

CSE Global (CSE SP)

Multi-year growth ahead

Strong FY23: Maintain BUY with SGD0.71 TP

CSE Global beat consensus and our expectations (SGD21m NPAT) with FY23 revenue rising 30% YoY to SGD725m and NPAT surging 372% YoY to SGD22.5m. Cash generated from operations improved significantly to SGD72m from SGD9m in FY22 and net gearing is now at 0.35x. Order book is 52.2% higher YoY at SGD730.6m. Going forward, we expect margins to continue to improve as CSE executes its order book and enjoys more operating leverage. In addition, we expect CSE to secure more communications and electrification orders. We expect about SGD1.1b of orders in FY24. In addition, we expect potential accretive acquisitions in Australia and the US for expansion in both key segments. As a result, we raise our FY24/25E PATMI by 10% and 23.4%, and revise up our TP to SGD0.71 from SGD0.65, based on 15x FY24E P/E. CSE is one of our conviction SMID picks, maintain BUY.

FY24E likely to perform well

50% of the order book will be recognised this year. Coupled with the normal run-rate flow, we expect FY24E revenue to grow 17% YoY to SGD853m, due to strong backlog and recurring flow of projects. In addition, we expect net margin to continue to improve as seen in FY23 where net margin rose to 3.1% from 0.9% in FY22. We expect net margin to improve to 5% in the next 1-2 years on the back of strong 20% revenue CAGR.

Cashflow improved significantly - FY23 yield of 6.5%

CSE generated SGD72m of cash in FY23, much more than SGD9m in FY22. Management's key objective is to generate more cash and will continue to focus on this. Dividend was maintained at SGD2.75 cents for FY23, and we expect this to be sustainable going forward, which represents a yield of 6.5%.

Top Pick - accretive acquisitions likely

CSE offers a unique opportunity to ride the upcycle in attractive growth areas, accompanied by a sustainable 6.5% dividend yield. It's also trading significantly lower than the US electrification competitors (20-30x P/E). We believe CSE has a clear multi-year growth ahead with the opportunities available and expect further accretive acquisitions along the way as well, which would boost its growth to a more rapid pace. Maintain BUY.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	558	725	853	1,011	1,205
EBITDA	(6)	15	36	47	60
Core net profit	5	23	29	38	49
Core EPS (cts)	0.9	3.7	4.7	6.2	8.0
Core EPS growth (%)	(68.3)	293.4	27.3	32.0	29.2
Net DPS (cts)	2.8	2.8	2.8	2.8	2.8
Core P/E (x)	36.5	11.7	9.1	6.9	5.3
P/BV (x)	0.8	1.2	1.1	0.9	0.8
Net dividend yield (%)	8.1	6.4	6.5	6.5	6.5
ROAA (%)	1.1	4.1	4.6	5.7	6.7
EV/EBITDA (x)	nm	22.8	8.5	6.2	4.3
Net gearing (%) (incl perps)	34.0	35.2	20.1	11.0	net cash
Consensus net profit	-	-	28	33	36
MIBG vs. Consensus (%)	-	-	1.3	13.3	35.5

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BUY

Share Price	SGD 0.43
12m Price Target	SGD 0.71 (+73%)
Previous Price Target	SGD 0.65

Company Description

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

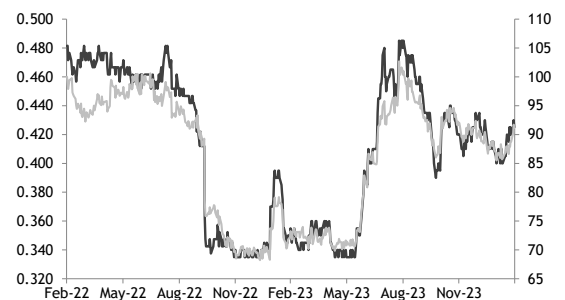
Statistics

52w high/low (SGD)	0.49/0.34
3m avg turnover (USDm)	0.3
Free float (%)	65.4
Issued shares (m)	615
Market capitalisation	SGD261.3M
	USD194M

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



— CSE Global - (LHS, SGD) — CSE Global / Straits Times Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	4	1	20
Relative to index (%)	4	(2)	24

Source: FactSet

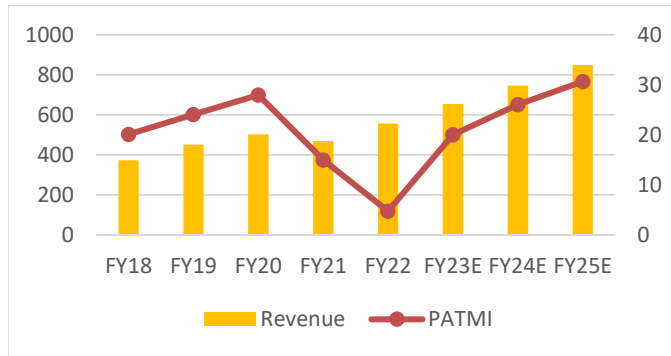
Abbreviations explained

SMID - Small mid cap space

Value Proposition

- A global system integrator, CSE is currently on the verge of a multi-year upcycle riding on trends like electrification and O&G.
- Its energy, public infrastructure and data-centre 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 SGD521.8m as at 30th June 2023

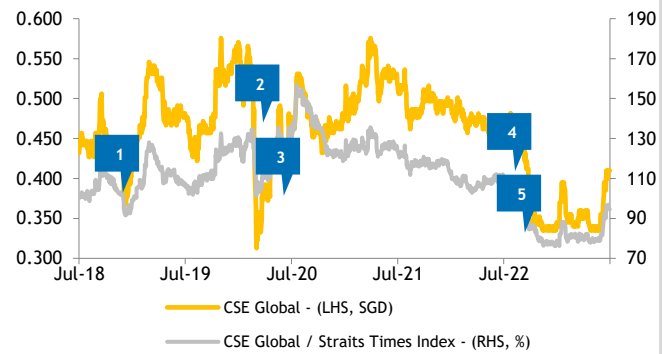
Revenue & NPAT estimates



Source: Company & Maybank Research

Price Drivers

Historical share price trend



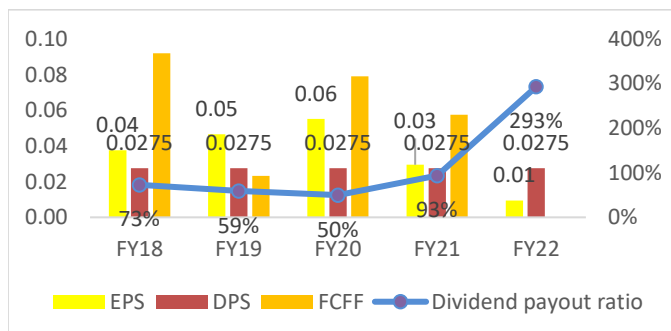
Source: Company, Maybank IBG Research

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/sh with management willing to subscribe for excess rights.

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).

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?	<i>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.</i>
b) is the senior management salary linked to fulfilling ESG targets?	<i>No</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>No but there are plans to develop a scope 3 emission inventory</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>Investing in green technology such as energy efficient electronic equipment, LED lighting and solar power.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes</i>

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)

Fig 1: Changes to our forecasts

	FY24E			FY25E			FY26E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	853.5	745.0	14.6	1,011.2	850.3	18.9	1,204.6	1,100.0	9.5
Gross profit (SGDm)	235.3	216.0	8.9	278.8	246.6	13.0	332.1	330.0	0.6
EBIT (SGDm)	47.9	33.5	43.0	58.5	39.0	50.3	71.7	65.0	10.2
EBITDA (SGDm)	59.3	44.1	34.6	70.1	49.8	40.8	83.3	75.0	11.0
Core net profit (SGDm)	28.7	26.0	10.0	37.8	30.7	23.4	48.9	40.0	22.2
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross Margin	27.6%	29.0%	▼ -1.4	27.6%	29.0%	▼ -1.4	27.6%	30.0%	▼ -2.4
Net Margin	3.4%	3.5%	▼ -0.1	3.7%	3.6%	▲ 0.1	4.1%	3.6%	▲ 0.4

Source: Maybank IBG Research

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	47.0	10.8	9.1	6.9	5.3
Core P/E (x)	36.5	11.7	9.1	6.9	5.3
P/BV (x)	0.8	1.2	1.1	0.9	0.8
P/NTA (x)	(4.8)	(3.5)	(5.5)	(25.5)	6.8
Net dividend yield (%)	8.1	6.4	6.5	6.5	6.5
FCF yield (%)	nm	20.1	24.0	21.3	28.6
EV/EBITDA (x)	nm	22.8	8.5	6.2	4.3
EV/EBIT (x)	18.2	8.8	6.5	5.0	3.6
INCOME STATEMENT (SGD m)					
Revenue	557.7	725.1	853.5	1,011.2	1,204.6
EBITDA	(6.3)	14.9	36.4	47.0	60.0
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	13.6	38.9	47.9	58.5	71.7
Net interest income / (exp)	(5.2)	(10.1)	(11.0)	(9.9)	(8.8)
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	8.3	28.8	36.8	48.6	62.8
Income tax	(3.5)	(6.3)	(8.1)	(10.7)	(13.8)
Minorities	(0.0)	0.1	(0.1)	(0.1)	(0.1)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	4.8	22.5	28.7	37.8	48.9
Core net profit	4.8	22.5	28.7	37.8	48.9
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	34.2	39.4	56.2	64.3	89.4
Accounts receivable	138.1	153.0	136.6	141.6	144.6
Inventory	52.0	70.8	83.3	98.7	117.6
Property, Plant & Equip (net)	63.5	70.3	70.9	71.3	71.7
Intangible assets	80.8	93.4	93.4	93.4	93.4
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	125.0	172.7	200.7	227.6	253.3
Total assets	493.7	599.6	641.1	696.8	769.9
ST interest bearing debt	68.7	95.9	95.9	95.9	95.9
Accounts payable	102.6	127.8	150.4	178.2	212.3
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	37.7	19.5	9.5	(0.5)	(10.5)
Other liabilities	72.0	140.0	140.0	140.0	140.0
Total Liabilities	281.4	383.6	396.2	414.0	438.1
Shareholders Equity	212.3	216.1	244.9	282.8	331.9
Minority Interest	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)
Total shareholder equity	212.3	216.1	244.9	282.8	331.9
Total liabilities and equity	493.7	599.6	641.1	696.8	769.9
CASH FLOW (SGD m)					
Pretax profit	8.3	28.8	36.8	48.6	62.8
Depreciation & amortisation	(19.8)	(23.9)	(11.5)	(11.5)	(11.6)
Adj net interest (income)/exp	5.3	10.1	0.0	0.0	0.0
Change in working capital	(21.2)	6.5	26.6	7.4	12.2
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	9.1	72.0	74.8	67.5	86.7
Capex	(16.0)	(18.8)	(12.0)	(12.0)	(12.0)
Free cash flow	(6.9)	53.2	62.8	55.5	74.7
Dividends paid	(14.1)	(16.9)	(16.9)	(16.9)	(16.9)
Equity raised / (purchased)	33.4	0.0	0.0	0.0	0.0
Change in Debt	5.8	0.1	(10.0)	(10.0)	(10.0)
Other invest/financing cash flow	(29.7)	(5.6)	0.0	0.0	0.0
Effect of exch rate changes	(0.7)	(0.4)	0.0	0.0	0.0
Net cash flow	(12.3)	30.4	35.9	28.6	47.8

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	19.0	30.0	17.7	18.5	19.1
EBITDA growth	nm	nm	143.6	29.1	27.7
EBIT growth	(39.0)	186.4	23.1	22.3	22.4
Pretax growth	(57.7)	246.5	28.0	32.0	29.2
Reported net profit growth	(68.2)	372.0	27.3	32.0	29.2
Core net profit growth	(68.2)	372.0	27.3	32.0	29.2
Profitability ratios (%)					
EBITDA margin	nm	2.1	4.3	4.6	5.0
EBIT margin	2.4	5.4	5.6	5.8	5.9
Pretax profit margin	1.5	4.0	4.3	4.8	5.2
Payout ratio	nm	75.1	59.0	44.7	34.6
DuPont analysis					
Net profit margin (%)	0.9	3.1	3.4	3.7	4.1
Revenue/Assets (x)	1.1	1.2	1.3	1.5	1.6
Assets/Equity (x)	2.3	2.8	2.6	2.5	2.3
ROAE (%)	na	na	na	na	na
ROAA (%)	1.1	4.1	4.6	5.7	6.7
Liquidity & Efficiency					
Cash conversion cycle	40.6	35.4	24.9	13.5	6.8
Days receivable outstanding	75.7	72.3	61.1	49.5	42.8
Days inventory outstanding	35.6	42.1	44.9	44.7	44.6
Days payables outstanding	70.7	79.0	81.0	80.8	80.6
Dividend cover (x)	0.3	1.3	1.7	2.2	2.9
Current ratio (x)	1.5	1.2	1.2	1.3	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.6	1.6	1.7	1.8
Net gearing (%) (incl perps)	34.0	35.2	20.1	11.0	net cash
Net gearing (%) (excl. perps)	34.0	35.2	20.1	11.0	net cash
Net interest cover (x)	2.6	3.8	4.3	5.9	8.1
Debt/EBITDA (x)	nm	7.7	2.9	2.0	1.4
Capex/revenue (%)	2.9	2.6	1.4	1.2	1.0
Net debt/ (net cash)	72.2	76.0	49.2	31.2	(4.0)

Source: Company; Maybank IBG Research

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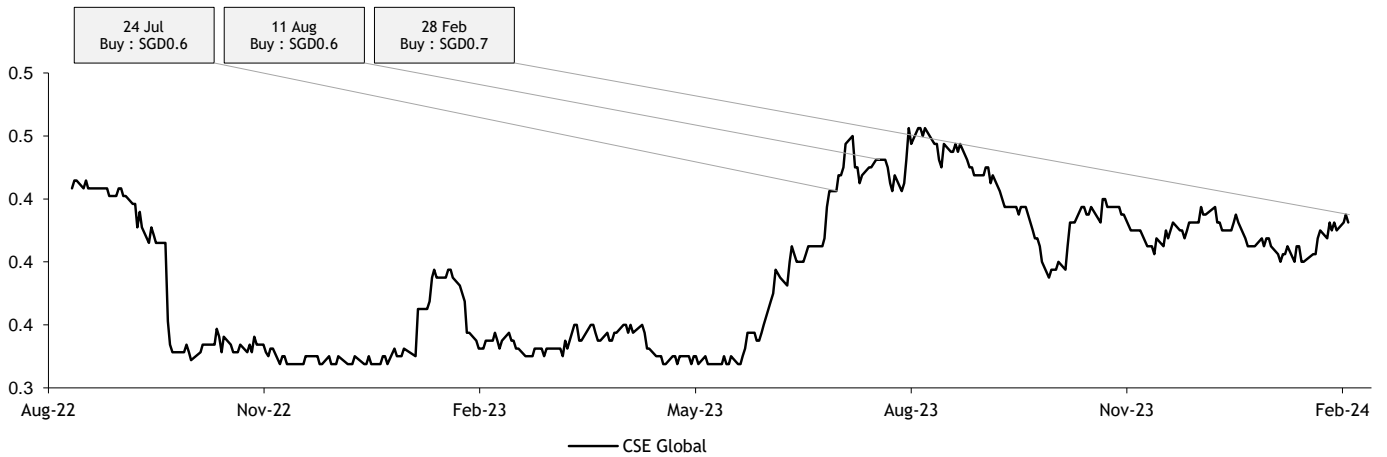
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