

CSE Global (CSE SP)

Solid 1Q growth + order wins

BUY

Share Price SGD 0.43
12m Price Target SGD 0.64 (+57%)
Previous Price Target SGD 0.64

Proxy for electrification and data centres

CSE said it secured SGD186.2m of orders in 1Q24, 16.7% higher YoY and excluding the SGD49.2m data centre contract announced on 18 Apr, signalling a potentially much strong 2Q24 order intake. 1Q24, seasonally its weakest quarter, saw revenue rise 24% YoY to SGD197.5m, above our blended YoY projection of 17%. With better operating leverage due to strong revenue growth, as witnessed in FY23, we believe margins should continue to improve from 3.1% in FY23 to 3.5-4.0% in FY24E. This would justify our 26% core FY24E EPS growth. CSE remains one of our conviction picks and is a rare proxy for electrification/AI/data centres. Maintain BUY.

Electrification will be major growth driver

For 1Q24, the electrification segment secured about SGD82.9m of new orders, or about 44.5% of total order intake. Management expects demand for electrification solutions to remain robust given the strong pipeline of projects. We expect electrification to be one of the main growth drivers for CSE in the next 2-3 years.

A key beneficiary of AI boom and data centres

CSE's recent SGD49.2m plant extension is for the design, engineering, fabrication, installation and integration of power management systems and solutions for data centres in the US. We think its client is one of a handful of main cloud providers in the US and believe it will likely win more data centre contracts from existing and new customers. AI technology and data centres require huge amounts of energy to develop and run and will benefit power management system integrators like CSE.

Conviction pick - attractive 6.5% FY24E yield

CSE offers a unique opportunity to ride the upcycle in attractive growth areas. It also offers a sustainable 6.5% dividend yield. We believe CSE has a clear multi-year growth outlook and we expect further accretive acquisitions, which could accelerate its growth. There is also a strong possibility of management share buy-backs and company share buy-backs. At 7.6 FY25E P/E on a 6.5% dividend yield, we think it is under-valued and even the CEO bought back shares in 2023 at higher prices than current levels

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	4.2	5.6	7.2
Core EPS growth (%)	(68.3)	293.4	16.0	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	10.0	7.6	5.9
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	4.5	5.5	6.5
EV/EBITDA (x)	nm	22.8	8.6	6.3	4.4
Net gearing (%) (incl perps)	34.0	35.2	10.3	3.7	net cash
Consensus net profit	-	-	28	33	36
MIBG vs. Consensus (%)	-	-	1.3	13.3	35.5

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Company Description

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

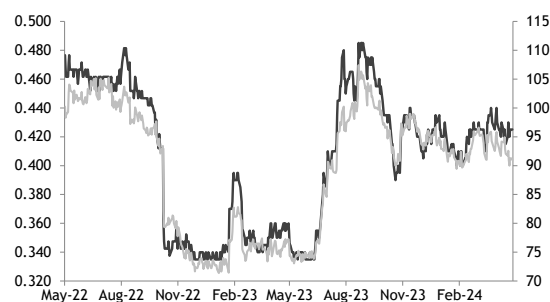
Statistics

52w high/low (SGD)	0.49/0.34
3m avg turnover (USDm)	0.6
Free float (%)	62.1
Issued shares (m)	615
Market capitalisation	SGD261.3M USD192M

Major shareholders:

Heliconia Capital Management Pte Ltd.	22.6%
CSE Global Ltd.	4.4%
Fidelity Management & Research Co. LLC	4.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	5	20
Relative to index (%)	(3)	1	19

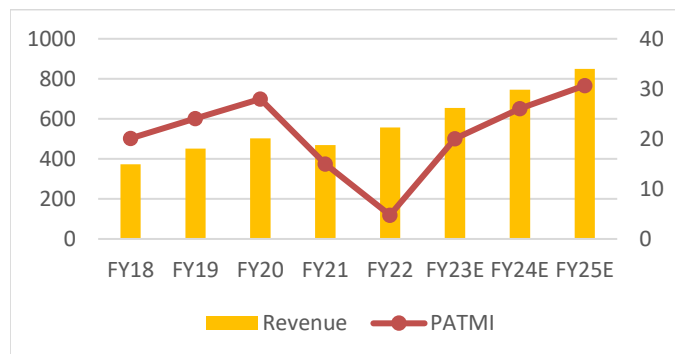
Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

Value Proposition

- A global system integrator, CSE is 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 30 Jun'23.

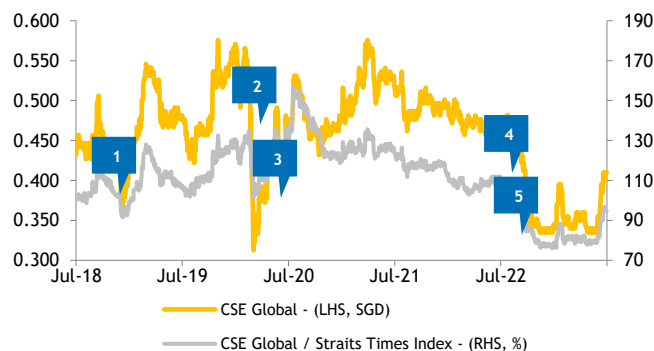
Revenue & NPAT estimates



Source: Company & Maybank Research

Price Drivers

Historical share price trend



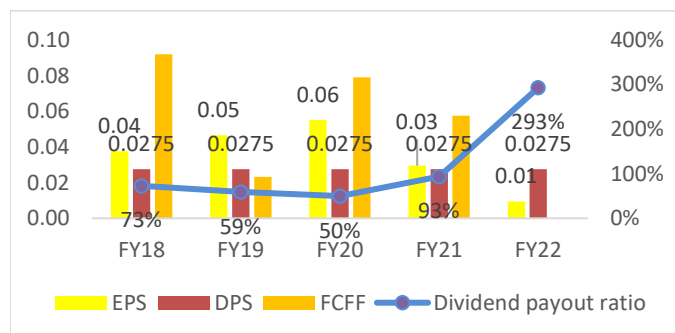
Source: Company, Maybank IBG Research

1. FY18 net profit surged 50.8% YoY to SGD20.1m.
2. Covid 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 to the 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 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 re-rating due to strong NPAT growth of 250% in FY23E and 30% YoY in FY24E.
- Trading at a significant discount compared to peers should warrant 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 data centres in the US.

Downside

- Potential execution error causing cost overruns.
- A recession may cause business and orders to slow down.
- FX fluctuations may impact profitability as 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 FY22 as compared to 76.6 (kg / SGD m)² in the FY20 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 returned to 82% in FY22 from 75% in FY21.
- The biggest risk would be supply chain disruptions to CSE as it is dependent on 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 plans to measure its Scope 3 emissions and plans to hit its long-term target of reducing greenhouse gas carbon emissions.
- Financing wise, CSE is negotiating with banks for possible Sustainability Linked Loans.
- 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 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 rate is 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 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 is there a standalone ESG committee or is it part of the risk committee?	<i>Yes. Through the Corporate Sustainability Work Group, its 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 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 has an established framework, internal policies, and tangible medium/long-term targets but needs to make headway in improving its quantitative "E" metrics YoY. CSE's overall ESG score is 47, which makes its ESG rating below average in our view (average ESG rating = 50).

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	47.0	10.8	10.0	7.6	5.9
Core P/E (x)	36.5	11.7	10.0	7.6	5.9
P/BV (x)	0.8	1.2	1.1	0.9	0.8
P/NTA (x)	(4.8)	(3.5)	(11.7)	22.2	4.7
Net dividend yield (%)	8.1	6.4	6.5	6.5	6.5
FCF yield (%)	nm	20.1	21.9	19.4	26.0
EV/EBITDA (x)	nm	22.8	8.6	6.3	4.4
EV/EBIT (x)	18.2	8.8	6.6	5.1	3.7
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	77.7	84.1	107.6
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	202.4	230.9	258.3
Total assets	493.7	599.6	664.2	720.0	793.1
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	268.0	306.0	355.0
Minority Interest	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)
Total shareholder equity	212.3	216.1	268.0	306.0	355.0
Total liabilities and equity	493.7	599.6	664.2	720.0	793.1
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)	(18.6)	(18.6)	(18.6)
Equity raised / (purchased)	33.4	0.0	23.2	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	57.4	27.0	46.1

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	64.8	49.1	38.0
DuPont analysis					
Net profit margin (%)	0.9	3.1	3.4	3.7	4.1
Revenue/Assets (x)	1.1	1.2	1.3	1.4	1.5
Assets/Equity (x)	2.3	2.8	2.5	2.4	2.2
ROAE (%)	na	na	na	na	na
ROAA (%)	1.1	4.1	4.5	5.5	6.5
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	1.5	2.0	2.6
Current ratio (x)	1.5	1.2	1.3	1.3	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.6	1.7	1.7	1.8
Net gearing (%) (incl perps)	34.0	35.2	10.3	3.7	net cash
Net gearing (%) (excl. perps)	34.0	35.2	10.3	3.7	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	27.7	11.3	(22.2)

Source: Company; Maybank IBG Research

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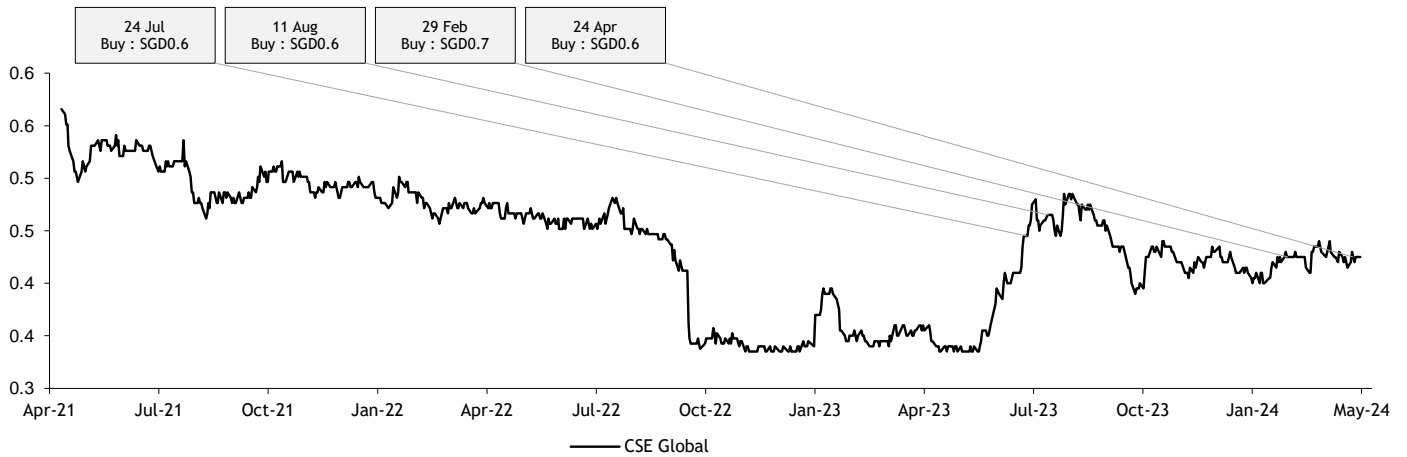
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