

CTOS Digital Berhad (CTOS MK)

Post-briefing update - Staying on the growth track

Remain upbeat; Maintain Buy

We remain upbeat on CTOS' prospects post-briefing. The introduction of multiple new digital products could help uplift customer wallet size. Additionally, the lifting of lockdown measures would mean CTOS could garner higher new activation growth in the underpenetrated SME segment, while the emergence of digital/challenger banks provides a new growth avenue in the unbanked/underbanked segment. Maintain BUY with an unchanged TP of RM2.30, pegged to 2.3x its PEG multiple.

FY21 recap

FY21 revenue (ex-CIBI) grew by 16% despite the setbacks coming from intermittent lockdown measures and the CCRIS suspension in 4Q21. The aforementioned factors had the biggest impact on the local Commercial segment, which nonetheless managed to eke out a 5% growth due to lower growth in new activations. The D2C segment saw the largest growth rate of 45% as registered user base grew by ~30% to 1.7mil, while implied avg revenue per account (ARPA) grew by ~11% on the back of higher conversion of paying users. Key Account revenue grew by 13%, driven by additional new customers and higher demand on CTOS VAS products i.e. eKYC, IDGuard and Comprehensive Portfolio Review. The injection of CTOS Basis (international segment) on Jan 2021 also contributed an additional 5% of total rev in FY21. FY21 EBITDA margin improved to 42.5% (FY20: 38.4%) on the back of operating leverage, despite incremental costs related to remediation of CCRIS service restoration.

Growth from higher credit awareness, new products

Our ~15% rev growth projection for FY22-23E will be supported by a combination of strong SME accounts growth (~17% per annum) and increase in wallet size of existing accounts through higher uptake rate of CTOS' VAS i.e. eKYC, IDGuard (fraud detection), analytics, and other digital products from new verticals i.e. real estate, insurance and motor. The latter may likely support our ~10% annual growth assumption for Key Account implied ARPA, and cushion the rate of decline in Commercial implied ARPA as it expands its accounts base.

EPS growth tailwinds from other elements

We also expect the incremental RM5m in tax expense in FY21 to be written back in FY22E upon the pioneer tax status extension, possibly to be granted in 1Q22, thus arriving at our assumed 1.1% tax rate. Additionally, a net cash balance sheet and incremental profits from Juris would also be supportive EPS growth ahead.

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	44.8	39.5	34.0
P/BV (x)	na	12.9	10.8	9.6	8.4
Net dividend yield (%)	na	0.7	1.2	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)	72.3	60.9	48.4	41.3	35.4
Net gearing (%) (incl perps)	91.6	net cash	net cash	net cash	net cash
Consensus net profit	-	-	80	94	111
MKE vs. Consensus (%)	-	-	9.5	8.1	6.6

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BUY

Share Price	MYR 1.72
12m Price Target	MYR 2.30 (+35%)
Previous Price Target	MYR 2.30

Company Description

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

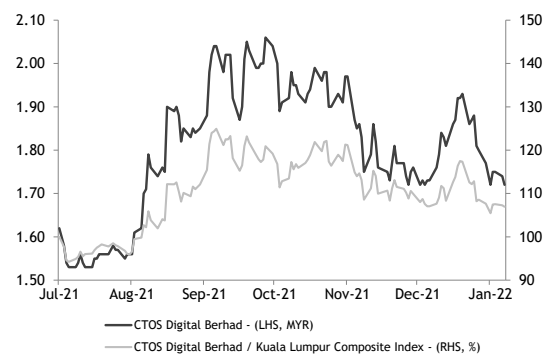
Statistics

52w high/low (MYR)	na/na
3m avg turnover (USDm)	4.0
Free float (%)	50.9
Issued shares (m)	2,200
Market capitalisation	MYR3.8B USD903M

Major shareholders:

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

Price Performance



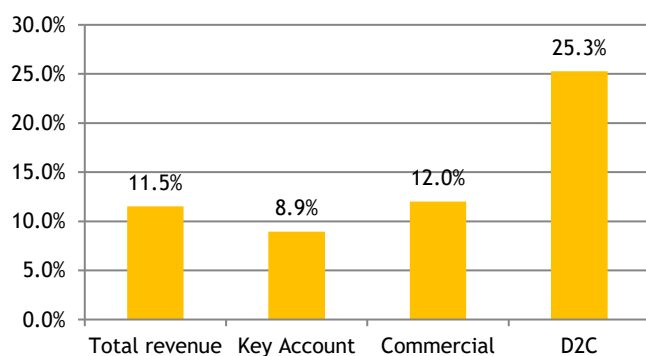
	-1M	-3M	-12M
Absolute (%)	(1)	(10)	na
Relative to index (%)	(1)	(7)	na

Source: FactSet

Value Proposition

- CTOS Digital is the market leading credit reporting agency in Malaysia with a 71.2% revenue market share in 2020, while 22.65%-owned BOL is the largest company information bureau in Thailand, with an estimated 59% market share.
- With over 30 years of experience, the company has an extensive database of about 15m consumer profiles and 8m company and business profiles. CTOS Digital is said to have one of the largest trade reference databases in Malaysia.
- CTOS Digital caters to three types of customers: Key Accounts, Commercial and Direct-to-Consumer (“D2C”). The growth in number of accounts is the highest for D2C at 20-30% per annum, followed by Commercial at 15-20% p.a.

3-year revenue CAGR (2018-2021) by customer type

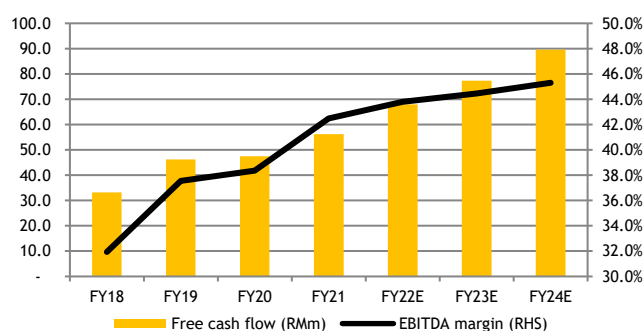


Source: Company

Financial Metrics

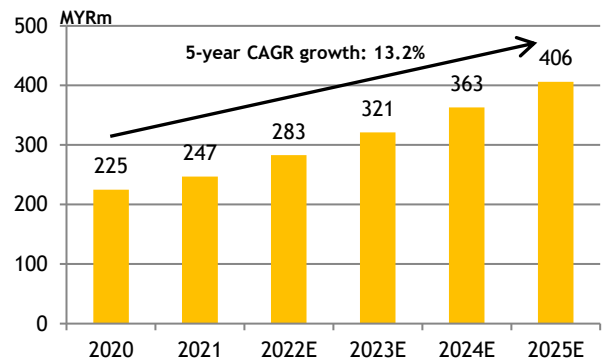
- We project a 3-year (FY20-FY23E) core net profit CAGR of 33%, driven primarily by growth across all customer segments and average revenue per customer (i.e. from new offerings, new verticals, more value-added products).
- Our forecasts have imputed annual customer/account growth of 15-20% for the Commercial and D2C segments, -2% for the Key Account segment.
- We expect profit margins to improve as the group is able to enjoy greater economies of scale (i.e. improving revenue and relatively stable costs).
- 60% dividend payout policy with low capital expenditure (“capex”) requirements. Free cash flow generation is estimated to range between MYR56m-90m in FY21-FY24E.

FCF and EBITDA margins (FY18-FY23E)



Source: Company

Industry outlook



Source: Company, Maybank IBG Research

- According to *IDC Market Research (Malaysia) Sdn Bhd (“IDC”)*, the revenue of the credit reporting industry in ASEAN totalled MYR991m in 2020.
- IDC estimates the size of Malaysia’s credit reporting industry to be MYR225m in 2020 (i.e. 23% the size of the ASEAN market).
- The domestic market expanded at a 5-year CAGR (2016-2020) of 12.9%, and IDC predicts that it will continue to grow in revenue at a 5-year CAGR (2021E-2025E) of 13.2%.
- IDC projects a 2021E-2025E revenue CAGR of 28.2% in respect of Malaysia’s total addressable market. High growth sectors with a CAGR of 40% from 2016-2025E would be automotive, media technology, insurance, real estate, retail and healthcare.

Swing Factors

Upside

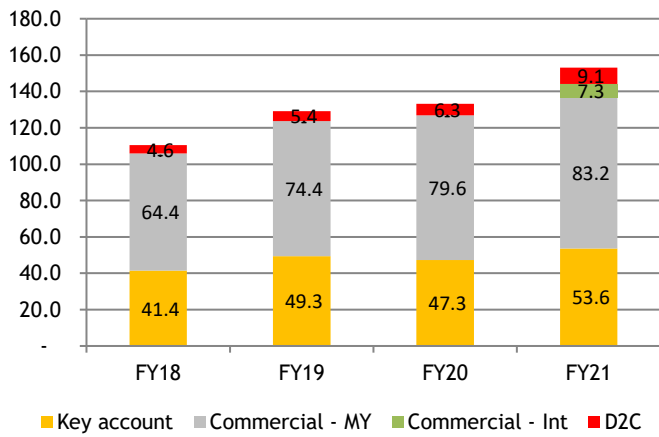
- Greater marketing efforts amid an improved economic situation would drive accounts growth.
- The launch of new digital solutions and the penetration of new sectors will spur faster adoption and demand for CTOS Digital’s services.
- Expansion into new regional markets or potential synergistic M&As that could further broaden the group’s reach and market share.

Downside

- Slower-than-expected economic growth, particularly as a result of an extended COVID-19 pandemic that leads to more severe lockdowns, as this would negatively impact demand, particularly from SMEs.
- Breaches in security/compliance that could result in the revocation of its CRA Certificate or breaches to the Personal Data Protection Act.
- The entry of new players into the credit reporting space that could eventually erode the group’s market share.

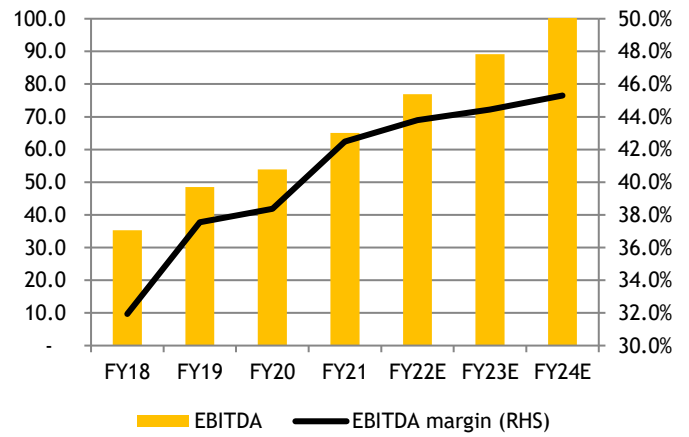
Focus charts

Fig 1: Revenue breakdown by segment (RMm)



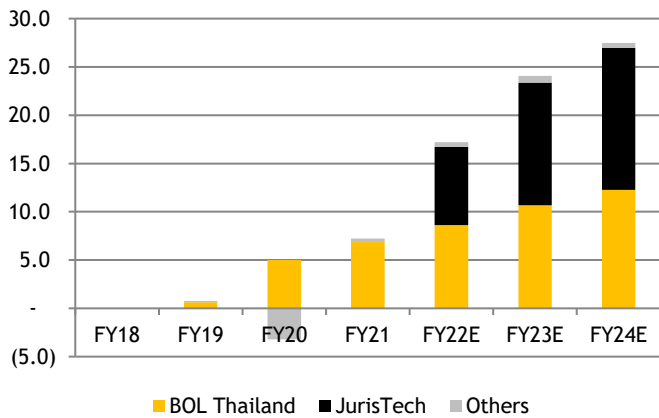
Source: Company

Fig 2: EBITDA (RMm) and EBITDA margin



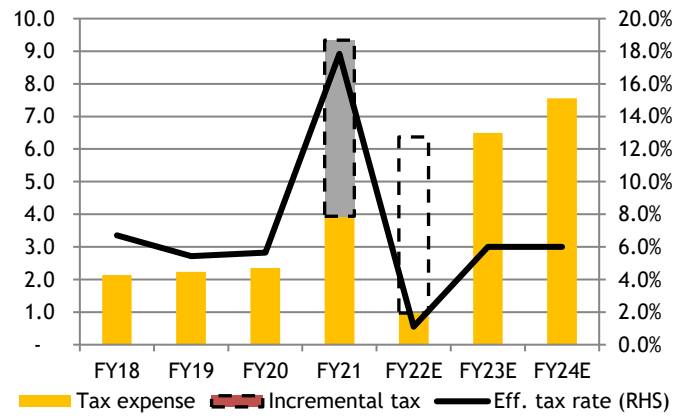
Source: Company, Maybank IBG Research

Fig 3: Associates profits projection (RMm)



Source: Company, Maybank IBG Research

Fig 4: Tax expense projection (RMm)



Source: Company, Maybank IBG Research

Key assumptions

Fig 5: Key assumptions

FYE Dec (RMm)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Key Account							
Number of accounts	na	na	430	440	449	458	467
Implied ARPA (RM)	na	na	110,081	121,793	135,190	147,358	159,146
% chg in implied ARPA				11%	11%	9%	8%
Total Key Account revenue (RMm)	41.4	49.3	47.3	53.6	60.7	67.5	74.3
Commercial - Malaysia							
Number of SMEs	12,600	14,742	17,248	19,318	22,602	26,444	30,940
Implied ARPA (RM)	5,110	5,050	4,615	4,307	4,023	3,798	3,623
% chg in implied ARPA		-1%	-9%	-7%	-7%	-6%	-5%
Total Commercial - Malaysia rev (RMm)	64.4	74.4	79.6	83.2	90.9	100.4	112.1
Total Commercial - International rev (RMm)	-	-	-	7.3	11.6	16.8	20.2
Direct-to-customer (D2C)							
Number of registered unique users (mil)	na	na	1.30	1.70	2.05	2.40	2.75
Implied ARPA (RM)	na	na	4.8	5.4	6.0	6.6	7.3
Total D2C revenue (RMm)	4.6	5.4	6.3	9.1	12.3	15.8	20.0
Total revenue (RMm)	110.5	129.1	133.2	153.2	175.5	200.6	226.6

Source: Company, Maybank IBG Research

Fig 6: Associates profits breakdown

FYE Dec	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
BOL Thailand							
PAT (THBm)	104.1	143.9	178.5	234.0	283.2	334.2	384.3
PAT growth (%)		38%	24%	31%	21%	18%	15%
THB/MYR		7.500	7.446	7.707	7.800	7.800	7.800
PAT (RMm)		19.2	24.0	30.4	36.3	42.8	49.3
CTOS' effective stake*	0.00%	3.33%	20.88%	22.65%	23.78%	24.90%	24.90%
Profit contribution (RMm)	-	0.6	5.0	6.9	8.6	10.7	12.3
Juris Technologies							
PAT (RMm)	10.1	13.6	6.3	18.3	22.0	25.9	30.1
PAT growth (%)		35%	-54%	190%	20%	18%	16%
CTOS' effective stake*	0.00%	0.00%	0.00%	0.00%	36.75%	49.00%	49.00%
Profit contribution (RMm)	-	-	-	-	8.1	12.7	14.7
Others (RMm)	-	0.1	(3.2)	0.3	0.5	0.7	0.5
Total associate profits (RMm)	-	0.8	1.8	7.2	17.2	24.1	27.5

Source: Company, Maybank IBG Research

*Adjusted to the timing of stake acquisition

Fig 7: 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

Risk statement

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 cybersecurity threats as adoption of digital economy rises within the region, which may lead to disruption in data access of CTOS' partners and thus impeding the continuity of CTOS' businesses.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	na	91.4	43.4	37.2	32.0
Core P/E (x)	na	80.2	44.8	39.5	34.0
P/BV (x)	na	12.9	10.8	9.6	8.4
P/NTA (x)	na	17.4	13.9	11.9	10.1
Net dividend yield (%)	na	0.7	1.2	1.4	1.6
FCF yield (%)	na	1.5	2.3	2.7	3.1
EV/EBITDA (x)	72.3	60.9	48.4	41.3	35.4
EV/EBIT (x)	84.4	70.2	52.9	44.4	37.6
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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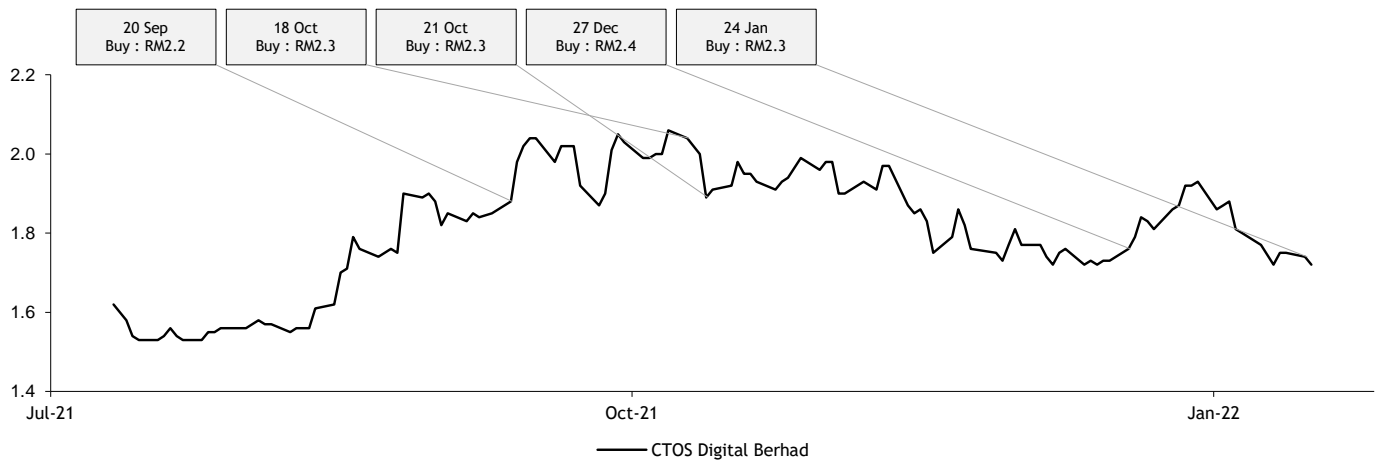
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