CSE GLOBAL LIMITED
(Company Registration No. 198703851D)
(Incorporated in Singapore)

BUSINESS & FINANCIAL UPDATE

1.0 Business overview

The global oil & gas industry downturn and the end of mining boom in Australia had impacted CSE business from FY2014.

In FY2017, the Group recorded S$13.3 million full year profit after tax and non-controlling interests before exceptional items. Revenue and operating profit after tax and non-controlling interest for our continuing operations were S$362.4 million and S$13.3 million respectively (For FY2016, revenue and operating profit after tax and non-controlling interest were S$317.8 million and S$21.2 million respectively.)

The gross margin in FY2017 reduced to 26.0% compared to 31.7% for FY2016 for continuing operations of the Group, arising from increased sales generated at lower margins in oil & gas projects.

The Group received orders of S$381.9 million in FY2017 and ended the year with an outstanding order balance of S$175.0 million for continuing operations.

The Group in FY2017 generated a cash outflow from operations of S$2.3 million after funding of working capital for large greenfield projects secured in the Americas regions during the period. With that, the Group now has a net cash of S$15.5 million at the end of FY2017.

In FY2017, the operations in the geographical regions of Asia-Pacific, the Americas and Europe/Middle East/Africa contributed 36.6%, 56.9% and 6.5% respectively to revenue.

The increase in revenue but lower profitability in 2017 was mainly attributed to higher revenues generated in Americas and Asia-Pacific regions but lower gross margins generated from the oil & gas projects.

The Oil & Gas division contributed 68% of CSE's revenue (S$246.2m) and 24% of CSE's EBIT (S$4.7m) in FY2017 compared with 84% of CSE's revenue (S$345.0m) and 76% of CSE's EBIT (S$30.6m) in FY2015. The revenue mix for the Oil & Gas division is now 50% onshore (S$122.3m) and 50% offshore (S$123.9m) in FY2017 compared with 10% onshore (S$34.5m) and 90% offshore (S$310.5m) in FY2015. The efforts to grow the onshore revenue in the USA has borne fruits, particularly in the shale oil and gas market in USA, increasing revenue from S$34.5m in FY2015 to S$122.3m in FY2017. Nevertheless, the success in the onshore market was unable to compensate the sharp decline in the offshore revenue from the Gulf of Mexico of USA and telecommunications solutions in EMEA from S$310.5m in FY2015 to S$123.9m.

The Infrastructure and Mining & Mineral divisions contributed 32% of CSE's revenue (S$116.2m) and 76% of CSE's EBIT (S$15.0m) in FY2017 compared with 16% of CSE's revenue (S$67.0m) and 24% of CSE's EBIT (S$9.9m) in FY2015. The efforts to grow the division through a change of modus operandi for the existing solutions and services and the addition of the new radio communication business in Australia (2-way radios) has similarly borne fruits, growing EBIT by 53% and revenue by 73% for the 3 years period from the beginning of 2015.

Going forward, CSE will continue to improve the effectiveness of its business through

i. Revitalizing its existing solutions and services, improving delivery and new applications,
ii. Adding new solutions and services,
iii. Retaining and maintaining existing customer relationships,
iv. Adding new customers, and
v. Cost control and cash generation.

It will continue to explore acquisition opportunities to support its long term sustainable growth objectives as it believes that acquisitions while carrying risks has the advantage of execution speed over organic growth which also has associated risks.

The 2017 and 2016 contributions from these acquisitions made from 2015 till to date are as follows:

S$m	Purchase Consideration	Revenue FY2017	Revenue FY2016	EBIT * FY2017	EBIT* FY2016
USA	15.6	32.4	22.9	5.1	4.3
Australia	11.4	29.2	16.0	2.1	(0.1)
Total	27.0	61.6	38.9	7.2	4.2

*included amortization of intangibles, transaction cost and redundancy costs associated with the acquisition.

Revenue by Geographic Region

S$'m	FY2015	FY2016	FY2017	Change in FY17/FY15
The Americas	234.7	159.7	206.2	-12%
Europe/Middle East/ Africa	48.0	41.4	23.5	-51%
Asia-Pacific	129.3	116.7	132.6	3%
Group	412.0	317.8	362.4	-12%

EBIT by Geographic Region

S$'m	FY2015	FY2016	FY2017	Change in FY17/FY15
The Americas	22.5	7.2	6.4	-72%
Europe/Middle East/ Africa	5.0	6.5	(4.7)	n.m.
Asia-Pacific	13.0	13.8	17.9	38%
Group	40.5	27.6	19.6	-52%

Revenue by Industries

S$'m	FY2015	FY2016	FY2017	Change in FY17/FY15
Oil & Gas	345.0	236.8	246.2	-29%
Infrastructure	53.9	58.9	90.5	68%
Mining & Mineral	13.1	22.0	25.7	96%
Group	412.0	317.8	362.4	-12%

EBIT by Industries

S$'m	FY2015	FY2016	FY2017	Change in FY17/FY15
Oil & Gas	30.6	17.3	4.7	-85%
Infrastructure	8.2	8.4	15.2	85%
Mining & Mineral	1.6	1.9	(0.2)	n.m
Group	40.5	27.6	19.6	-52%

1.1 Oil & gas

In FY2015, the oil & gas business contributed 84% of CSE's revenue. The oil & gas business mainly come from offshore, Gulf of Mexico of USA (revenue was S$234.7m) and telecommunication solutions in EMEA (revenue was S$48m). CSE was able to maintain its revenue despite the global oil & gas industry downturn (which started in 2014) because of the backlog orders it carried into 2015 and the resilient flow of small orders (maintenance, enhancement, upgrades and small greenfield projects) from the Gulf of Mexico. CSE started to see a significant reduction in its large greenfield orders from the Gulf of Mexico at the start of 2016 and a significant reduction in its small orders from the Gulf of Mexico in 2QFY2016. It also started to see a significant reduction in its large greenfield orders for the telecommunications solutions in EMEA in 2014.

Against the bleak environment, the Company has in the last 3 years executed several measures for its oil & gas division:

i. CSE has implemented a series of headcounts and cost reductions globally while striving to retain its core competency to ride out the downturn. CSE reduced approximately 300 headcounts in USA. It also reduced approximately 200 headcounts for telecommunications solutions division in EMEA and Asia-Pacific regions. The global headcounts for the group reached a low of approximately 1,000 in FY2017 before rebounding to 1,104 at the end of FY2017, which is still significantly lower than the 1,400 to 1,500 staff the group had before the downturn. CSE also has closed down 3 offices and scaled down 3 offices serving the telecommunications solutions division in EMEA and Asia-Pacific. CSE took the necessary actions to control costs but are mindful that it needs to retain key people to maintain its core competencies, deliver existing customer commitments and maintain customer relationships while waiting for the industry to recover. CSE remains a committed solution and service provider to the offshore oil & gas market.

ii. CSE undertook proactive steps to pursue the onshore oil & gas business in the USA. The onshore oil & gas business has grown since then and now contributes 50% of total oil & gas business or revenue of S$122.3m in FY2017 from S$34.5m in FY2015. It has setup new offices and through 2 acquisitions built a network of 14 offices in the USA to serve the onshore oil & gas customers particularly for the Permian and Eagleford shale producing regions. The Group will continue grow its onshore oil & gas businesses through a combination of organic (new office setup) and inorganic (via acquisitions) initiatives to expand and strengthen its geographic footprint in the USA.

1.2 Infrastructure

The infrastructure business encompasses the supply of solutions and services to the Singapore Government, the provision of energy-related solutions and services to the mining and infrastructure sector in Australia and a radio solution and services (Radio communication business) in Australia. Since the beginning of 2015, as part of the business diversification plan, CSE started to build a radio communications business in Australia that contributed S$42m revenue in FY2017, which is a significant progress from the S$5m revenue in FY2015. This was achieved partially organically and partially inorganically through 5 acquisitions of companies in Australia. CSE had grown 68% over 3 years in its infrastructure business revenue, from FY 2015 to FY 2017, revenues of S$90.5m in FY 2017 compared to S$53.9m in FY 2015.

1.3 Mining & Mineral

The mining & mineral division suffered a significant reduction in activities in 2015 with the end of mining boom in Australia. CSE repositioned the business and changed the management team through internal promotion and hiring new managers outside the organization. Business for the mining & mineral division under the new management has since recovered from a low in 2015.

2.0 Cost control

2.1 Headcount

Headcount at end of each financial year ending 31st December

	FY 2014	FY2015	FY2016	FY2017	Change in FY17/FY14
Americas	789	685	526	642	-19%
EMEA	78	68	51	43	-45%
Asia-Pacific	516	477	459	419	-19%
Group	1,383	1,230	1,036	1,104	-20%

While CSE has reduced approximately 300 headcounts serving the offshore oil & gas businesses in USA and reduced approximately 200 headcounts for telecommunications solutions division in EMEA and Asia-Pacific regions, the group headcounts reduction over the 3 years was 279 as it had increased headcounts deployed for its onshore oil & gas business in USA and communications business in Australia organically and through the acquisitions made.

2.2 Administrative, selling and distribution cost (exclude other operating expenses)

S$'m	FY2015	FY2016	FY2017	Change in FY17/FY15
Administrative costs	71.4	66.1	67.9	-5%
Selling & distribution costs	4.0	3.8	3.8	-5%
Total Administrative and Selling & distribution costs	75.4	69.9	71.7	-5%
Less: Expenses of Acquisitions consolidated in CSE Group	(1.6)	(7.3)	(12.2)	
Total before acquisitions	73.8	62.6	59.5	-19%

CSE has executed several cost control initiatives including reduction of headcounts as discussed above and closing and scaling down some offices. With these measures, CSE is able to reduce its administrative, selling and distribution costs by approximately 19% or $14.3m over the last 3 years before accounting for the acquisitions made. The increase in cost between FY2016 and FY2017 is contributed by the higher expenditure in the onshore oil & gas division in USA and the infrastructure division in Singapore and Australia as the business improved.

3.0 Cashflow management

S$'m	FY2015	FY2016	FY2017
As at beginning of the period	66.9	109.7	90.8
Net operations	53.3	61.9	(2.3)
Finance and tax expense	(9.9)	(3.5)	(4.8)
Capital expenditure	(5.7)	(6.8)	(8.0)
Quoted investment	–	(7.2)	6.0
One-off settlement costs	–	–	(16.6)
Net additional investment in subsidiaries & assets	2.9	(14.4)	(8.2)
Bank Loans	11.6	(35.0)	10.8
Dividends	(14.2)	(14.2)	(14.2)
Net effect of FX on cash	4.8	0.2	(6.6)
As at end of period	109.7	90.8	46.9
Bank borrowing	55.5	20.6	31.4
Net cash	**54.2**	**70.2**	**15.5**

During the financial years in 2015 to 2017, CSE has done well to generate a positive cashflow from operations of S$112.9m. CSE expects to achieve positive cashflow from operations in 2018.

CSE believes that the markets it serves remain uncertain and would prefer to take a prudent approach to be in a net cash position and not to increase leverage. While equity is more expensive than debt, it is more prudent to deleverage in a downturn than to increase leverage. In future, when the market condition improves, management will review its current position.

4.0 Trade Receivables

Trade receivables past due but not impaired

S$'000	FY2014	FY2015	FY2016	FY2017*
Less than 30 days	13,614	18,263	23,544	13,160
30 to 60 days	13,311	6,208	5,210	5,887
61 to 90 days	4,313	2,937	7,515	5,308
91 to 120 days	3,939	6,149	3,820	1,921
More than 120 days	16,597	12,615	11,768	10,302
Total	51,574	46,172	51,857	36,578

*subject to final auditor review.

Receivables that are impaired

S$'000	FY2014	FY2015	FY2016	FY2017*
Trade receivables – nominal amounts	1,093	3,671	4,087	14,172
Less Allowance for impairment	(1,093)	(2,854)	(3,459)	(14,172)
Balance	0	817	628	0

*subject to final auditor review.

CSE notes that several customers have not met their payment commitments during 2017. Management decided to make an impairment of trade receivables of S$11.747m in FY2017 as no firm new commitments were offered by these customers and the trade receivables are more than 1 year overdue. Nevertheless, the management will continue to follow up with them in 2018 to recover the receivables. The trade receivables that are past due more than 120 days of S$10.3m are not impaired as they have commitments by the customers to pay in 1H2018.

5.0 Dividends

S$'m	FY2015	FY2016	FY2017	Total
Profits after tax before exceptional items	31.2	21.2	13.3	65.7
Dividend payout	14.2	14.2	14.2*	42.6
Dividend payout ratio	**46%**	**67%**	**107%**	**65%**
Divided per share	$0.0275	$0.0275	$0.0275*	

*include the S$0.01 final dividend and S$0.005 special to be approved at April 2018 AGM

CSE does not have a fixed dividend policy as it would reduce the Company's flexibility to deploy capital in an effective manner for the benefit of the Company.

CSE has a good track record of consistently paying dividends to shareholders and strives to manage its capital prudently while having a sustainable dividend payout. CSE has paid a total of S$42.6m of dividend over FY2015 to FY 2017 or approximately $14.2m of dividend per year during this time. This represents 107% (FY2017), 67% (FY2016) and 46% (FY2015) of operating profits after tax before exceptional items. As discussed at previous AGMs, CSE is faced with the severe downturn of the global oil & gas market and the mining & minerals market which contribute the bulk of its revenue but is willing to ride through this difficult period with the shareholders by maintaining the absolute dividend at 2.75 cents per share per year (cash position permitting) which is higher than the approximately 40% dividend payout ratio before this downturn (CSE normally generates 70% of operating profit after tax as cash over a 3 to 5 years period)

CSE intends to maintain the dividend for FY2018 at 2.75 cents per share. However, CSE presently only has a net cash of S$15.5m as at the end of 2017 and does not intend to borrow to pay dividends. Consequently, it is only willing to commit to pay 2.25 cents per share for FY2018. CSE will review its cash position at the end of Q1 2018 and Q2 2018 and the outlook of cash generation for the full year of FY2018 to determine whether an additional 0.5 cents per share may be declared for FY2018.

6.0 Board and management

6.1 Board members

	FY2015	FY2016	FY2017
Member	7	7	7
Members who are still in the 2017 board	6	6	7[a]

[a.] Dr Lee Kong Ting was appointed on 1 February 2017

6.2 Board Compensation

S$	FY2015	FY2016	FY2017	Change
Fees	407,776.13	359,629.80	346,902.97	-15%
No of non-executive directors	6	6	6	

Board fees had reduced by 15% over the 3 years.

6.3 Senior Management

Faced with the global oil & gas industry downturn and the end of mining boom in Australia and the intent to diversify and grow the onshore oil & gas business in USA and the radio communication business in Australia, CSE had made several management team changes over the 4 years period from beginning of 2014 to end of 2017. It reduced the CSE management team from 24 to 22, keeping 12 of the original 24 members, promoting 5 internally and hiring 5 from outside.

It retained the business group structure of 4 business groups (Americas, Asia, Australia and Transtel (telecommunications solutions for the oil & gas industries)) and each of the business group is headed by a group head and he is supported by a management team.

6.4 Management Compensation

S$'000	CEO + Top 5 Executives	Operating PAT before exceptional items
FY2015	7,142*	31,191
FY2016	3,984	21,189
FY2017	4,045	13,329

*The disclosure in the FY2015 annual report included a staff that has left CSE at the end of 2015 and the salary of the CEO and the top 5 existing executives for FY2015 was S$4,992k.

The company currently has a compensation scheme for senior management that comprises basic salary, profit sharing based on annual profits and achievement of the mid to long term business targets of the individual business units and the Group. As was mentioned in the last AGM held in April 2017, CSE has implemented a share-based long term incentive plan in lieu of an existing cash plan. The share plan will allow management further align their interest and share in the future of CSE with the shareholders without fear of any violation of the insider trading rules that may arose from open market purchases.

7.0 Conclusion

7.1 Business strategy

Faced with a global downturn in the Oil & Gas industry in 2014, CSE took the necessary actions to control cost and reorganized the business but are mindful that CSE need to retain its key people to maintain its core competencies, deliver existing customer commitments and maintain customer relationships while waiting for the industry to recover. CSE remains a committed solutions and services provider to the offshore and onshore oil & gas market.

Similarly, with the end of mining boom in Australia in 2014, CSE had also repositioned its mining and mineral business, exercised cost control and changed the management team through internal promotion and hiring new managers from outside the organization.

For its infrastructure business, CSE will continue to maintain and enhance the divisions that supply solutions and services to the Singapore Government, provide energy-related solutions and services to the mining and infrastructure sector in Australia and will continue to expand and enhance its radio solutions and services (Radio communication business) in Australia.

Since 2014, CSE had built 2 new businesses, which combined contributed 42% to its FY2017 revenue, (i) onshore oil & gas business that now contributes 50% of its total oil & gas business or revenue of S$122.3m in FY2017 (ii) a radio communications business in Australia that contribute S$42m revenue in FY2017.

It will continue to explore acquisition opportunities to support its long term sustainable growth objectives as it believes that acquisition while carrying risks has the advantage of execution speed over organic growth which also has its associated risks.

7.2 Dividends

As discussed at the last few AGMs held, CSE is willing to ride through this difficult period with the shareholders by maintaining the absolute dividend at 2.75 cents per share per year (cash position permitting) which is higher than the approximately 40% dividend payout ratio before this downturn (CSE normally generates 70% of operating profit after tax as cash over a 3 to 5 years period).

CSE intends to maintain the dividend for FY2018 at 2.75 cents per share. However, CSE presently only has net cash of S$15.5m as at the end of 2017 and does not intend to borrow to pay dividends. Consequently, it is only willing to commit to pay 2.25 cents per share for FY2018. CSE will review its cash position at the end of Q1 2018 and Q2 2018 and the outlook of cash generation for the full year of FY2018 to determine whether an additional 0.5 cents per share may be declared for FY2018.

7.3 Leverage

While equity is more expensive than debt, it is more prudent to deleverage in a downturn than to increase leverage. In future, when the markets condition improves, the management will review its current position.

By Order Of The Board

Lai Kuan Loong, Victor
Company Secretary

8 March 2018