

19 July 2021

## Buy

**IPO Price**  
 RM1.10

**Target Price**  
 RM1.28

### Market Data

Bloomberg Code	NA
No. of shares (m)	2,200.0
Market cap (RMm)	2,420.0
52-week high/low (RM)	NA
Avg daily turnover (RMm)	NA
KLCI (pts)	1,520.8

Source: Company, KAF

### Major Shareholder (%)

Inodes	(40.0%)
Chung Tze Keong	(4.5%)
Chung Tze Wen	(4.5%)
Free Float	50.0

Source: Company, KAF

# CTOS Digital Berhad

## SMEs to drive future growth

We initiate coverage on CTOS with a BUY recommendation and TP of RM1.28 based on FY22F EBITDA pegged to EV/EBITDA multiple of 35x, a 48% premium to the industry's average of 24x. We think the valuation premium is justified given the group's market leadership, strong EBITDA growth, and healthy profit margins which are well above industry standard. The relatively underpenetrated credit reporting industry in Malaysia and ASEAN will receive strong tailwinds propelled by the digital adoption of SMEs accelerated by the pandemic as well as the increasing financial literacy among the masses. Therefore, we believe CTOS is in a prime position to benefit from this changing market dynamics and promising growth upside.

### Financial Highlights

FYE Dec	2019	2020	2021F	2022F	2023F
Revenue (RMm)	129.1	140.5	163.0	190.7	225.0
EBITDA (RMm)	48.5	51.8	64.4	77.2	92.3
Core net profit (RMm)	42.1	43.2	45.8	64.0	77.5
Core EPS (Sen)	1.9	2.1	2.1	2.9	3.5
EPS growth (%)	38.0	8.2	0.6	39.9	21.0
DPS (Sen)	1.0	1.1	1.2	1.7	2.1
Core PE (x)	57.5	53.2	52.9	37.8	31.2
EV/EBITDA (x)	52.0	48.8	39.2	32.7	27.4
Div yield (%)	0.9	1.0	1.1	1.6	1.9
ROE (%)	56.5	39.1	20.2	18.0	20.2
Net Gearing (%)	27.4	95.9	Net Cash	Net Cash	Net Cash

Source: Company, KAF

### Initiate coverage with a Buy recommendation and TP of RM1.28

We derive our TP for CTOS Digital Berhad (CTOS) based on FY22 EBITDA pegged to EV/EBITDA multiple of 35x, a 48% premium to the industry's average of 24x. Nonetheless, we think the valuation premium is justified given the group's market leadership, strong EBITDA growth, and healthy profit margins, which are well above industry standards. Initiate with a Buy recommendation and TP of RM1.28.

### Well-positioned to benefit from changing market dynamics

The Covid-19 pandemic has accelerated digital adoption in business environment. The relatively underpenetrated credit reporting industry in Malaysia and ASEAN will receive strong tailwinds propelled by the digital adoption of SMEs accelerated by the pandemic and increasing financial literacy among the masses.

As a leading credit reporting agency in Malaysia with a 71.2% market share, CTOS is in a prime position to benefit from the promising growth upside of the industry. The group offers a comprehensive digital solution to effectively evaluate credit risks and make sound business decisions throughout the customer life cycle. None of its domestic competitors provide the same mix of digital solutions.

### Strong growth ahead

The group's FY20 core earnings grew at a 3-year CAGR of 22.2%. Going forward, we project core earnings to grow at a 3-year CAGR of 19% from FY20 to FY24, premised on the more robust growth from the underpenetrated small and medium-sized enterprises (SME) segment.

CTOS currently serves about 17,000 SMEs in Malaysia, while it is estimated that 98.5% of the 920,624 business establishments in the country are SMEs. Therefore, there is still much room to grow.

### Analyst

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## Key Investment Highlights

### A) Well-positioned to benefit from changing market dynamics

The Covid-19 pandemic has accelerated digital transformation. New technologies will play a massive role in business to enhance productivity. There will be an increased need for real-time credit decisioning to support the digital banking ecosystem in the credit reporting industry.

In addition, the industry's growth is expected to be propelled by the increasing financial literacy among the masses and the growing SME sector post-pandemic. As both become more digitalized and sophisticated, the need for better credit insights and analytics increased.

As CTOS provides a digital platform for end-to-end credit management, offering key digital solutions across all stages of the consumer lifecycle, we believe the company is in a prime position to benefit from the promising growth upside of the industry.

### B) Market leadership in Malaysia's credit reporting industry

CTOS commands market leadership among the credit reporting agencies in Malaysia with a 71.2% market share in 2020, based on revenue. This is significantly ahead of its next closest competitors i.e., Experian and CBM, with 17.5% and 7% respectively.

We expect CTOS to maintain its leading market position due to the high barrier to entry nature of the industry. With over 30 years in operation, customers' business processes have developed a heavy reliance on CTOS' digital solutions, and hence, making the switch to competitors is costly.

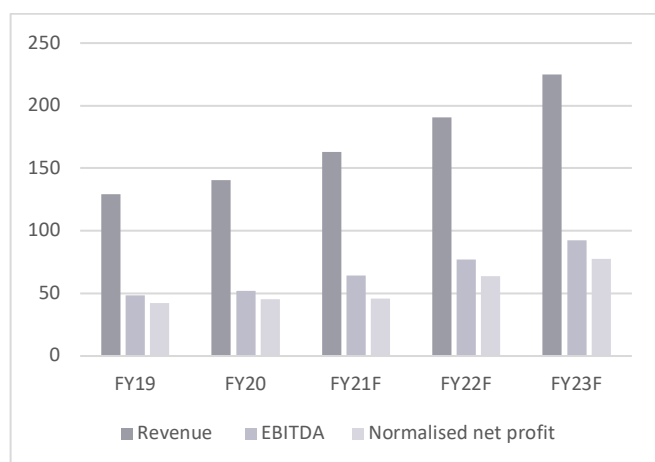
Therefore, we opine that the group's growth will be in line with the expected 5-year CAGR of 13.2% for the credit reporting industry in Malaysia, as forecasted by IDC Research. In addition, CTOS may also benefit from the low penetration of credit reporting solutions in Thailand, where the group has a presence with 20% stake in BOL, the largest company information bureau in Thailand.

### C) Strong financial profile

The group recorded a 3-year CAGR of 22.2% for its normalized PATAMI growing from RM30.5m in FY18 to RM45.5m in FY20. While Covid impacted performance in FY20, the group managed to record improvement in earnings.

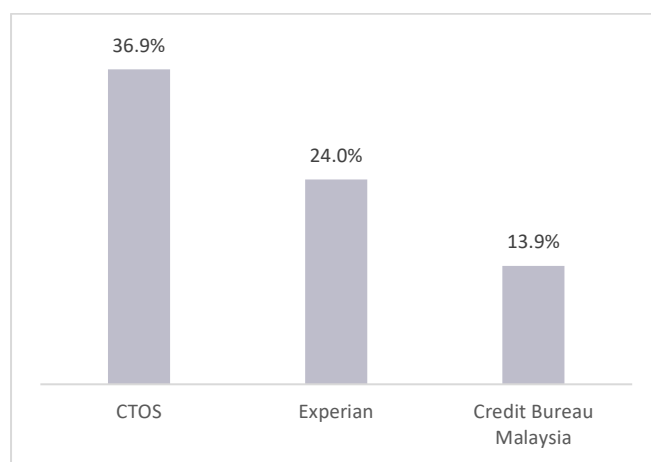
Moreover, the group achieved very healthy EBITDA and net profit margin of 36.9% and 27.9%, respectively, for FY20, thanks to solid revenue growth, efficient operations, strong operating leverage underpinned by highly scalable proprietary data, and pioneer status tax incentives. CTOS's EBITDA margin was the highest in the industry.

**Exhibit 1: Revenue, EBITDA and normalized net profit (RM mil)**



Source: Company, KAF

**Exhibit 2: Comparison of EBITDA margin in FY20 (%)**



Source: Company, KAF

## Business Overview

CTOS is currently the leading credit reporting agency (CRA) in Malaysia, backed by Malaysia's mid-market private equity fund group, the Creador Group. It provides credit information and a full suite of analytics digital solutions on companies, businesses, and individuals for use by banks and businesses.

The Creador Group acquired 70% equity interest in CTOS via Inodes in August 2014. Since then, Inodes increased its stake to 80% prior to the IPO.

The group is under the supervision of Registrar Office of Credit Reporting Agencies, Ministry of Finance (MOF), and regulated under Credit Reporting Agencies Act 2010.

Generally, CTOS's digital solutions assist customers to: (i) provide data-driven insights and analytics to evaluate credit risks and make sound business decisions effectively and; (ii) encourage timely debt repayment and support their recovery efforts if their customers fall behind on payments.

CTOS's proprietary information databases include CTOS Data Systems' eTR and eTR Plus databases, which contain non-bank positive and negative payment information i.e., missed payment information of consumers and businesses as well as CED database for litigation records.

The stages of the customer lifecycle and the digital solutions that CTOS offers at each stage of the consumer lifecycle are as per the following:

**Exhibit 1: Overview of CTOS's primary digital solutions throughout consumer lifecycle stages**

Lifecycle Stage	Identification	Customer/vendor onboarding	Application and decisioning	Management and monitoring	Recovery
Description	Customer identifies a prospective business or new business relationship or transaction	Initial step of determining whether a prospective customers or vendor is suitable based on their past business and financial dealings	Business decides whether or not to extend credit after a prospective customer is on-boarded.	Effective portfolio management, analysis and monitoring to better identify new sources of revenue and potential areas of credit risk	A business must manage its relationship with a customer that can no longer meet its credit obligations.
Digital Solutions	<ul style="list-style-type: none"> <li>• CTOS Credit Finder</li> <li>• CTOS Tenant Screening Report</li> <li>• Company Search</li> <li>• Business Listings</li> <li>• Customised Bulk Data Sales</li> </ul>	<ul style="list-style-type: none"> <li>• CAD</li> <li>• CTOS Credit Manager</li> <li>• CTOS IDGUard</li> <li>• CTOS eKYC</li> <li>• CTOS Tenant Screening Report</li> </ul>	<ul style="list-style-type: none"> <li>• CAD</li> <li>• CTOS Credit Manager</li> <li>• CTOS Scores</li> <li>• CTOS Data Systems Reports, CTOS Basis Reports and External Reports</li> <li>• CTOS Basis (formerly known as BASISNET)</li> <li>• eTR</li> <li>• eTR Plus</li> </ul>	<ul style="list-style-type: none"> <li>• CTOS Credit Manager</li> <li>• CTOS IDGUard</li> <li>• CTOS Scores</li> <li>• Comprehensive Portfolio Review</li> <li>• CTOS Portfolio Analytics and Insights</li> <li>• CTOS SecureID</li> </ul>	<ul style="list-style-type: none"> <li>• CTOS Credit Manager</li> <li>• eTR</li> <li>• eTR Plus</li> </ul>

Source: Company, KAF

The comprehensive digital solution throughout the customer lifecycle is CTOS's main competitive advantage. None of CTOS's domestic competitors offer the same mix of digital solutions, while none of its potential international competitors can rival its expertise domestically.

This explains the group's market-leading position in 2020 with a 71.2% share of the RM224.7m Malaysian CRA market, based on revenue. Note that the market share is after taking into account that of Basis which the group fully acquired in January 2021.

CTOS's next two closest competitors are Experian and CBM, which command 17.5% and 7% market share, respectively. Interestingly, the group has a 26% equity stake in the latter (acquired in July 2019).

In comparison, the remaining three competitors are significantly smaller, with cumulative market share of less than 5%. Meanwhile, its associate, BOL, acquired in October 2020, is the largest

company information bureau in Thailand, with an estimated market share in of 59.0% in 2020.

The group's material acquisitions and divestitures since 2018 are summarized as below:

- (i) In July 2019, CTOS acquired the entire equity interest of two investment holding companies, namely Enfo and CTOS Insights, for cash considerations of RM29.3m and RM26.9m respectively, which resulted in 26.0% equity interest in Experian.
- (ii) In June 2020, CTOS acquired 51.0% equity interest in CIBI for approx. RM15.0m. On 15 June 2021, CTOS completed the Distribution to exclude CIBI from the group as it requires further investments.
- (iii) In October 2020, CTOS acquired 20.0% equity interest of BOL for a cash consideration of USD22.1m or approx. RM91.9m.
- (iv) In January 2021, CTOS acquired the entire equity interest of Basis for an upfront purchase consideration of RM32.0m and an earn-out payment that is computed based on a revenue target.

Detail descriptions of CTOS's key digital solution are as follows:

**Exhibit 2: Details of CTOS's key digital solutions**

No	Item	Description
1	CTOS Scores	Three-digit numbers that represent an analytical assessment of the credit health of a consumer or business generated based on five categories of predictive characteristics: payment history, outstanding credit, credit mix, pursuit of new credit and credit history length.
2	CTOS Credit Manager	Online credit risk management platform for customers to search, store, monitor and manage their own customers' and/or related business parties' credit and other information.
3	CTOS Basis	Provides international credit and local comprehensive credit reports, litigation check, credit monitoring services and Business Listings.
4	Comprehensive Portfolio Review	Comprehensive reviews of our customers' portfolios to provide them with more information about their own customer bases which assist on credit decisioning for upselling and cross-selling, fraud prevention, risk management, sales and marketing.
5	Portfolio Analytics and Insights	Tailored service for customer based on their particular goal or need such as identifying trends, the drivers behind those trends, appropriate benchmarks and targets, growth opportunities and areas of heightened credit risk.
6	CAD	Automates a customer's credit assessment process using analytics and insights from CTOS's proprietary information databases.
7	CTOS eKYC	Digital onboarding solution that provides banks and businesses with digital identity verification via a four-layer authentication process, which is compliant with all applicable regulatory standards.
8	Reports	Reports on Malaysian businesses and consumers as well as international businesses that leverage CTOS's insights, digital solutions and databases.
9	CTOS IDGuard	CTOS's proprietary fraud bureau, offering a data sharing platform to customers, particularly in the banking sector which can detect ID theft and impersonation, false and synthetic identities, data and document manipulation, organized fraud rings and syndicates.
10	CTOS SecureID	Provides real-time fraud alerts on suspicious activity and potential information data breaches affecting customers' accounts. Coverage includes dark web monitoring and notifications of new credit applications, credit limit changes, account closures, address changes and potential credit scams.
11	CTOS CreditFinder	Online matching and referral platform where lenders can list their financial products such as credit cards, home loans or personal loans.
12	Customised Bulk Data Sales	Customized bulk data sales where customer is able to specify the particular subset of information from CTOS's database that it wishes to purchase in bulk.
13	Company Search	Provides customers with a directory of companies in Malaysia.
14	eTR and eTR Plus	eTR Plus database also contains non-bank positive and negative payment behavior information on Malaysian individuals and businesses while eTR Plus provides a more balanced representation of a consumer's credit history, creditworthiness and ability to borrow responsibly.

Source: Company, KAF

CTOS serves three types of customers: Key Accounts, Commercial, and Direct-to-Consumer, which contributed 33.7%, 56.7%, and 4.5%, respectively, to the group's revenue in FY20.

Despite having been in operation for 30 years and already command a dominant market share in Malaysia, the management believes the CRA industry in Malaysia is still underpenetrated, particularly in the commercial or SME segment.

It is estimated that 98.5% of the 920,624 business establishments in Malaysia are SMEs. Therefore, there is ample room for growth since CTOS currently serves only about 17k SMEs. We postulate a strong growth ahead from the SME segment, given that the pandemic has accelerated digital adoption.

#### Exhibit 3: Types of Customers

Key Accounts	Commercial	Direct-to-Consumer
<p>~430 of CTOS Data System highest revenue-generating customers and selected customers.</p> <p>Revenue from Key Accounts customers are generally highly reliable and consistent as approx. 75% of Key Accounts customers' revenue are recurring revenue.</p> <p>Providing digital solutions, including tailored solutions depending on their unique business requirements.</p>	<p>Serves ~17k customers, including SMEs and other than those in Key Accounts.</p> <p>Commercial account subscribers grew by CAGR of 17% from 2018 to 2020.</p> <p>Providing easy-to-use yet effective credit risk management tools.</p> <p>Broad accessibility and affordability for both business-to-business and business-to-consumers</p>	<p>Serves Malaysian consumers</p> <p>~1.3m registered users for CTOS ID</p> <p>Provides credit scores and detailed information including CCRIS</p> <p>Promote financial literacy and credit awareness, leading to greater credit access</p> <p>Consumer fraud protection and identity protection</p>

Source: Company, KAF

## IPO Details

CTOS will be listed on the Main Market on Monday, 19<sup>th</sup> July 2021. The IPO offerings entails up to 1.1b shares to institutional and retail representing up to 50.0% of the enlarged issued share capital via:

- (v) Primary share – a public issue of 200m new shares (approx. 9.1% of the enlarged share capital).
- (vi) Secondary shares – an offer for sales of up to 900m existing shares (approx. 40.9% of the enlarged share capital) of Inodes Ltd, Chung Tze Keong, Chung Tze Wen and Ng Gaik Lin@June Ng.

Notably, the IPO exercise will effectively reduce existing shareholders' ownership stake by half.

#### Exhibit 4: Pre- and Post-IPO Shareholding Structure

Shareholders	Pre-IPO		Post-IPO		Changes	
	No of share (mil)	%	No of share (mil)	%	No of share (mil)	%
Inodes	1,600.0	80.0%	880.0	40.0%	(720.0)	-40.0%
Chung Tze Keong	180.0	9.0%	99.0	4.5%	(81.0)	-4.5%
Chung Tze Wen	180.0	9.0%	99.0	4.5%	(81.0)	-4.5%
Ng Gaik Lin@June Ng	40.0	2.0%	22.0	1.0%	(18.0)	-1.0%

Insti and Retail	-	0.0%	1,100.0	50.0%	1,100.0	50.0%
<b>Total</b>	<b>2,000.0</b>	<b>100.0%</b>	<b>2,200.0</b>	<b>100.0%</b>	<b>200.0</b>	<b>0.0%</b>

Source: Company, KAF

Cornerstone tranche comprises of 27 cornerstone investors which expected to acquire an aggregate 509.5m IPO share, approx. 23.2% of the enlarged issued share capital or 54.4% of global institutional offering.

#### Exhibit 5: Institutional and retail offering breakdown

Category	No of share (mil)	%
<b>Retail offering:</b>		
<b>Eligible Persons:</b>		
- Our Directors	3.2	0.15
- Eligible employees	26.8	1.22
- Qualified persons	90.0	4.09
<b>Malaysian Public:</b>		
- Bumiputera	22.0	1.00
- Non-Bumiputera	22.0	1.00
<b>Sub-total</b>	<b>164.0</b>	<b>7.45</b>
<b>Institutional Offering</b>	<b>936.0</b>	<b>42.55</b>
<b>Total</b>	<b>1,100.0</b>	<b>50.00</b>

Source: Company, KAF

The gross proceeds from the IPO amounting to RM220m will be utilized as per the followings:

#### Exhibit 6: IPO proceed utilisation

Details of use of proceeds	Estimated timeframe for use	RM mil	%
Repayment of bank borrowings	Within 3 months	155.2	70.5
Defray fees and expenses for IPO and listing	Within 6 months	6.1	2.8
Acquisitions to be identified	Within 36 months	58.7	26.7
			100.0

Source: Company, KAF

# Financial Overview and Valuation

## A) FY20 result review

### i) Robust revenue growth despite Covid

FY20 revenue grew 8.8%yoy to RM140.5m (from RM129.1m in FY19). The increase was mainly due to the: (i) acquisition of a 51.0% equity interest in CIBI in June 2020 which contributed RM7.3m to the group's revenue, and; (ii) increase in sales from Commercial and Direct-to-Consumer customers.

These were partially offset by the drop in sales from Key Accounts customers as the group reduced fees charged for CTOS Data Systems Reports as BNM allowed free access to its CCRIS database. According to management, this lowered the group's revenue by about RM15m. The management expects the free access to continue until the end of FY21.

### ii) Lucrative profit margin

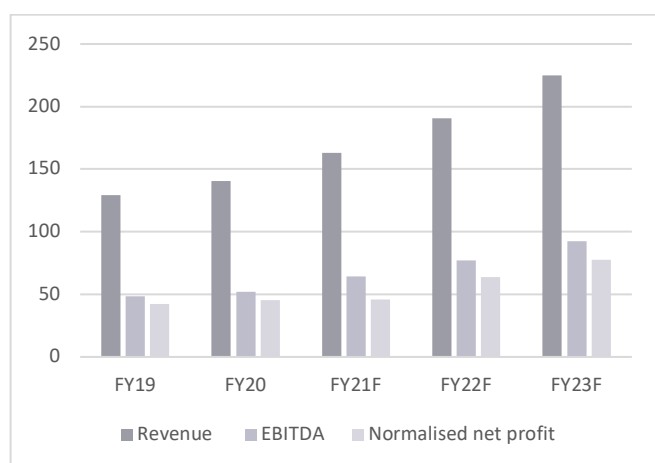
The group's major costs were administrative, selling, and marketing expenses (totalling 56.1% of revenue), mainly comprised of staff salaries, commissions, and incentives. The costs of data purchase from 3<sup>rd</sup> parties accounted for only 13.6% of revenue in FY20.

FY20 PATAMI rose marginally by 0.4%yoy to RM39.2m. The group profitability was impacted by the higher administrative expenses and selling and marketing expenses, finance costs (caused by large borrowings to finance investments) caused by the increased headcount as well as a loss before tax of RM2.5m from the international business segment following the acquisition of a 51.0% equity interest in CIBI. We note that the group has not made any reductions in salary or benefits due to the pandemic.

Nonetheless, PATAMI margin remains attractive at 27.9% as the group's profit is tax exempted for five years following the MSC pioneer status award. However, this tax incentive is set to expire on 8 November 2021.

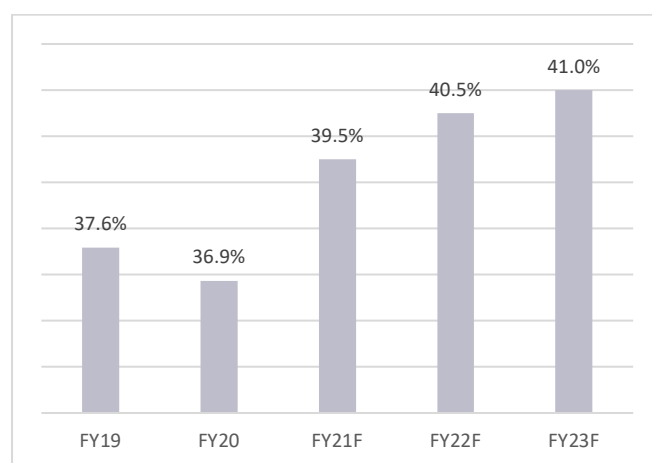
CTOS recorded FY20 normalised PATAMI rose 8.2%yoy to RM45.5m after adjusting for the: (i) losses from CIBI; (ii) costs pertaining to the acquisitions of Experian, CIBI, Basis and BOL; (iii) share-based payment expenses; (iv) interest expense on bank borrowings to finance acquisitions and; (v) unrealised foreign exchange losses on aforementioned bank borrowings.

**Exhibit 7: Revenue, EBITDA and normalized net profit (RM mil)**



Source: Company, KAF

**Exhibit 8: EBITDA margin (%)**



Source: Company, KAF

### iii) Significant short-term borrowings used to finance acquisitions

The group's total borrowings amounted to RM132.3m short-term borrowings, all of which related to interest-bearing term loans. This mainly consists of the term loans drawdown amounting to RM91.9m to finance the acquisition of BOL. Consequently, the gearing ratio increased to 1.1x (or 1.2x excluding CIBI) in FY20 from 0.3x in FY19.

**iv) Generous dividend payout**

The group had dividend payout ratios of 142.7%, 57.4%, and 63.2%, with dividends paid of RM42.3m, RM22.4m, and RM24.7m in FY18, FY19, and FY20, respectively. Moving forward, management has a target payout ratio of 60% of PATAMI, but this is still subject to the Board's discretion.

**v) 1QFY21 result review**

1QFY21 PATAMI declined by 5.3%qoq to RM7.7m, most notably due to increased tax expense and administrative expenses.

The group's tax expense quadrupled year-on-year due to the higher annual effective tax rate recorded at 15.2%, which stems from a higher tax provision considering the expiry date of the pioneer status tax incentives.

Meanwhile, administrative expenses jumped by 56.6%yoy to RM5.8m primarily due to the unrealized loss on foreign exchange on USD term loan facility of RM3.1m, the inclusion of administrative costs of CIBI and Basis (following the acquisitions in June 2020 and January 2021, respectively) as well as higher depreciation expenses.

Nevertheless, core earnings rose by 73%yoy to RM16.4m after adjusting for: (i) losses from CIBI; (ii) costs related to acquisitions of CIBI and Basis; (iii) share-based payment expense; (iv) interest expense on bank borrowings; (v) unrealised foreign exchange losses on borrowings; and (vii) incremental income tax expense recognised based on the estimated annual effective tax rate for the FY21 of 15.2% vs the current tax payable in accordance with the pioneer status incentives.

**vi) Earnings Forecasts**

We project core earnings to grow at a 3-year CAGR of 19% from FY20 to FY24 premised on:

- a) successful renewal of pioneer status: CTOS's five-year tax exemption as an MSC pioneer status company is set to expire on 8 November 2021. Nonetheless, the management is confident of obtaining a five-year extension on this incentive as the group has met the KPIs set for renewal. Following timely renewal, we assume historical effective tax rate of 6% to continue going forward.
- b) strong growth ahead from the underpenetrated commercial segment given that the pandemic has accelerated digital adoption.
- c) contribution from Basis following its acquisition on 4<sup>th</sup> January 2021. We expect an increase in revenue from Commercial customers.
- d) significant reduction in interest expense as the group plans to pare down borrowings using IPO proceeds amounting to RM155.2m.
- e) penetration into another underserved market in Asia Pacific region within three years. CTOS has allocated a sum of RM58.7m from IPO proceeds for this purpose.
- f) exclusion of CIBI from the group effective on 15<sup>th</sup> June 2021. Stripping of CIBI's from the group's numbers in FY20, the group's top line was still quite commendable with a year-on-year growth of 3.2%yoy considering the subdued economic backdrop.

**vii) Valuation**

We use EBITDA to perform comparable company analysis as this metric excludes tax expenses. We think this is appropriate because the group's bottom-line earnings are significantly lifted by tax exemption.



At the IPO price of RM1.10 per share, CTOS is priced at a trailing EV/EBITDA of 48.8x. We derive our TP of RM1.28 based on FY22 EBITDA pegged to EV/EBITDA multiple of 35x, a 48% premium to the industry's average of 24x. Nonetheless, we think the valuation premium is justified given the group's market leadership, strong EBITDA growth, and healthy profit margins which is well above industry standard.

**Exhibit 9: Valuation**

	Basis	Multiples (x)	Value (RM m)
CTOS	EV/EBITDA	35	2,703
Net cash			116
Total			2,819
No of share (mil)			2,200
<b>Target price (RM)</b>			<b>1.28</b>

Source: Company, KAF

**Exhibit 10: Peer comparison**

Company	Enterprise Value RM mil	EV/EBITDA		EBITDA growth (%)		EBITDA margin (%)		Debt/Equity (%)	P/E (x)	
		FY21F	FY22F	1-year	5-year	FY21F	FY22F		FY21F	FY22F
Experian	175,762	20	18	-5%	3%	35%	35%	141%	34	31
Equifax	140,452	21	18	16%	10%	34%	37%	132%	35	29
TransUnion	102,318	21	19	-1%	16%	40%	40%	126%	32	28
Business Online Pcl	998	35	35	20%	19%	38%	38%	4%	44	44
Credit Bureau Asia Limited	821	12	12	3%	18%	53%	53%	51%	44	44
GB Group	9,851	33	29	19%	34%	24%	25%	1%	45	40
Industry		24	22	9%	17%	37%	38%	76%	39	36
<b>CTOS</b>		<b>39</b>	<b>33</b>	<b>24%</b>	<b>24%</b>	<b>40%</b>	<b>41%</b>	<b>Net cash</b>	<b>53</b>	<b>38</b>

Source: Company, KAF, Bloomberg

## Future Strategies

### Further extend credit management solutions

Currently, analytical services form 10% of revenue in the ASEAN credit reporting industry, approx. 15% less than the US. Hence, the group expects that there will be greater demand for analytical services as customers become increasingly sophisticated.

To support this, the group will invest in two main areas which are: (i) IT capabilities and; (ii) data and analytics with allocation of approx. 50.0% of capital expenditures to upgrade IT capabilities and approx. 15.0% of capital expenditure into data and analytics using internally generated funds over the next two years.

### Continue to deepen and broaden data sources

CTOS has been working with telecommunication and utility companies to gain insightful data regarding consumers' payments of utility bills. In the next three years, the group intends to leverage on its working relationships with key customers to increase database network.

This will help expand information and hence, provide even more insightful digital solutions to customers.

### Expand into automotive, real estate and insurance sectors

The group will continue to expand into sectors with strong growth potential such as automotive, real estate and insurance. The total addressable market for these sectors is expected to grow more than five times (from RM25.1m) by 2025.

For instance, the group has recently launched the CTOS Tenant Screening Report which allows landlords to screen prospective tenants through financial checks, income estimation and historical legal cases or bankruptcies. Currently, CTOS has digital solutions that are related to motor vehicle checks and collections in the pipeline, which the group aims to launch in the next two years.

**Plan to acquire or invest in companies abroad to expand geographically.**

The group is actively seeking opportunities to expand in ASEAN countries other than Thailand and the Philippines which it already has presence. Currently, it has identified a target business in the Asia Pacific region, but the acquisition plan is still in a preliminary discussion phase.

## Key Risks

**Non-renewal of operating license**

CTOS's operation is regulated under the CRA Act. Under this act, the group is required to renew its licence annually. Its current licence is set to expire in September 2021. Failure to renew this licence would negatively impact business.

**Increased scrutiny because of dominant market position**

With Malaysia's market share in terms of revenue of 70.0%, the group may be deemed as having a dominant position in Malaysia. The Competition Act prohibits a company to abuse its dominant position in any market such as imposing unfair purchase or selling price to the extent that may harm competition in the market. Therefore, management may be required to dedicate significant resources e.g. frequent audits and in-house lawyer in response to such heightened scrutiny.

**May need to pay significantly pay higher tax if unable to maintain pioneer status**


As a beneficiary of MSC pioneer status, CTOS is tax exempted. The group's historical effective tax rate was minimal around 6%, significantly lower than the corporate tax rate in Malaysia of 24%. However, this tax incentive will be expiring in November 2021 and failure to renew may subject the group to a standard corporate tax rate.

**Cybersecurity incidents could result in material loss of business**

CTOS handles, process and analyze customer's highly confidential information. A cybersecurity breach will result in loss, misuse, medication, unauthorized access of these information. Consequently, will result in loss of business, regulatory enforcement, substantial legal liability and significant harm to reputation.

# Appendices

Exhibit 11: Report snapshot (Section A) from CTOS Score Report




Strictly Confidential  
 Report No. : CM-8888-20200208030808  
 Attention : ctos (Credit Manager)  
 Account : CTOS SUP (CTOS BUSINESS SYSTEMS SDN BHD)  
 Date : 2020-02-08 08:08:08

## CTOS SCORE REPORT

A: SNAPSHOT			
<b>ID Verification</b>			
Company Name (Your input)	TEST-CASE SDN BHD		
Registration No (Your input)	9999988X		
Company Name	TEST-CASE SDN BHD		
Registration No	9999988X		
Registration Date	01-04-2000		
Registered Address	Unit 01-12, Level 9, Tower A, Vertical Business Suite, Bangsar South, 59200 Kuala Lumpur		
Business Address	Unit 01-12, Level 9, Tower A, Vertical Business Suite, Bangsar South, 59200 Kuala Lumpur		
Business Sector	PROVIDING INFORMATION		
Company Status	EXISTING		
Ref No	CCSB1		
<b>Financials and Shareholders</b>			
Last Updated	31-12-2019		
Exempt Private Company	No		
Previous Name Change	TESTING INTEGRATED SDN BHD		
Revenue (RM)	871,759.00		
Profit After Tax (RM)	25,277.00		
Total Assets (RM)	295,334.00		
Paid-Up Capital (RM)	10,500,000.00		
Total Company Charges (RM)	12,600,000.00		
Directorship	EMILY ANG MEI LI CHONG YEN YEN JIMMY WONG WEI WEI		
Top 5 Shareholders	EMILY ANG MEI LI CHONG YEN YEN TOTAL FAIL DISTRIBUTIONSSDN BHD TESTING SDN BHD TEST-SCAN SDN BHD		
<b>Credit info at a Glance</b>			
Credit Info	Source	Entity	Related Parties
Winding UP / Bankruptcy Proceedings Records	Newspaper/Gazette	YES	NO
Legal records in past 24 months (Personal capacity)	Newspaper/CTOS	2	0
	Subscriber/Gazette	70,000.00	0
Legal records in past 24 months (non-personal capacity)	NO	0	0
		0	0
Availability of Legal Records	BNM	YES	NO
Special Attention Accounts	BNM	NO	NO
Outstanding credit Facilities	BNM	4	0
		75,600.00	0
Installments in arrears in past 12 months	BNM	YES	NO
		NO	NO
Credit applications in past 12 months	BNM	2	0
		1	0
		1	0
<b>eTR Plus at a Glance</b>			
Credit account	6		
- Active	4		
- Outstanding	1		
- Closed	2		
Outstanding Amount Overdue	1,092		
Previous Outstanding Amount Overdue	5,170		
No. of days in average due	40 Days		
Percentage of Payment Made on Time	60%		

**CTOS SME Score**




250

**Factors that influence the Score**

- Accounts last reported in delinquent status.
- Serious delinquency.
- Time since derogatory public record or collection is too short.
- Proportion of balances to credit limits on revolving accounts is too high.

**CTOS Litigation Index**

4561



**Index Description**

- 45 CS struck off / Action withdrawn / Settled
- 6 Most recent settlement was 24 months ago
- 1 Number of records

**Section Summary**

Section	CTOS					Others
	ID	SSM	BPH	LGL	TR	IL
Selected	✓	✓	✓	✓	✓	✗
Available	A	B	C	D	-	-

Notes on various sections  
 - ID refers to data from CTOS' identify database  
 - SSM refers to data from Suruhanjaya Syarikat Malaysia  
 - BPH refers to data from Bank Negara Malaysia  
 - LGL refers to data from CTOS' litigation database  
 - TR refers to trade reference data submitted by merchants  
 - IL refers to your own internal list (if provided to CTOS)

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No.	Item	Description
1.	ID Verification	This section displays the company's basic details i.e. Name, Registration Number, Registered Address, Business Address, Business Sector & Company Type.
2.	CTOS SME Score	The CTOS SME Score quickly and accurately assesses risk, making it possible for credit grantors to expand their small business loan portfolio and control risk with confidence.
3.	CTOS Litigation Index	An index that summarises the severity of information in Section D (litigation information) of this report.
4.	Financials & Shareholders	This section displays the financial highlights, directorship(s) & top 5 shareholders based on the latest CCM information.
5.	Credit Info at a Glance	This section displays the highlights on the following information for the company + its related parties: (i) litigation; (ii) banking payment history and; (iii) credit application
6.	eTR Plus at a Glance	This section displays the highlights on the eTR Plus information for the company. eTR Plus is non-bank monthly payment information shared by third-party sources and aggregated by the Credit Reporting Agency.

Source: Company, KAF

#### Exhibit 12: Key Management

##### Dennis Martin – Group CEO

- Joined CTOS Digital as Group CEO in 2017
- Over 20 years of experience in the credit reporting industry and 16 years of experience in banking sector
- Former Managing Director of Credit Services Experian APAC; Former Managing Director for Experian APAC in Southeast Asia

##### Garris Chen – Group CFO

- Joined CTOS Digital as CFO in 2016
- MBA in Finance, University of Dubuques (USA)
- CGMA, FCMA, CA of MIA
- Over 32 years of experience in various finance and treasury roles
- Former Group CFO at Taylor's Education Group; former director of shared services at Lafarge Malaysia; Former CFO of DHL Express (M) Sdn Bhd

##### Eric Chin – CEO of CTOS Data Systems

- Joined CTOS Data Systems as CEO in 2014
- Bachelor of Economics, Universiti Kebangsaan Malaysia
- Over 25 years of experience in business, sales and operations
- Former COO at Credit Bureau Malaysia; Former VP of IT and business advisory at Siemens Malaysia

##### Tracy Gan – COO of CTOS Data Systems

- Joined CTOS Data systems in 2017 as GM in Customer Experience
- MBA, Nottingham Trent University
- Over 23 years of experience in operations
- Former Head of Distributor and Modern Trade Management at Maxis; Former Head of Customer Operation at Time dotCom

Source: Company, KAF

**Income Statement**

<b>FYE Dec (RMm)</b>	<b>2019</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
<b>Revenue</b>	<b>129.1</b>	<b>140.5</b>	<b>163.0</b>	<b>190.7</b>	<b>225.0</b>
<b>EBITDA</b>	<b>48.5</b>	<b>51.8</b>	<b>64.4</b>	<b>77.2</b>	<b>92.3</b>
Depreciation/Amortisation	-6.3	-7.5	-7.5	-8.7	-9.4
Operating income (EBIT)	42.2	44.3	56.9	68.5	82.9
Other income & associates	0.1	0.2	0.0	0.0	0.0
Net interest	-1.0	-4.0	-6.6	1.4	1.7
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>41.3</b>	<b>40.5</b>	<b>50.2</b>	<b>69.9</b>	<b>84.6</b>
Taxation	-2.2	-2.4	-3.0	-3.8	-4.7
Minorities/pref dividends	0.0	-1.2	-1.5	-2.0	-2.5
<b>Net profit</b>	<b>39.1</b>	<b>36.9</b>	<b>45.8</b>	<b>64.0</b>	<b>77.5</b>
<b>Core net profit</b>	<b>42.1</b>	<b>43.2</b>	<b>45.8</b>	<b>64.0</b>	<b>77.5</b>

**Balance Sheet**

<b>FYE Dec (RMm)</b>	<b>2019</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Fixed assets	16.9	16.9	19.7	21.3	22.2
Intangible assets	37.9	49.6	49.3	49.0	48.7
Other long-term assets	59.8	154.0	183.8	183.8	183.8
<b>Total non-current assets</b>	<b>114.6</b>	<b>220.5</b>	<b>252.7</b>	<b>254.0</b>	<b>254.6</b>
Cash & equivalent	6.1	26.4	92.1	116.2	146.4
Stock	0.0	0.0	0.0	0.0	0.0
Trade debtors	21.4	28.2	32.7	38.3	45.2
Other current assets	21.5	28.2	32.7	38.3	45.2
<b>Total current assets</b>	<b>27.6</b>	<b>54.6</b>	<b>124.8</b>	<b>154.6</b>	<b>191.6</b>
Trade creditors	13.6	17.1	19.9	23.2	27.4
Short-term borrowings	18.2	132.3	0.0	0.0	0.0
Other current liabilities	20.4	9.4	9.4	9.4	9.4
<b>Total current liabilities</b>	<b>52.2</b>	<b>158.9</b>	<b>29.3</b>	<b>32.7</b>	<b>36.9</b>
Long-term borrowings	9.4	0.0	0.0	0.0	0.0
Other long-term liabilities	1.9	0.8	0.8	0.8	0.8
<b>Total long-term liabilities</b>	<b>11.4</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>
<b>Shareholders' funds</b>	<b>78.6</b>	<b>110.4</b>	<b>342.7</b>	<b>368.3</b>	<b>399.3</b>
Minority interests	0.0	5.0	5.0	7.0	9.5

**Cash flow Statement**

<b>FYE Dec (RMm)</b>	<b>2019</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Pretax profit	41.2	42.8	50.2	69.9	84.6
Depreciation/Amortisation	6.3	7.2	7.2	8.4	9.1
Net change in working capital	-3.8	0.7	-1.8	-2.2	-2.7
Others	5.1	-1.1	-1.8	-3.5	-4.4
<b>Cash flow from operations</b>	<b>48.8</b>	<b>49.6</b>	<b>53.9</b>	<b>72.6</b>	<b>86.6</b>
Capital expenditure	-2.8	-6.9	-10.0	-10.0	-10.0
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	-56.2	-97.3	-29.8	0.0	0.0
<b>Cash flow from investing</b>	<b>-59.0</b>	<b>-104.2</b>	<b>-39.8</b>	<b>-10.0</b>	<b>-10.0</b>
Debt raised/(repaid)	15.8	107.3	-132.3	0.0	0.0
Equity raised/(repaid)	0.0	0.0	220.0	0.0	0.0
Dividends paid	-21.7	-10.5	-27.5	-38.4	-46.5
Others	11.4	-22.8	-7.0	0.0	0.0
<b>Cash flow from financing</b>	<b>5.5</b>	<b>74.1</b>	<b>53.2</b>	<b>-38.4</b>	<b>-46.5</b>
<b>Net cash flow</b>	<b>-4.7</b>	<b>19.5</b>	<b>67.3</b>	<b>24.2</b>	<b>30.1</b>
<b>Cash b/f</b>	<b>10.2</b>	<b>5.5</b>	<b>24.7</b>	<b>92.1</b>	<b>116.2</b>
<b>Cash c/f</b>	<b>5.5</b>	<b>24.7</b>	<b>92.1</b>	<b>116.2</b>	<b>146.4</b>

**Key Ratios**

<b>FYE Dec</b>	<b>2019</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Revenue growth (%)	16.9%	8.8%	16.0%	17.0%	18.0%
EBITDA growth (%)	38.4%	6.7%	24.3%	20.0%	19.5%
Pretax margins (%)	32.0%	28.8%	30.8%	36.7%	37.6%
Net profit margins (%)	30.3%	26.3%	28.1%	33.6%	34.4%
Interest cover (x)	43.5	11.1	8.6	nm	nm
Effective tax rate (%)	5.4%	5.8%	6.0%	5.5%	5.5%
Net dividend payout (%)	57.3%	67.0%	60.0%	60.0%	60.0%
Debtors turnover (days)	55.6	64.5	68.3	68.0	67.7
Stock turnover (days)	0.0	0.0	0.0	0.0	0.0
Creditors turnover (days)	38.6	39.9	41.4	41.2	41.1

Source: Bloomberg, KAF

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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