

CTOS Digital

Growth Is Apparent

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CTOS has acquired an additional 2.65% in Business Online PCL (BOL) for a fair price of RM26.8m (FY20 PER of ~44x vs. peers' 40x). The faster-than-expected acquisition, alongside plans to tap into new sectors with tremendous growth potential, reassures us of CTOS' earnings growth in the coming years. Raise FY21-22E earnings by 2-4%. Reiterate OP with a higher TP of RM1.75 @ FY22E PER of 55x (from 45x) justified by: (i) market dominance in an underpenetrated Malaysia, (ii) more robust industry/company earnings growth, and (iii) scarcity premium.

Second post-listing acquisition. CTOS announced that it has acquired an additional 2.65% (or 21.74m shares) in Business Online PCL (BOL) for RM26.8m, raising its total stake to 22.65% (or 185.84m shares). BOL is the dominant credit bureau (59% market share) in Thailand. The acquisition came as a positive surprise (timing-wise) as CTOS had just completed its 4.625% acquisition in RAM Holdings (RAM) on 29 July 2021.

Fair price. The acquisition price translates to FY20 PER of ~44x, which is in line with global peers' ~40x. We estimate BOL contribution of RM6.5-7.8m to CTOS' FY21-22E bottom-line. The increased stake in the Thai leading credit bureau BOL (~59% market share) allows CTOS to further tap into an underpenetrated Thailand (~57% penetration vs. developed U.S. & UK's 100%). Note that BOL's 1HFY21 earnings are ~30% higher year-on-year.

More confident on growth. From IPO proceeds earmarked for acquisitions (RM58.7m), the group has utilized ~63% (or RM36.9m) for earnings accretive acquisitions (RAM & BOL) in <1 month of listing. The faster-than-expected acquisitions, coupled with plans to tap into new sectors with tremendous growth potential such as automotive, insurance and real estate (combined 2021-25 CAGR of 50.6%) have boosted our confidence in CTOS' earnings growth in the coming years. Post-BOL acquisition, we estimate CTOS' cash balances at ~RM35m with RM21.8m IPO proceeds earmarked for strategic investments. Thereafter, CTOS should be able to fund investments (~10% of net assets), without the need to raise additional capital.

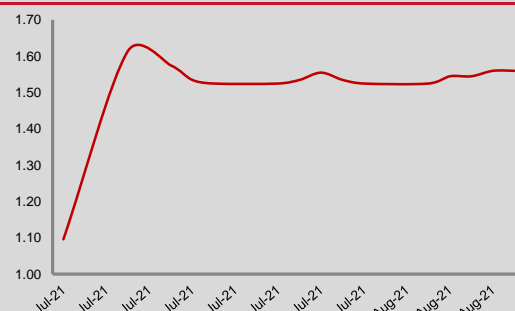
Raise FY21E/FY22E CNP by 2%/4% on higher BOL contribution.

Reiterate OUTPERFORM with a higher TP of RM1.75 (from RM1.40) based on higher FY22E PER of 55x (from 45x), at a 57% premium to peers justified by its: (i) market leader status with 71.2% share in an underpenetrated market, (ii) more robust industry growth (2021-25E CAGR of 13.2%) vs. peers concentrated in developed nations such as U.S. (7.5%), and U.K. (5.3%), (iii) superior earnings growth of 50-20% (vs. peers' 12-14%), as well as (iv) scarcity premium for an ASEAN-listed credit rating agency (where the growth potential is high).

OUTPERFORM ↔

Price: RM1.56
Target Price: RM1.75 ↑

Share Price Performance



KLCI	1,489.80
YTD KLCI chg	-8.4%
YTD stock price chg	n.a.

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CTOS MK Equity
Market Cap (RM m)	3,432.0
Shares Outstanding	2,200.0
52-week range (H)	1.76
52-week range (L)	1.50
3-mth avg daily vol:	n.a.
Free Float	100%
Beta	n.a.

Major Shareholders

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

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Revenue	140.5	163.1	187.9
EBIT	42.8	53.4	63.6
PBT	40.3	62.9	75.7
PATAMI	39.2	58.7	70.6
Core NP	39.2	58.7	70.6
Consensus (NP)	n.a.	54.4	71.3
Earnings Revision	n.a.	2%	4%
Core EPS (sen)	1.8	2.7	3.2
Core EPS growth (%)	0.5	49.7	20.3
NDPS (sen)	N.A.	1.6	1.9
BV/Share (RM)	0.05	0.14	0.15
Core PER	87.6	58.5	48.6
Price/BV (x)	31.0	11.0	10.1
Net Gearing (x)	0.9	Net Cash	Net Cash
Net Dvd. Yield (%)	N.A.	1.0	1.2

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E	FY Dec	2018A	2019A	2020A	2021E	2022E
Revenue	110.5	129.1	140.5	163.1	187.9	Growth (%)					
EBIT	31.9	41.7	42.8	53.4	63.3	Revenue	N.A.	16.9	8.8	16.1	15.2
PBT	31.8	41.2	40.3	62.9	75.3	EBIT	N.A.	30.7	2.6	24.9	18.4
Taxation	-2.1	-2.2	-2.4	-4.2	-5.1	PBT	N.A.	29.7	-2.2	55.9	19.8
PATAMI	29.7	39.0	39.2	58.7	70.3	PATAMI	N.A.	31.5	0.5	49.7	19.7
Core PATAMI	29.7	39.0	39.2	58.7	70.3	Core PATAMI	N.A.	31.5	0.5	49.7	19.7
Balance Sheet						Profitability (%)					
FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E	EBIT Margin	28.9	32.3	30.4	32.8	33.7
Fixed Assets	17.5	16.9	16.9	42.1	52.4	PBT Margin	28.8	31.9	28.7	38.5	40.1
Intangible Assets	37.9	37.9	49.6	79.1	79.1	Core PATAMI Margin	26.8	30.2	27.9	36.0	37.4
Oth. Fixed Assets	0.0	59.8	154.9	152.4	152.4	Effective Tax Rate	6.7	5.4	5.8	6.7	6.7
Inventories	-	-	-	-	-	ROE	33.5	27.4	14.2	17.2	18.9
Receivables	17.9	21.4	28.2	32.6	37.6	ROA	49.4	49.4	33.9	18.8	20.7
Other CA	5.0	0.0	0.0	0.0	0.0	DuPont Analysis					
Cash	10.2	6.1	26.4	34.6	50.3	C. Net Margin (%)	26.8	30.2	27.9	36.0	37.4
Total Assets	88.6	142.2	276.0	340.7	371.8	Assets T'over (x)	1.2	0.9	0.5	0.5	0.5
Payables	13.7	13.6	17.1	19.6	22.5	Lev. Factor (x)	1.5	1.8	2.4	1.1	1.1
ST Borrowings	5.9	18.2	132.3	0.0	0.0	ROE (%)	49.4	49.4	33.9	18.8	20.7
Other ST Liability	2.9	20.1	10.0	0.0	0.0	Leverage					
Other LT Liability	6.2	11.4	0.8	9.6	9.6	Debt/Asset (x)	0.1	0.1	0.5	0.0	0.0
Net Assets	60.0	78.9	115.7	311.5	339.6	Debt/Equity (x)	0.1	0.2	1.1	0.0	0.0
Share Capital	198.0	198.0	198.0	411.9	411.9	Net Cash/(Debt)	-4.4	12.1	105.9	-34.6	-50.3
Reverse Acq. Reserve	-193.5	-193.5	-193.5	-193.5	-193.5	Net Debt/Equity (x)	Net Cash	0.2	0.9	Net Cash	Net Cash
Retained Earnings	54.3	71.5	106.0	92.5	120.6	Valuations					
Others	1.3	2.9	0.3	0.6	0.6	Core EPS (sen)	1.3	1.8	1.8	2.7	3.2
Minority Interest	0.0	0.0	5.0	0.0	0.0	DPS (sen)	N.A.	N.A.	N.A.	1.6	1.9
Total Equity	60.0	78.9	115.7	311.5	339.6	BV/share (RM)	0.03	0.04	0.05	0.14	0.15
Cashflow Statement						PER (x)	115.7	88.0	87.6	58.5	48.9
FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E	Div. Yield (%)	N.A.	N.A.	N.A.	1.0	1.2
Operating CF	37.5	48.8	49.6	67.4	78.8	P/BV (x)	57.2	43.5	31.0	11.0	10.1
Investing CF	-10.1	-58.9	-104.0	-36.9	-21.8						
Financing CF	-23.6	5.5	74.1	-35.2	-42.2						

Source: Kenanga Research

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Peer Comparison

Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
AEON CREDIT SERVICE M BHD	11.68	2,982.0	N	02/2022	10.0%	9.9%	44.8%	14.1%	13.3	9.2	8.1	1.8	1.5	16.6%	3.1%	14.00	OP
BURSA MALAYSIA BHD	7.58	6,134.5	Y	12/2021	-2.7%	-4.9%	-4.0%	-8.9%	16.1	16.9	18.5	6.8	6.6	39.6%	5.4%	8.20	OP
CTOS DIGITAL BHD	1.56	3,432.0	Y	12/2021	16.1%	15.2%	49.7%	19.7%	87.6	58.5	48.9	31.0	11.0	27.5%	1.0%	1.75	OP
LPI CAPITAL BERHAD	13.92	5,545.5	N	12/2021	2.9%	4.0%	2.4%	2.9%	16.5	16.1	15.6	2.7	2.5	16.3%	5.3%	14.20	MP
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	4.30	3,593.2	Y	12/2021	4.9%	1.7%	3.9%	-9.2%	9.8	9.5	10.4	2.4	2.1	23.3%	4.7%	5.85	OP
Simple Average					6.3%	5.2%	19.4%	3.7%	28.7	22.0	20.3	8.9	4.7	24.7%	3.9%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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