Acquisition. Good portfolio of clients such as Rio Tinto, BHP Billiton and Woodside Energy
2018 –	Acquired Blackstar Services
2020-	Heliconia Capital becomes substantial shareholder
2022-	Acquired Radio One and Logic Wireless Group. Raised S$33.8m from rights issue

Source: Company

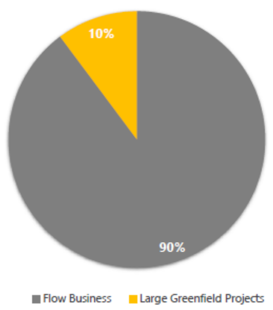
2.2 No sign of stopping; a healthy order book of projects

CSE Global has projects that stretch worldwide from the Americas, United Kingdom, Singapore, New Zealand and Australia. In these regions, order books revolve around energy (offshore & onshore), infrastructure and the mining and minerals sectors. Currently, it has a robust diversification strategy with a heavy focus on US energy and Australia/ New Zealand/ Singapore/ United Kingdom infrastructure projects. The company engages in both large greenfield projects and flow business projects (brownfield and small greenfield recurring in nature). Most of these projects are recurring B2B revenue generators and 90% are repeat customers.

Fig 12: CSE services

Source: Company

Fig 13: O&G projects



S$ million	FY2022	FY2021	YoY%
Flow Business*	502.5	420.9	19.4%
Large Greenfield Projects	55.2	47.8	15.5%
Total	**557.7**	**468.7**	**19.0%**
Flow Business %	**90%**	**90%**	

Includes Brownfield and Small Greenfield Projects which tend to be recurring in nature

Source: Company

As part of its growth strategy to maintain a vigorous order book, CSE pegs acquisitions as a key driver for its inorganic growth. Acquisitions are always acquired within its means and there will be no high gearing involved for the acquisitions. Focus areas will be in complementary and adjacent capabilities such as the energy and infrastructure segments in the USA, Europe, Australia and New Zealand. This strategy has performed well and for the first time, revenue and order contribution from its infrastructure and mining & minerals segments have collectively crossed the 50% mark.

Currently CSE is focused on integrating Logic Wireless and Radio One Group in 2023 both of which are in the telecommunications operations of CSE. With these acquisitions, CSE can further solidify its infrastructure sector across the key markets mentioned.

Order intake as at FY22 stood at S$808.4m with orders for the infrastructure sector growing rapidly at 131% YoY to S$342m. 60.2% of its revenue mix comes from infrastructure projects, 5.8% from mining & minerals and 21.8% comes from energy projects. Currently, the group has a robust outstanding order book of S$480m.

Fig 14: Order intake

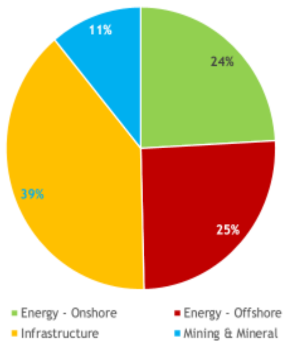
	Order Intake				Backlog			
S$ million	FY2022	%	FY2021	%	FY2022	%	FY2021	%
Energy	402.8	49.8%	265.7	57.5%	179.4	37.4%	83.3	36.3%
Infrastructure	341.6	42.3%	147.7	32.0%	279.6	58.2%	127.6	55.6%
Mining & Minerals	64.0	7.9%	48.7	10.5%	21.0	4.4%	18.5	8.1%
Total	808.4	100%	462.1	100%	480	100%	229.4	100%

Source: Company

2.3 Stalwart despite headwinds in US segment

Despite facing higher interest costs from inflationary pressures and cost overruns for projects in the Americas region, the group's revenue increased 19% YoY to S$557.7m in FY22 from S$468.7m in FY21. Most of this was contributed by infrastructure projects in Australia and the Americas. Most of these increased costs stem from ongoing supply chain disruptions and project cost overruns. However, CSE believes it has good capital discipline alongside cashflow management to help mitigate the impact. In FY2022 the group generated positive cashflows from operations of S$9.1m.

Fig 15: Sector breakdown revenue (SGDm)



S$ million	FY2022	FY2021	YoY%
Energy - Onshore	134.6	143	-5.9%
Energy - Offshore	142.1	134.3	5.8%
Infrastructure	219.4	143.6	52.8%
Mining & Mineral	61.6	47.8	28.9%
Total	557.7	468.7	19.0%

Australia and UK communications revenue:
- FY2022 S$132.3m
- FY2021 S$99.1m

Infrastructure: Power, Water, Waste Treatment & Transportation

Source: Company

2.4 Strong suit in government public infrastructure works

CSE Global displays a robust project record in terms of its public infrastructure works for the Singaporean and Australian government. In Singapore, CSE has leveraged on the government's adoption of Smart Nation Initiatives and related communications, security and cybersecurity and engineering technology projects.

CSE's presence is felt throughout transportation infrastructure in Australia and the company is stacked in terms of its previous works. The Melbourne bus businesses has 47 routes and over 500 vehicles to manage. Transdev which operates 30% of Melbourne's metropolitan bus network on behalf of Public Transport Victoria (PTV) since August 2013, employed CSE to engineer a professional-grade public transport communications solution, enabling multiple drivers to communicate with dispatchers via a single fleet management system. CSE has been with Transdev since 2015 and is constantly looking for new ways to add value to the bus services sector.

The City of Perth's local government has also worked with CSE to maintain its day-to-day operations of the CBD, East and West Perth. The City Council's Compliance and Works divisions employs a large mobile workforce who frequently travel 'on foot' in roles as parking officers, rangers, security officers, guards and surveillance staff. For these projects, CSE introduced the Orion Network which is used heavily as a means of communication via a two-way radio network. The network solution provides instant capacity for new digital handheld terminals to bridge environments such as tall buildings, underground car parks, loading docks and malls, optimising street level communications.

Fig 16: Public Transport Victoria

Source: Company

Besides Transportation and Logistical projects, CSE is also integral to first responder operations in Australia. The South Australian Country Fire Service (CFS) which operates under the State Government has approximately 13,500 volunteers, over 144 staff, responsible for 425 brigades and a fleet of over 800 vehicles scattered throughout the state. CSE is responsible for providing local 24/7 support and Critical Fire Ground Radios for the fire fighters. These solutions range from mobile radios in different vehicles to providing training packages. The Gold Coast's Rapid Transit, G-Link Light Railway was also supported by CSE Global. CSE supplied the design, supply & interfacing of the Fibre Optic IP Backbone network for signalling and data communications, for the security CCTV system, TETRA Radio communications, Emergency Telephone System, Station PA system and Passenger Information System serving 16 stations and depots.

2.5 Data-centre market on the horizon

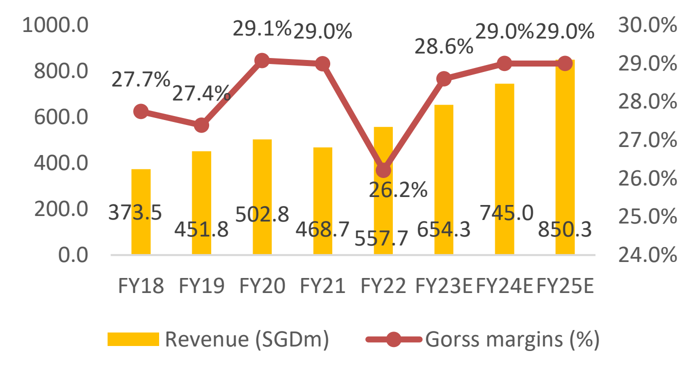
In terms of data-centre market, CSE Global has clinched big projects and saw a 131% YoY rise in new orders in 2022, mainly from data-centre and wastewater management projects in the Americas region and a multi-year system maintenance contract from the Singaporean government. Some other services that CSE provides for data-centre clients include IP network design that enables IP devices to communicate with other devices while protecting them from unauthorised access.

3. Financial analysis

3.1 Strong revenue growth

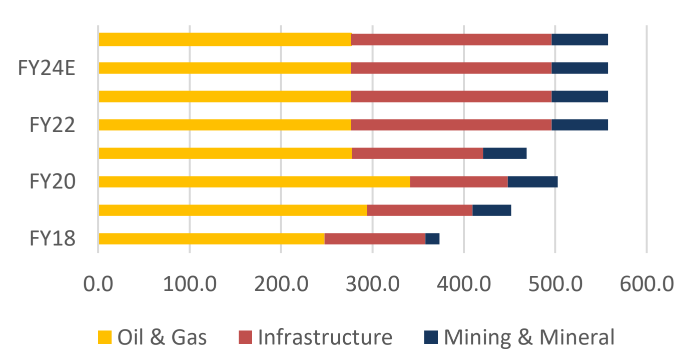
We forecast the group's turnover to increase from SGD558m in FY22 to SGD850m in FY25E, or by a 3-year CAGR of 15%. We think this is achievable due to the strong demand from datacentres, public infrastructure works from the Australian and Singapore government projects as well as a resurgence in activity in the US O&G sector. We also forecast margins to improve gradually as it will likely add more maintenance revenue with higher margins after each project is completed. In addition, data centres projects are also more lucrative with higher margins.

Fig 17: Revenue forecasts



Source: Company, Maybank IBG Research

Fig 18: Revenue breakdown across different segments

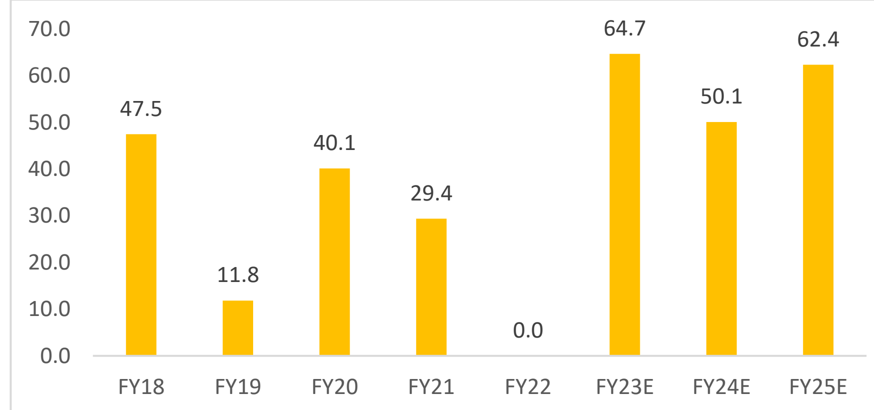


Source: Company, Maybank IBG Research

3.2 Strong positive operating cash flow

Since FY18, net cash from operating activities has been consistently positive except for the problems it incurred in FY22 due to the cost overruns in two projects. We believe management has learnt its lesson and have set processes in place to ensure such events do not happen again. In addition, the team involved in those projects has also been replaced. With profitability to surge in the next few years, we expect cash flow to remain positive.

Fig 19: Net cash flow generated from operations (FY18-25E)



Source: Company, Maybank IBG Research

4. Valuation

4.1 Initiate coverage with BUY and TP of SGD0.62

We initiate coverage of CSE Global with BUY and a TP of SGD0.62, based on a 17x blended FY23E & 24E P/E. This represents a 24% discount to its local-listed peers after considering the group's ESG score and more diversified revenue sector base. We think the current share price represents an attractive entry level (67% upside potential) given its robust growth potential from its energy, infrastructure and datacentre businesses.

Key re-rating catalysts include: 1) more order wins; 2) strong profit and revenue growth; 3) attractive dividends; 4) share buy-back; and 5) potential M&A to grow profits inorganically.

Fig 20: Peer comparison

Company	BBG	MKE	MKE TP	Price	FYE	Mcap	P/E (x)				EV /EBITDA (x)	P/B (x)	ROE (%)	Dividend yield (%)
	Code	Rec	(LC)	(LC)	mm/dd	USDm	Act	FY1	FY2	FY3	Act	Act	Act	Act
CSE Global Limited	CSE SP	Buy	0.420	0.42	12/31	261	12.8	9.8	8.3	7.7	14.1	1.1	4.0	6.6%
Global peers														
Dyna-Mac Holdings Ltd.	DMHL SP	Buy	0.40	0.43	12/31	446	33.9	23.9	18.7	16.1	5.3	3.3	36.1%	1.2%
Techtronic Industries Co., Ltd.	669 HK	NR	-	87.45	12/31	27,371	19.1	17.7	15.1	11.0	14.1	3.9	22.2%	2.1%
Singapore Technologies Engineering Ltd	STE SP	Buy	4.10	3.65	12/31	11,377	21.3	20.2	17.5	12.8	14.8	4.7	21.1%	4.4%
MTQ Corporation Limited	MTQ SP	NR	-	0.39	03/31	88	22.5	22.0	20.0	18.0	13.8	1.3	7.3%	1.3%
Marco Polo Marine Ltd.	MPM SP	NR	-	0.06	09/30	210	12.2	28.0	12.0	10.0	9.7	1.3	9.8%	0.0%
Average							**21.8**	**22.3**	**16.7**	**13.6**	**11.5**	**2.9**	**19%**	**1.8%**

Source: Bloomberg, Maybank IBG Research

5. Risks

Decline in oil prices

As CSE operates in the O&G industry, lower oil prices will affect investments into this area, which might result in lower demand and fewer orders from customers. We witnessed this when oil prices crashed in 2016, which led to an industry downturn and a significant drop in investments during that period.

FX losses

As CSE Global operates globally, it is subject to FX fluctuations and with the US being one of its core markets, a drop in the USD would be negative for the group.

Project execution risk

As CSE Global executes its projects, there may be an execution risk of cost overruns or delays in project delivery which could impact its margins or even cause a loss to the company as in FY22 when CSE incurred a loss of SGD5.9m due to cost overruns at two projects.

M&A risk

CSE has a track record of making acquisitions and it recently made two in 2022. There is a risk that these companies being acquired may not gel with CSE and not perform to expectations after the merger, which could eventually cause a drop in profitability or even lead to a write-off or impairment.

6. Key Management

Lim Ming Seong
Chairman

Lim Ming Seong was appointed as Non-Executive and Independent Director of CSE Global Limited on 17 January 1997 and has been the Board Chairman since then. He was also the Board Chairman of First Resources Limited and a Director of Starhub Limited but has since stepped down from these two companies in 2021. He held various senior positions within the Singapore Technologies (ST) Group from 1986 to 2002, where he left as Group Director. Prior to joining the ST Group, Mr Lim served as the Deputy Secretary with the Ministry of Defence, Singapore.

Lim Boon Kheng
Group managing director

Mr Lim joined CSE Global Limited in 1999 as the Group Financial Controller. Prior to that, Mr Lim joined Singapore Technologies Pte Ltd in 1991 as an accountant and was promoted to various positions in the organisation. He is concurrently the Managing Director of CSE Global (Asia) Pte Ltd

Eddie Foo
CFO

Mr Foo has been serving as the Group CFO of the Company. Mr Foo is responsible for the Group's overall financial strategy and management, corporate finance and treasury management, tax and investor relations. Mr Foo has over 25 years of financial management, corporate finance and merger and acquisitions experience in listed and multinational companies. Prior to his current appointment, Mr Foo was the Group CFO of ECS Holdings Limited, a public listed company on SGX. Mr Foo holds a Bachelor degree in Accountancy from the Nanyang Technological University and is both an Australian registered Certified Public Accountant and a Chartered Accountant registered with the Institute of Singapore Chartered Accountants.

Source: Company

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	17.3	47.0	13.7	10.5	8.9
Core P/E (x)	16.7	36.5	13.7	10.5	8.9
P/BV (x)	1.3	0.8	1.2	1.1	0.9
P/NTA (x)	(18.3)	(4.8)	(15.4)	38.2	7.4
Net dividend yield (%)	5.6	8.1	6.2	6.2	6.2
FCF yield (%)	10.3	nm	23.4	18.5	23.3
EV/EBITDA (x)	170.4	nm	15.1	10.6	7.9
EV/EBIT (x)	13.5	18.2	10.1	7.7	6.0
INCOME STATEMENT (SGD m)					
Revenue	468.7	557.7	654.3	745.0	850.3
EBITDA	1.8	(6.3)	21.2	28.3	33.5
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	22.2	13.6	31.5	38.9	44.4
Net interest income /(exp)	(2.6)	(5.2)	(5.3)	(4.8)	(4.2)
Associates & JV	0.0	(0.0)	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	19.6	8.3	26.2	34.1	40.2
Income tax	(4.6)	(3.5)	(6.0)	(7.8)	(9.2)
Minorities	(0.0)	(0.0)	(0.2)	(0.2)	(0.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	15.0	4.8	20.0	26.0	30.7
Core net profit	15.0	4.8	20.0	26.0	30.7
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	46.5	34.2	49.9	61.1	84.5
Accounts receivable	96.6	138.1	117.8	119.2	119.0
Inventory	29.3	52.0	61.0	69.5	79.3
Property, Plant & Equip (net)	62.0	63.5	65.2	66.6	67.7
Intangible assets	58.5	80.8	80.8	80.8	80.8
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	104.6	125.0	157.3	179.0	200.2
Total assets	**397.5**	**493.7**	**532.0**	**576.2**	**631.6**
ST interest bearing debt	47.9	68.7	68.7	68.7	68.7
Accounts payable	59.1	102.6	130.8	158.7	193.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	47.5	37.7	27.7	17.7	7.7
Other liabilities	51.0	72.0	72.0	72.0	72.0
Total Liabilities	**205.5**	**281.4**	**299.5**	**317.4**	**341.9**
Shareholders Equity	192.0	212.3	232.5	258.7	289.7
Minority Interest	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Total shareholder equity	**192.0**	**212.3**	**232.5**	**258.7**	**289.7**
Total liabilities and equity	**397.5**	**493.7**	**532.0**	**576.2**	**631.6**
CASH FLOW (SGD m)					
Pretax profit	19.6	8.3	26.2	34.1	40.2
Depreciation & amortisation	(20.5)	(19.8)	(10.3)	(10.6)	(10.8)
Adj net interest (income)/exp	2.7	5.3	0.0	0.0	0.0
Change in working capital	(6.6)	(21.2)	39.5	18.0	24.8
Cash taxes paid	0.0	0.0	0.0	0.0	0.0
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	36.3	9.1	76.0	62.7	75.8
Capex	(10.3)	(16.0)	(12.0)	(12.0)	(12.0)
Free cash flow	26.0	(6.9)	64.0	50.7	63.8
Dividends paid	(14.1)	(14.1)	(16.9)	(16.9)	(16.9)
Equity raised / (purchased)	(1.4)	33.4	0.0	0.0	0.0
Change in Debt	(2.6)	5.8	(10.0)	(10.0)	(10.0)
Other invest/financing cash flow	(5.2)	(29.7)	0.0	0.0	0.0
Effect of exch rate changes	0.2	(0.7)	0.0	0.0	0.0
Net cash flow	3.0	(12.3)	37.1	23.8	36.9

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(6.8)	19.0	17.3	13.9	14.1
EBITDA growth	(91.2)	nm	nm	33.4	18.6
EBIT growth	(43.2)	(39.0)	132.4	23.3	14.1
Pretax growth	(45.2)	(57.7)	215.8	30.2	17.7
Reported net profit growth	(46.4)	(68.2)	319.6	30.2	17.7
Core net profit growth	(46.4)	(68.2)	319.6	30.2	17.7
Profitability ratios (%)					
EBITDA margin	0.4	nm	3.2	3.8	3.9
EBIT margin	4.7	2.4	4.8	5.2	5.2
Pretax profit margin	4.2	1.5	4.0	4.6	4.7
Payout ratio	93.9	nm	84.5	64.9	55.1
DuPont analysis					
Net profit margin (%)	3.2	0.9	3.1	3.5	3.6
Revenue/Assets (x)	1.2	1.1	1.2	1.3	1.3
Assets/Equity (x)	2.1	2.3	2.3	2.2	2.2
ROAE (%)	na	na	na	na	na
ROAA (%)	3.8	1.1	3.9	4.7	5.1
Liquidity & Efficiency					
Cash conversion cycle	40.0	40.6	24.0	3.2	(10.1)
Days receivable outstanding	78.9	75.7	70.4	57.3	50.4
Days inventory outstanding	29.9	35.6	43.6	44.4	44.4
Days payables outstanding	68.8	70.7	89.9	98.5	104.9
Dividend cover (x)	1.1	0.3	1.2	1.5	1.8
Current ratio (x)	1.8	1.5	1.4	1.5	1.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.9	1.8	1.8	1.8	1.8
Net gearing (%) (incl perps)	25.5	34.0	20.0	9.8	net cash
Net gearing (%) (excl. perps)	25.5	34.0	20.0	9.8	net cash
Net interest cover (x)	8.5	2.6	5.9	8.1	10.5
Debt/EBITDA (x)	nm	nm	4.5	3.1	2.3
Capex/revenue (%)	2.2	2.9	1.8	1.6	1.4
Net debt/ (net cash)	48.9	72.2	46.5	25.3	(8.1)

Source: Company; Maybank IBG Research

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