

COMPANY UPDATE

CTOS Digital (CTOS MK)

A Clear Victor In Malaysia's Digitalisation

CTOS is well positioned to prosper from Malaysia's transition towards the new digital economy, leveraging on its deep-rooted database (>30 years) on local businesses, full-fledged ecosystem of credit solutions and synergies from recent strategic acquisitions. Meanwhile, we also expect the post-lockdown full economic reopening to result in credit demand recovery and pent-up activations for CTOS' digital solutions. Upgrade to BUY after a steep share price retracement. Target price: RM1.80.

WHAT'S NEW

- **A clear beneficiary of the nation's proliferation of new digital economy.** Due to the Malaysian government's push towards a digital economy, several digital initiatives such as the National Digital Network (Jendela), 5G rollout, Malaysia Digital Nomad programme, and approval of digital moneylending licences have been set in motion. As CTOS Digital (CTOS) is Malaysia's market leader in the credit reporting segment with >70% of the total market share and has a deep range of advanced analytic services on its platform, we deem that CTOS will largely benefit from the digitalisation and process automation in the financial services and other verticals.
- **Poised for a stellar growth proposition in 2022-24.** CTOS is poised to record a stellar three-year net profit CAGR of 22% in 2022-24, mainly driven by: a) broadening of data assets which will move up its value chain and deepen its share of wallets in the credit bureau industry, b) further vertical expansion, deployment of new solutions and penetration into other economy sectors, c) synergies and incremental revenue from newly-acquired associates – BOL, Juristech and Basis, d) meaningful credit growth which spurs demand for credit and risk information solutions, and e) CTOS' distinctive advantages when combining traditional datasets with advanced analytics.
- **Share price retracement creates a BUY opportunity.** We had highlighted in our previous reports that CTOS was previously trading at lofty valuations and the rising rate environment could exacerbate potential valuation de-rating. However, we deem that the company's 35% share price correction from its peak has fairly priced in the current pressure on growth stocks in the context of funds' rotation to value stocks. As such, we opine that CTOS' valuations are now more appealing and provide a better investment opportunity from risk-reward perspectives, anchored on the group's robust long-term growth trajectory and defensive business nature (>60% of group revenue is recurring).

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	133	153	176	203	233
EBITDA	38	47	64	74	86
Operating profit	45	51	68	78	90
Net profit (rep./act.)	39	43	82	94	108
Net profit (adj.)	39	60	82	94	108
EPS (sen)	1.8	2.7	3.5	4.0	4.6
PE (x)	89.5	58.5	45.6	39.9	34.7
P/B (x)	31.8	11.4	11.1	10.0	9.1
EV/EBITDA (x)	95.8	77.2	56.7	49.3	42.3
Dividend yield (%)	0.7	0.7	1.3	1.5	1.7
Net margin (%)	29.5	28.1	46.5	46.2	46.2
Net debt/(cash) to equity (%)	(22.5)	(5.6)	(13.4)	(21.0)	(28.4)
Interest cover (x)	9.6	9.1	n.a.	n.a.	n.a.
ROE (%)	41.4	20.6	25.4	26.4	27.5
Consensus net profit	-	-	81	95	112
UOBKH/Consensus (x)	-	-	1.01	0.99	0.96

Source: CTOS Digital Berhad, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	RM1.57
Target Price	RM1.80
Upside	+14.6%

COMPANY DESCRIPTION

CTOS is mainly involved in the business of credit reporting, digital software-related services, software development, outsourcing and training services, and investment holding. It also facilitates credit extension and commercialises credit risk management.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	CTOS MK
Shares issued (m):	2,310.0
Market cap (RMm):	3,696.0
Market cap (US\$m):	877.9
3-mth avg daily t'over (US\$m):	2.5

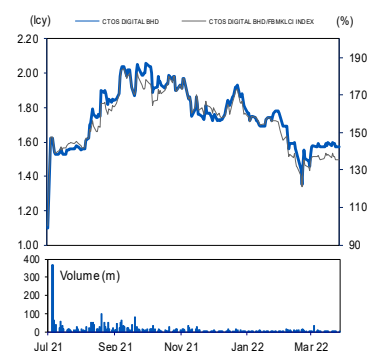
Price Performance (%)

52-week high/low	RM2.06/RM1.10			
1mth	3mth	6mth	1yr	YTD
5.3	(16.7)	(15.8)	n.a.	(11.6)

Major Shareholders

	%
Inodes	30.26
Employees Provident Fund Board	6.25
Chung Tze Keong	4.29
Chung Tze Wen	4.29
FY22 NAV/Share (RM)	0.14
FY22 Net Cash/Share (RM)	0.02

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Bridging the gap between digital banks and traditional banks.** To recap, Bank Negara Malaysia (BNM) is in the final stage of issuing up to five digital banking licences to qualified applicants. Leveraging on its extensive database and already-rich ecosystem of digital services such as electronic know-your-customer (e-KYC), CTOS is able to source the big data and credit profiles that digital banks require in a cost-efficient manner. A comprehensive e-KYC solution that credit bureaus like CTOS can provide is crucial as it allows a swift but yet tight credit assessment process, providing digital banks with a greater advantage by utilising big data and artificial intelligence to have a more robust internal credit scoring procedure and faster customer acquisition process. Therefore, we foresee a meaningful surge in demand for CTOS' various credit management solutions following the award of the digital banking licences.
- Prospective credit growth post economic reopening to benefit CTOS.** With Malaysia shifting away from pandemic-induced disruptions towards full economic reopening, we anticipate that the progressive economic recovery will accelerate loans growth momentum and stimulate more commercial lending. Note that BNM is forecasting a resilient 5.3-6.3% GDP growth for Malaysia in 2022. Furthermore, we also expect meaningful expansion of marketplace and credit demand recovery following the reopening of international borders, which will in turn result in pent-up activations and potential income being pulled to CTOS for its various business analytic and credit assessment solutions. Tracing this positive GDP and loans momentum, we expect CTOS to chart strong revenue growth of 15% in 2022-23.
- Strategic acquisitions to further fuel CTOS' ecosystem and regional growth.** To recall, CTOS completed stake acquisitions in BOL, RAM Holdings, and Juristech within the past three years to further enhance its position as an established multinational platform. BOL (in which CTOS has a 24.825% stake) provides CTOS a foothold in the fast growing Thailand market, given its significant position (59% market share) and extensive database with over 1.6m local business records. Meanwhile, CTOS' acquisition of an 8.13% stake in RAM, which is the market leader in Malaysian bonds credit rating, strategically expanded CTOS' product ranges and allows cross-selling to existing customer bases.
- Recent JurisTech's acquisition a perfect complement and will establish strong synergies.** In Feb 22, CTOS received shareholders' approval to complete its acquisition of 49% stake in Juristech for a cash consideration of RM205.8m. To note, JurisTech specialises in enterprise-class software solutions for most major banks and some fintech companies in Malaysia. Juristech also has a strong financial track record and recurring revenue streams (~65%). We deem this strategic acquisition to be value accretive and will enhance CTOS' ability to address the emerging digital lending space. We expect Juristech to immediately contribute to about 18% of CTOS' 2022 net profit post-acquisition.

EARNINGS REVISION/RISK

- None.

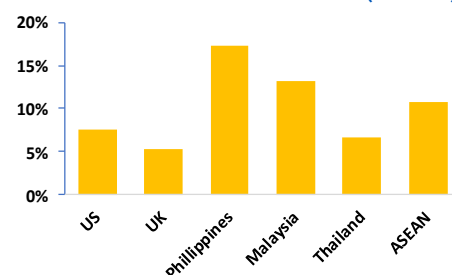
VALUATION/RECOMMENDATION

- Upgrade to BUY with an unchanged target price of RM1.80,** following the recent share price retracement which has created a more favourable investment opportunity from a risk-reward perspective. Our target price implies a 45x 2023F PE (+0.5SD above mean). We reckon that CTOS is trading at a premium to the industry's 3-year PE mean of 37x, which is justifiable given its multi-year robust growth story and it being the direct proxy to growing demand for credit reporting in Malaysia.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

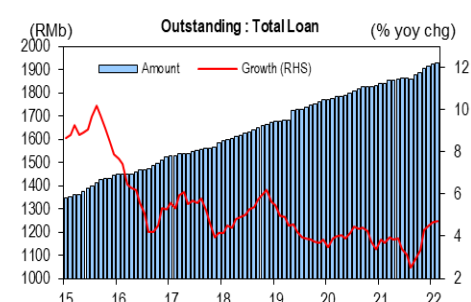
<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> No environmental issues which may materially impact biodiversity or climate change in any significant way.
<ul style="list-style-type: none"> Social <ul style="list-style-type: none"> Conducted over 200 financial education roadshows for Malaysia's consumers.
<ul style="list-style-type: none"> Governance <ul style="list-style-type: none"> Comprehended and applied Malaysian Code on Corporate Governance (MCCG).

CREDIT REPORTING INDUSTRY CAGR (2022-25F)



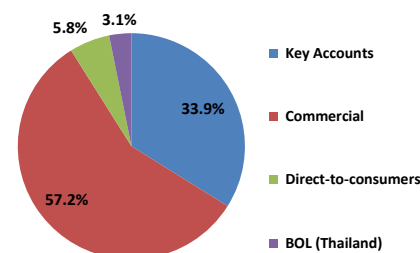
Source: IDC Malaysia, CTOS, UOB Kay Hian

MALAYSIA TOTAL LOANS GROWTH



Source: BNM, UOB Kay Hian

REVENUE BY SEGMENT (2022F)



Source: CTOS, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	153	176	203	233
EBITDA	47	64	74	86
Deprec. & amort.	(4)	(4)	(4)	(4)
EBIT	51	68	78	90
Associate contributions	7	19	21	24
Net interest income/(expense)	(5)	0	0	0
Pre-tax profit	53	86	99	114
Tax	(9)	(5)	(5)	(6)
Minorities	(1)	0	0	0
Net profit	43	82	94	108
Net profit (adj.)	60	82	94	108

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	62	82	94	108
Pre-tax profit	52	86	99	114
Tax	(9)	(5)	(5)	(6)
Deprec. & amort.	8	4	4	4
Associates	(7)	(19)	(21)	(24)
Working capital changes	3	4	0	0
Non-cash items	(9)	11	18	20
Investing	(101)	(5)	(5)	(5)
Capex (growth)	(5)	(5)	(5)	(5)
Investments	(55)	(241)	0	0
Proceeds from sale of assets	0	0	0	0
Others	(41)	241	0	0
Financing	31	(49)	(56)	(65)
Dividend payments	(41)	(49)	(56)	(65)
Proceeds from borrowings	32	0	0	0
Loan repayment	(171)	0	0	0
Others/interest paid	210	0	0	0
Net cash inflow (outflow)	(8)	28	33	38
Beginning cash & cash equivalent	25	17	45	78
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	17	45	78	117

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	19	20	20	21
Other LT assets	272	272	273	273
ST debt	n.a.	n.a.	n.a.	n.a.
LT debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	17	45	78	117
Other current assets	53	57	61	66
Total assets	361	394	432	477
Other current liabilities	40	43	47	54
Other LT liabilities	13	13	13	13
Shareholders' equity	308	338	372	411
Total liabilities & equity	361	394	432	477

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	30.9	36.5	36.6	37.0
Pre-tax margin	34.6	49.1	48.8	48.8
Net margin	28.1	46.5	46.2	46.2
ROA	13.6	21.7	22.6	23.7
ROE	20.6	25.4	26.4	27.5
Growth				
Turnover	15.0	15.0	15.0	15.0
EBITDA	24.1	36.0	15.1	16.5
Pre-tax profit	23.8	63.2	14.3	15.0
Net profit	9.6	90.0	14.3	15.0
Net profit (adj.)	53.1	36.1	14.3	15.0
EPS	53.1	28.1	14.3	15.0
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(5.6)	(13.4)	(21.0)	(28.4)
Interest cover (x)	9.1	n.a.	n.a.	n.a.

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