

Singapore Company Focus

CSE Global

Bloomberg: CSE SP | Reuters: CSES.SI

DBS Group Research . Equity

22 Feb 2011

HOLD S\$1.30 STI : 3,070.60

(Downgrade from BUY)

Price Target : 12-month S\$ 1.44 (Prev S\$ 1.57)

Reason for Report : Revision in earnings and TP

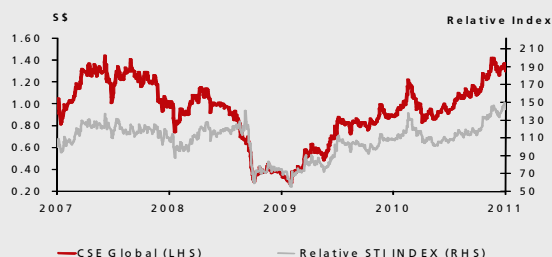
Potential Catalyst: More contract wins

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Price Relative



Forecasts and Valuation

FY Dec (\$ m)	2009A	2010A	2011F	2012F
Turnover	405	448	581	633
EBITDA	68	77	90	103
Pre-tax Profit	58	69	82	94
Net Profit	43	53	62	71
Net Pft (Pre Ex.)	43	53	62	71
EPS (S cts)	9.0	10.3	12.0	13.7
EPS Pre Ex. (S cts)	9.0	10.3	12.0	13.7
EPS Gth Pre Ex (%)	(6)	14	17	14
Diluted EPS (S cts)	9.0	10.3	12.0	13.7
Net DPS (S cts)	3.3	4.1	4.8	5.5
BV Per Share (S cts)	27.3	40.1	48.9	57.8
PE (X)	15.1	13.3	11.4	10.0
PE Pre Ex. (X)	15.1	13.3	11.4	10.0
P/Cash Flow (X)	13.9	12.3	10.6	9.3
EV/EBITDA (X)	10.3	9.0	8.1	6.7
Net Div Yield (%)	2.4	3.0	3.5	4.0
P/Book Value (X)	5.0	3.4	2.8	2.4
Net Debt/Equity (X)	0.4	CASH	0.1	CASH
ROAE (%)	36.3	31.3	27.1	25.7

Earnings Rev (%) :			(8.2)	(5.5)
Consensus EPS (S cts) :			13.6	15.2
Other Broker Recs :	B: 5	S: 0	H: 0	

ICB Industry : Technology

ICB Sector: Software & Computer Services

Principal Business: CSE Global is a global system integrator operating in the Americas, Europe, the Middle East, Africa, Asia.

Source of all data: Company, DBS Vickers, Bloomberg

Road bumps from Middle East

- **FY10 net profit of S\$52.5m (+20% yoy) was slightly below our estimate of S\$54m due to S\$1.7m bad debts.**
- **Trimmed FY11F/12F earnings by 8%/5% to reflect lower FY10 order wins.**
- **Downgrade to HOLD due to limited upside to our adjusted TP of S\$1.44. Solid track record, >15% FY10-12F EPS CAGR and >3% yield are the key attractions.**

Order wins were lower than expected Unexpected bad debts of S\$1.7m mainly from Thailand dented FY10 earnings. CSE's provision was on the conservative side. However, the key concern was FY10 order wins of only S\$491m versus our forecast of S\$550m. Management was cautious about Middle Eastern contracts due to ongoing political turmoil. While CSE has no exposure in Egypt, an estimated 20% of revenue comes from Middle East, mainly Saudi Arabia, UAE & Qatar.

Our earnings trimmed by 8%/5%. CSE's current order backlog of S\$394m (+1.5% yoy) is at record level but below our expectation of S\$439m. Considering the Middle Eastern turmoil, we also lowered new orders estimate to S\$550m in FY11F (S\$570m earlier) excluding recently acquired ASTIB, Australia. ASTIB alone should contribute S\$6m-S\$8m maiden earnings in FY11F. Hence our FY11F EPS growth of 17% is relatively conservative.

Downgrade to HOLD after price surge. During FY10, CSE generated over S\$57m in operating cash, demonstrating strong company operations. Political upheaval in the Middle East is a key concern. We lowered our TP to S\$1.44 to reflect lower earnings based on similar 12x FY11F PE (5% discount to historical 12.5x average).

At A Glance

Issued Capital (m shrs)	511
Mkt. Cap (S\$m/US\$m)	700 / 549
Major Shareholders	
Tan Mok Koon (%)	13.2
Chartered Asset Mgmt (%)	12.8
Cam-GTF Ltd (%)	10.0
Free Float (%)	64.0
Avg. Daily Vol.('000)	813

Results Summary and Comments

FY Dec (m)	4Q09	1Q10	2Q10	3Q10	4Q10	y-o-y	q-o-q	Comments
Sales	113.2	100.7	110.4	109.0	128.1	13%	18%	Topline could be better if not for the weak USD & GBP
Cost of Goods Sold	(67.3)	(62.7)	(66.6)	(68.6)	(82.9)	23%	21%	
Gross Profit	45.9	38.0	43.8	40.4	45.2	-2%	12%	
Other Operating Income	0.8	0.8	1.2	1.6	0.4	-48%	-75%	
Other Operating Expenses	(32.6)	(22.4)	(23.3)	(22.4)	(30.4)	-7%	36%	4Q10 was affected by an unexpected S\$1.7m bad debts
EBIT	14.1	16.4	21.7	19.6	15.2	8%	-22%	
Interest Expense	(1.6)	(1.3)	(1.3)	(1.2)	(1.0)	-36%	-16%	Lower expenses due to lower debt levels
Pretax Profit	13.0	15.1	20.3	18.4	14.8	14%	-20%	
Tax	(2.0)	(3.9)	(5.3)	(4.1)	(2.8)	38%	-32%	
Net Profit	10.9	11.2	15.0	14.3	12.0	9%	-16%	
New Order Wins	124	151	116	101	123	-1%	22%	

Source: Company, DBS Vickers

Income Statement (\$\$ m)

FY Dec	2009A	2010A	2011F	2012F
Turnover	405	448	581	633
Cost of Goods Sold	(249)	(281)	(376)	(410)
Gross Profit	156	167	204	223
Other Opng (Exp)/Inc	(92)	(94)	(119)	(125)
Operating Profit	64	73	85	98
Other Non Opng (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	(6)	(4)	(4)	(3)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	58	69	82	94
Tax	(15)	(16)	(20)	(24)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	43	53	62	71
Net Profit before Except.	43	53	62	71
EBITDA	68	77	90	103
Sales Gth (%)	(8.2)	10.5	29.6	9.0
EBITDA Gth (%)	(9.0)	13.2	16.8	14.1
Opq Profit Gth (%)	(9.9)	13.4	17.2	14.3
Net Profit Gth (%)	(10.9)	22.0	18.1	14.0
Effective Tax Rate (%)	26.1	23.5	24.0	25.0

Cash Flow Statement (\$\$ m)

FY Dec	2009A	2010A	2011F	2012F
Pre-Tax Profit	58	69	82	94
Dep. & Amort.	4	4	5	5
Tax Paid	(9)	(15)	(16)	(20)
Assoc. & JV Inc/(loss)	0	0	0	0
Chq in Wkq.Cap.	(5)	(1)	(38)	(15)
Other Operating CF	1	1	0	0
Net Operating CF	49	58	32	65
Capital Exp.(net)	(3)	(3)	(3)	(3)
Other Invts.(net)	0	(18)	(45)	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	0	(1)	0	0
Net Investing CF	(3)	(22)	(48)	(3)
Div Paid	(14)	(18)	(21)	(25)
Chq in Gross Debt	(19)	(50)	39	0
Capital Issues	0	38	6	0
Other Financing CF	0	0	0	0
Net Financing CF	(33)	(30)	24	(25)
Currency Adjustments	0	0	0	0
Chq in Cash	14	6	8	37

Quarterly / Interim Income Statement (\$\$ m)

FY Dec	1Q2010	2Q2010	3Q2010	4Q2010
Turnover	101	110	109	128
Cost of Goods Sold	(63)	(67)	(69)	(83)
Gross Profit	38	44	40	45
Other Oper. (Exp)/Inc	(22)	(22)	(21)	(30)
Operating Profit	16	22	20	15
Other Non Opq (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	(1)	(1)	(1)	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	15	20	18	15
Tax	(4)	(5)	(4)	(3)
Minority Interest	0	0	0	0
Net Profit	11	15	14	12
Net profit bef Except.	11	15	14	12
EBITDA	16	22	20	15
Sales Gth (%)	(11.1)	9.6	(1.3)	17.5
EBITDA Gth (%)	16.9	32.2	(9.6)	(22.2)
Opq Profit Gth (%)	16.5	32.2	(9.6)	(22.2)
Net Profit Gth (%)	2.6	33.8	(4.7)	(16.4)
Gross Margins (%)	37.8	39.7	37.0	35.3
Opq Profit Margins (%)	16.3	19.6	18.0	11.9
Net Profit Margins (%)	11.1	13.6	13.1	9.3

Balance Sheet (\$\$ m)

FY Dec	2009A	2010A	2011F	2012F
Net Fixed Assets	12	15	23	21
Invts in Associates & JVs	7	7	7	7
Other LT Assets	70	86	121	121
Cash & ST Invts	56	62	70	107
Inventory	8	9	12	13
Debtors	101	112	145	158
Other Current Assets	95	98	125	135
Total Assets	350	389	503	563
ST Debt	95	45	45	45
Other Current Liab	100	115	142	156
LT Debt	11	11	50	50
Other LT Liabilities	13	13	13	13
Shareholder's Equity	130	205	252	298
Minority Interests	0	0	0	0
Total Cap. & Liab.	350	389	503	563
Non-Cash Wkg. Capital	105	105	140	151
Net Cash/(Debt)	(50)	6	(25)	12

Rates & Ratio

FY Dec	2009A	2010A	2011F	2012F
Gross Margins (%)	38.6	37.4	35.2	35.2
Opq Profit Margin (%)	15.9	16.3	14.7	15.4
Net Profit Margin (%)	10.6	11.7	10.7	11.2
ROAE (%)	36.3	31.3	27.1	25.7
ROA (%)	12.6	14.2	13.9	13.3
ROCE (%)	19.4	21.3	20.4	19.1
Div Payout Ratio (%)	36.0	40.0	40.0	40.0
Net Interest Cover (x)	10.7	17.0	22.4	28.8
Asset Turnover (x)	1.2	1.2	1.3	1.2
Debtors Turn (avg days)	87.9	86.9	80.8	87.5
Creditors Turn (avg days)	101.0	98.4	91.9	99.5
Inventory Turn (avg days)	13.1	11.7	10.5	11.4
Current Ratio (x)	1.3	1.8	1.9	2.1
Quick Ratio (x)	0.8	1.1	1.1	1.3
Net Debt/Equity (X)	0.4	CASH	0.1	CASH
Net Debt/Equity ex MI (X)	0.4	0.0	0.1	0.0
Capex to Debt (%)	2.7	4.6	3.0	3.3
Z-Score (X)	3.3	4.3	3.9	3.6
N. Cash/(Debt)PS (S cts)	(10.5)	1.1	(4.9)	2.3
Opq CFPS (S cts)	11.4	11.5	13.6	15.5
Free CFPS (S cts)	9.8	10.7	5.7	12.0

Segmental Breakdown / Key Assumptions

FY Dec	2009A	2010A	2011F	2012F
Revenues (\$\$ m)				
Controls	215	235	348	379
Telecoms	122	140	154	169
Electrical	49	54	59	65
Healthcare	20	20	20	20
Total	405	448	581	633

Key Assumptions

New Order Wins (\$\$m)	520.0	550.0	570.0	571.0
Gross Margin (%)	38.6	37.4	35.2	35.2

Source: Company, DBS Vickers

DBSV recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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