

CTOS Digital Berhad (CTOS MK)

Booked higher taxes

Maintain BUY

CTOS' robust PBT growth of 26% in FY21 was partially offset by higher tax rate due to pioneer tax status expiry, narrowing its core earnings growth to 16%. As a result, FY21 net profit of RM49.6m made up just 83% of our full-year estimates, but 101% of consensus. We expect a tax write back in FY22E. Additionally, the robust demand for credit assessment and higher associates profits should fuel a 43% earnings CAGR in FY21-23E. We maintain our BUY call with a lower TP of RM2.30, pegged to 2.3x PEG, which is a 10% discount to peer comparable-basket PEG multiple of 2.5x.

Results performance dragged by taxes

4Q21 core earnings fell by 7% YoY to RM12.7m, bringing the full-year earnings to RM49.6m. This made up just 83% of our full-year forecast, but 101% of consensus' estimates. The variation came mainly from higher effective tax rate of 18% in FY21 (vs our 6% tax rate assumption) as the group conservatively booked a higher tax rate following the expiry of its pioneer tax status on 8 Nov 2021. Full year revenue/EBITDA came in more in-line with our estimates at 100%/94%. On a full-year basis, D2C revenue grew by 45% despite the 1.5-month CCRIS service suspension on higher demand for individual credit assessment. Key Account and Commercial also grew by 13% and 5% respectively due to recovery in demand for credit facilities. Associate profits were up four-fold due to higher BOL earnings.

Fine-tuning earnings

We fine-tune our FY22-23E estimates - we assume an effective tax rate of 1.1% in FY22E as we believe the RM5.6m in additional tax expenses booked in FY21 will be written back in FY22E following a likely extension of its pioneer tax status until 2026. Other key assumptions remain unchanged. Upon imputing FY21 actual figures, our FY22E EPS is slightly raised by 1.4% but our FY23E EPS is cut by 4%.

Outlook remains robust

As loan application and trade financing activities are likely to further improve as the economy recovers, we expect demand for CTOS' services to continue to grow. Despite having a dominant 71% local market share, penetration rate remains low within SMEs (17k accounts vs 100k potential targets) and individuals (1.5m served vs 15m working population). Additionally, we also expect the acquisition of Juris to be earnings accretive to the group, whilst enhancing its position to provide end-to-end credit lending solutions in the underpenetrated ASEAN region.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	140	153	175	201	227
EBITDA	54	65	77	89	103
Core net profit	43	50	87	102	118
Core EPS (sen)	1.9	2.3	3.8	4.4	5.1
Core EPS growth (%)	8.4	16.0	70.3	13.3	16.2
Net DPS (sen)	0.0	1.2	2.0	2.4	2.8
Core P/E (x)	na	80.2	45.5	40.2	34.6
P/BV (x)	na	12.9	11.0	9.7	8.6
Net dividend yield (%)	na	0.7	1.1	1.4	1.6
ROAE (%)	73.2	20.8	26.5	27.3	28.1
ROAA (%)	31.0	15.6	22.9	23.9	24.7
EV/EBITDA (x)	73.5	60.9	49.3	42.0	36.0
Net gearing (%) (incl perps)	91.6	net cash	net cash	net cash	net cash
Consensus net profit	-	-	79	92	na
MKE vs. Consensus (%)	-	-	11.0	10.4	na

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BUY

Share Price	MYR 1.75
12m Price Target	MYR 2.30 (+33%)
Previous Price Target	MYR 2.40

Company Description

CTOS Digital is a credit rating agency, principally involved in the business of credit reporting, digital related services, and investment holding.

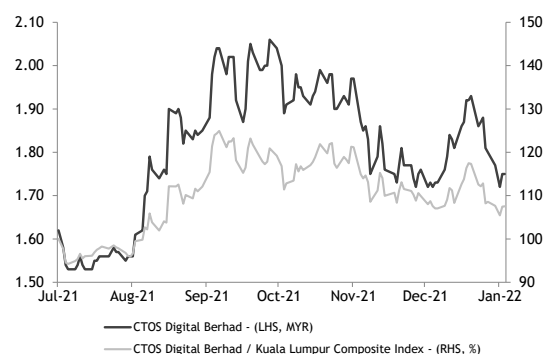
Statistics

52w high/low (MYR)	na/na
3m avg turnover (USDm)	4.2
Free float (%)	50.9
Issued shares (m)	2,200
Market capitalisation	MYR3.9B
	USD920M

Major shareholders:

Inodes	40.0%
Chung Tze Keong	4.5%
Chung Tze Wen	4.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	(7)	na
Relative to index (%)	(1)	(3)	na

Source: FactSet

FYE Dec (MYR m)	Quarterly results					Cumulative		
	4Q21	3Q21	%QoQ	4Q20	%YoY	FY21	FY20	%YoY
Turnover	38.8	38.6	0.6	34.5	12.5	153.2	133.2	15.0
EBITDA	14.7	15.7	(6.4)	16.3	(10.3)	64.2	53.3	20.5
Depreciation & amortisation	(1.8)	(1.9)	(4.5)	(2.1)	(15.0)	(7.7)	(7.2)	7.0
EBIT	12.9	13.8	(6.6)	14.3	(9.6)	56.5	46.1	22.6
Interest expense	(0.0)	(0.5)	(95.9)	(1.9)	(99.0)	(5.7)	(4.2)	35.3
Interest income	0.2	0.2	(12.8)	0.0	294.7	0.4	0.2	84.9
Associates	1.6	2.2	(25.1)	0.8	95.4	7.2	1.8	304.3
Exceptional items	(0.9)	(1.6)	(44.8)	0.1	nm	(6.1)	(2.3)	166.8
Pre-tax profits	13.8	14.1	(2.3)	13.4	3.0	52.3	41.6	25.9
Tax	(2.0)	(2.4)	(17.9)	(0.4)	398.2	(9.3)	(2.3)	310.6
Minority interest	0.0	0.0	nm	0.8	nm	0.6	1.2	(54.5)
Net profit	11.8	11.7	0.9	13.8	(14.7)	43.6	40.5	7.5
Core net profit	12.7	13.3	(4.6)	13.7	(7.4)	49.6	42.8	16.0
	4Q21	3Q21	+/- ppt	4Q20	%YoY	FY21	FY20	+/- ppt
EBITDA margin (%)	37.8	40.6	(2.8)	47.4	(9.6)	41.9	40.0	1.9
Core NP margin (%)	32.6	34.4	(1.8)	39.7	(7.0)	32.4	32.1	0.3
Tax rate (%)	14.4	17.2	(2.7)	3.0	11.5	17.8	5.5	12.4
Segmental breakdown								
Key Accounts	14.2	14.1	0.5	11.5	23.0	53.6	47.3	13.2
Commercial - MY	20.6	20.6	0.2	20.9	(1.1)	83.2	79.6	4.5
Commercial - Int	2.4	1.6	52.7	0.0	nm	7.3	0.0	nm
D2C	1.6	2.3	(29.5)	2.1	(22.7)	9.1	6.3	44.9
Total revenue	38.8	38.6	0.6	34.5	(98.1)	153.2	133.2	15.0

Source: Company, Maybank IBG Research

Risks

The risks to our investment thesis and earnings estimates are 1) emerging competition from smaller players that may cap business opportunities among new avenues such as challenger banks and digital moneylenders, and 2) increasing cyberattack threats as adoption of digital economy rises.

TP derivation

FY22E EPS (sen)	3.84
Earnings 2Y CAGR 21-23E (%)	26.3
PEG ratio (x) - 10% discount to regional median of 2.5x	2.3
Implied PER at FY22E (x)	59.9
Value per share (RM)	2.30

Source: Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	na	91.4	44.2	37.8	32.5
Core P/E (x)	na	80.2	45.5	40.2	34.6
P/BV (x)	na	12.9	11.0	9.7	8.6
P/NTA (x)	na	17.4	14.2	12.1	10.3
Net dividend yield (%)	na	0.7	1.1	1.4	1.6
FCF yield (%)	na	1.5	2.2	2.7	3.1
EV/EBITDA (x)	73.5	60.9	49.3	42.0	36.0
EV/EBIT (x)	85.8	70.2	53.9	45.1	38.3
INCOME STATEMENT (MYR m)					
Revenue	140.5	153.2	175.5	200.6	226.6
EBITDA	53.9	65.1	76.9	89.2	102.6
Depreciation	(7.3)	(7.7)	(5.4)	(4.9)	(4.6)
Amortisation	(0.4)	(0.9)	(1.1)	(1.3)	(1.5)
EBIT	46.2	56.5	70.4	83.0	96.5
Net interest income / (exp)	(4.0)	(5.3)	0.6	1.2	2.0
Associates & JV	1.8	7.2	17.2	24.1	27.4
Exceptionals	(2.3)	(6.1)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	41.7	52.3	88.2	108.3	125.9
Income tax	(2.4)	(9.3)	(1.0)	(6.5)	(7.6)
Minorities	1.2	0.6	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	40.5	43.6	87.2	101.8	118.3
Core net profit	42.8	49.6	87.2	101.8	118.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	26.4	17.1	57.9	104.3	157.7
Accounts receivable	28.2	25.2	28.8	32.9	37.2
Inventory	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	16.9	14.7	13.3	12.4	11.8
Intangible assets	49.6	79.2	78.1	76.8	75.3
Investment in Associates & JVs	150.8	172.9	172.9	172.9	172.9
Other assets	4.1	51.5	51.5	51.5	51.5
Total assets	276.0	360.6	402.4	450.8	506.4
ST interest bearing debt	132.3	0.0	0.0	0.0	0.0
Accounts payable	17.1	21.9	21.9	24.6	27.3
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	11.0	31.0	31.0	31.0	31.0
Total Liabilities	160.3	52.8	52.9	55.6	58.3
Shareholders Equity	110.8	307.7	349.6	395.3	448.1
Minority Interest	5.0	0.0	0.0	0.0	0.0
Total shareholder equity	115.7	307.7	349.6	395.3	448.1
Total liabilities and equity	276.0	360.6	402.4	450.8	506.4
CASH FLOW (MYR m)					
Pretax profit	41.7	52.3	88.2	108.3	125.9
Depreciation & amortisation	7.7	8.6	6.5	6.2	6.1
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(1.2)	(1.0)	(4.0)	(6.7)	(7.2)
Cash taxes paid	(2.1)	(3.3)	(1.0)	(6.5)	(7.6)
Other operating cash flow	3.5	5.5	0.4	5.3	5.6
Cash flow from operations	49.6	62.2	90.1	106.6	122.8
Capex	(4.7)	(2.0)	(4.0)	(4.0)	(4.0)
Free cash flow	44.9	60.2	86.1	102.6	118.8
Dividends paid	(10.5)	(41.0)	(45.4)	(56.1)	(65.4)
Equity raised / (purchased)	0.0	220.0	0.0	0.0	0.0
Change in Debt	107.4	(138.6)	0.0	0.0	0.0
Other invest/financing cash flow	(122.1)	(108.5)	0.0	0.0	0.0
Effect of exch rate changes	(0.2)	0.2	0.0	0.0	0.0
Net cash flow	19.4	(7.8)	40.7	46.5	53.4

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	8.8	9.0	14.6	14.3	13.0
EBITDA growth	11.2	20.8	18.2	15.9	15.0
EBIT growth	9.5	22.3	24.6	17.9	16.3
Pretax growth	1.0	25.6	68.4	22.8	16.2
Reported net profit growth	3.9	7.5	100.1	16.8	16.2
Core net profit growth	8.4	16.0	75.6	16.8	16.2
Profitability ratios (%)					
EBITDA margin	38.4	42.5	43.8	44.5	45.3
EBIT margin	32.9	36.9	40.1	41.4	42.6
Pretax profit margin	29.7	34.2	50.2	54.0	55.5
Payout ratio	0.0	59.7	50.5	51.9	52.1
DuPont analysis					
Net profit margin (%)	28.8	28.4	49.7	50.8	52.2
Revenue/Assets (x)	0.5	0.4	0.4	0.4	0.4
Assets/Equity (x)	2.5	1.2	1.2	1.1	1.1
ROAE (%)	73.2	20.8	26.5	27.3	28.1
ROAA (%)	31.0	15.6	22.9	23.9	24.7
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	36.2	62.7	55.4	55.4	55.7
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	nm	1.7	2.0	1.9	1.9
Current ratio (x)	0.3	1.8	2.9	3.9	4.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	6.8	7.6	8.1	8.7
Net gearing (%) (incl perps)	91.6	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	91.6	net cash	net cash	net cash	net cash
Net interest cover (x)	11.5	10.7	na	na	na
Debt/EBITDA (x)	2.5	0.0	0.0	0.0	0.0
Capex/revenue (%)	3.4	1.3	2.3	2.0	1.8
Net debt/ (net cash)	105.9	(17.1)	(57.9)	(104.3)	(157.7)

Source: Company; Maybank

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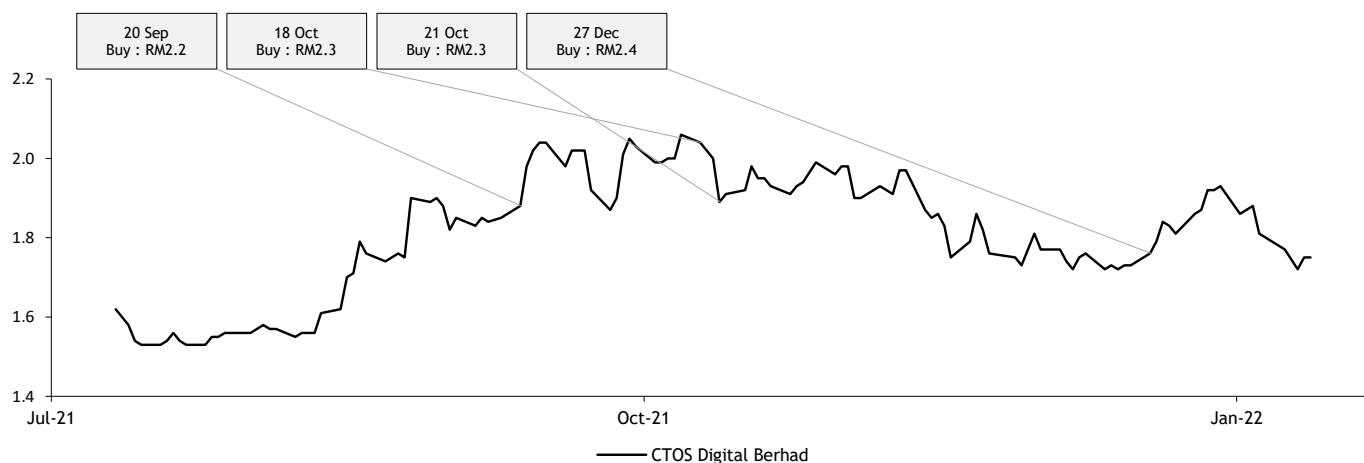
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