

19 July 2021

CTOS Digital Berhad

Right Space, Right Time

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CTOS stands to benefit from a growing customer base and expansion of product offerings in an underpenetrated market. We also like its resilient business model and future plans to tap into new sectors with tremendous growth potential. With its: (i) market leader status, (ii) more robust industry growth (2021-25E CAGR of 13.2%), (iii) superior earnings growth, and (iv) scarcity premium for ASEAN-listed CRA, it deserves a greater valuation premium. Initiating Coverage with **OUTPERFORM** and a Target Price of RM1.40 (27% upside) FY22E PER of 45x.

The behemoth CRA in Malaysia. CTOS Digital Berhad (CTOS) is principally involved in providing: (i) credit information, and (ii) analytics digital solutions. The group is the market leading credit reporting agency (CRA) in Malaysia with a mammoth market share of 71.2% in 2020. Trailing far behind CTOS is Experian Malaysia and Credit Bureau Malaysia with a market share of 17.5% and 7.0%, respectively. The group has a track record of 30 years in the industry and is seeking Main Market listing to raise RM220m, at an IPO price of RM1.10.

Double-barrelled growth. Moving forward, CTOS stands to benefit from: (i) growing customer base, and (ii) expansion of product offerings. Underpenetrated Malaysia (77% vs. developed U.S. & U.K. – 100%) offers robust growth opportunities to grow its customer base, with superior industry 2021-25E CAGR of 13.2% against U.S. (7.5%) and U.K. (5.3%). Cross-selling opportunities are also at hand as the group usually launches 1-2 new products annually.

Heads I win, tails I win. CTOS benefits from two sides of the coin. It enjoys growth in market size during economic growth, while benefits in an economic slowdown from greater frequency of credit checks (more prudent risk management) and stronger demand for its management and monitoring solutions. Case in point – in 2020, the group saw significant increase in demand for such solutions from its key accounts customers as more proactive actions were taken to assess and manage risks. The cherry on top is that 75% of revenue from key accounts (34% to total revenue) is on a recurring basis.

Plans to tap new sectors are enticing. CTOS aims to expand into new sectors with tremendous growth potential such as automotive, insurance and real estate. The total addressable market for the trio is forecasted to grow from RM25.1m in 2021 to RM128.9m in 2025, representing CAGR of 50.6%. CTOS recently launched its new digital solution – CTOS Tenant Screening Report CTOS, which will enable it to tap into the real estate sector.

Initiating coverage; OUTPERFORM with a TP of RM1.40. At an IPO price of RM1.10 per share, CTOS will be listed at valuation of FY22E PER of 35.5x (vs. regional peers' c.31x), and we think it deserves a greater premium. Our fair value of RM1.40 is pegged to FY22E 45x PER 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 47-18% (vs. peers' 12-14%), as well as (iv) scarcity premium for ASEAN-listed CRA (where the growth potential is high).

Risks to our call include: (i) loss of pioneer status, (ii) loss of market share, (iii) reduced access and/or higher costs to external data like CCRIS, and (iv) data breaches.

OUTPERFORM

IPO Price: **RM1.10**
Target Price: **RM1.40**

Share Price Performance

KLCI	1,522.48
YTD KLCI chg	-6.4%

Major Shareholders (Post-IPO)

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

IPO proceeds (RM'm)

Repayment of bank borrowings	155.2
Estimated Listing expenses	6.1
Acquisitions	58.7
Total	220.0

Summary of IPO

Enlarged number of shares (m)	2,200.0
IPO Price (RM)	1.10
Market cap upon listing (RM m)	2,420.0
Shariah Compliant	Yes

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Revenue	140.5	163.1	187.9
EBIT	42.8	54.2	64.5
PBT	40.3	61.1	72.3
PATAMI	39.2	57.5	68.1
EPS (sen)	1.8	2.6	3.1
EPS growth (%)	0.5	46.7	18.4
DPS (sen)	-	1.6	1.9
BV/Share (RM)	0.05	0.14	0.15
PER (x)	61.8	42.1	35.5
P/BV (x)	21.8	7.8	7.2
Net Gearing (x)	-	Net Cash	Net Cash
Div Yield (%)	-	1.4	1.7



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IPO DETAILS

Summary of IPO shares to be allocated		
	Number of shares	%
Public Issue		
Eligible persons	120,000,000	5%
Directors	3,200,000	
Eligible employees	26,800,000	
Persons who have contributed to the success of the group	90,000,000	
Malaysian public	44,000,000	2%
Bumiputera	22,000,000	
Non-Bumiputera	22,000,000	
Malaysian and foreign Institutional and selected investors	36,000,000	2%
Subtotal	200,000,000	9%
Offer for Sale		
Malaysian and foreign Institutional and selected investors	900,000,000	41%
TOTAL	1,100,000,000	50%

Source: Prospectus

Enlarged issued share capital	
	No. of shares
Details	
Share capital as at date of prospectus	2,000,000,000
New IPO Shares to be issued pursuant to the Public Issue	200,000,000
Enlarged share capital upon listing	2,200,000,000
IPO price per share	RM1.10
Implied market capitalisation	RM2,420.0m

Source: Prospectus

Utilisation of proceeds			
Utilisation of Proceeds	Estimated Timeframe for Utilisation	RM'000	%
Repayment of bank borrowings	Within 3 months	155,181	70.5
Estimated listing expenses	Within 6 months	6,098	2.8
Acquisitions	Within 36 months	58,721	26.7
		220,000	100.0

Source: Prospectus

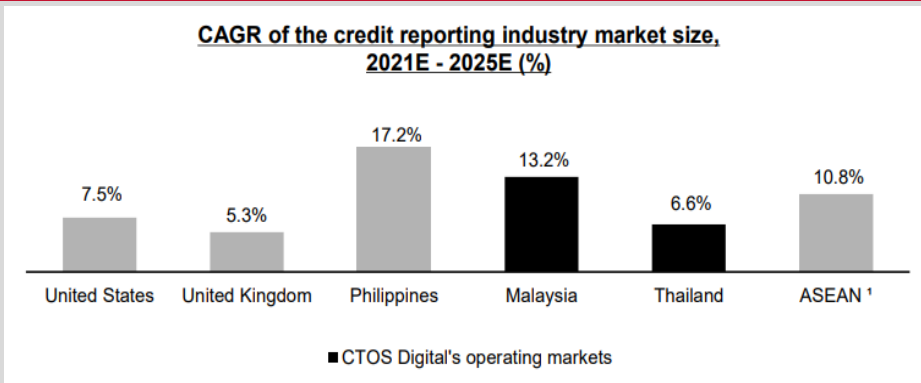
IPO Timeline	
Events	Dates
Opening of application	30-Jun-21
Closing of application	6-Jul-21
Balloting of application	8-Jul-21
Allotment of IPO shares to successful applicants	16-Jul-21
Listing date	19-Jul-21

Source: Bursa Malaysia

INVESTMENT MERITS

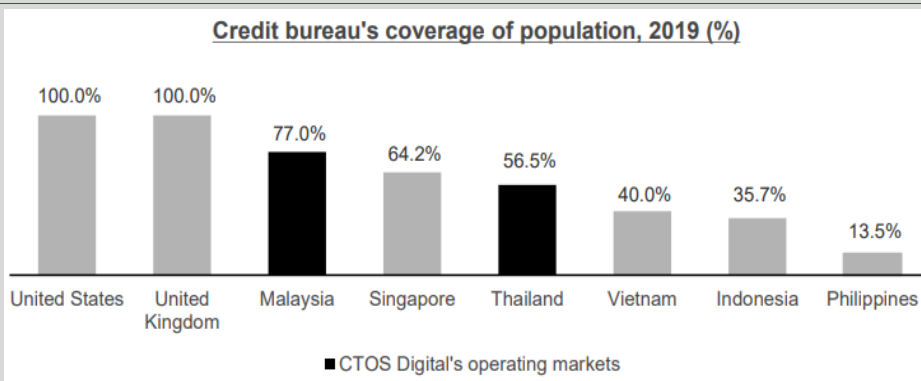
Right space, right time. In FY20, the group derived 95% revenue from Malaysia, which is still underpenetrated (77%) vs. developed markets – U.S. and U.K (at 100% each). Being the market leader with 71.2% market share, the group is set to enjoy robust growth in Malaysia which has an **industry 2021-25E CAGR of 13.2%**. Key demand drivers include: (i) loans growth recovery, (ii) digitalisation, and (iii) greater level of financial literacy for the population.

Industry CAGR



Source: IDC Research

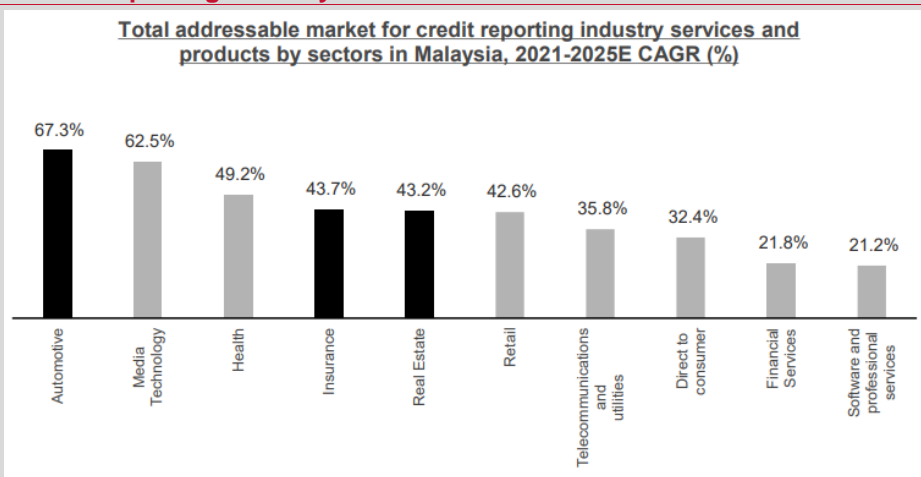
Market Penetration



Source: IDC Research

Plans to tap into solid sector growths. CTOS' plans to expand into new sectors such as automotive, insurance and real estate will allow it to tap into their growth potential. The total addressable market for the trio is forecasted to grow from RM25.1m in 2021 to RM128.9m in 2025, representing CAGR of 50.6%. We believe tailoring digital solutions for individual sectors will be swift given the group's track record of launching 1-2 new digital solutions annually for the past six years. CTOS' latest solution (in 2021) is CTOS Tenant Screening Report which enables it to tap into the real estate sector.

TAM Growth for Credit Reporting Industry Services



Source: IDC Research

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Firing on all cylinders. CTOS' major contributing segments – commercial (57%) and key accounts (34%) are all set to grow. Given that the group has c.17k commercial customers out of a total addressable market of c.100k, there is ample room for growth. Its key accounts segment will benefit from an expansion of product offerings such as CTOS eKYC, CTOS IDGuard, and CTOS Portfolio Analytics and Insights. Additionally, the direct-to-consumer segment (though from a low base) will benefit from Malaysian's growing level of financial literacy.

Resilient business model. CTOS benefits from two sides of the coin. During economic growth, it enjoys growth in its market size, while in an economic slowdown, it benefits from greater frequency of credit checks and stronger demand for management and monitoring solutions. Case in point – in 2020, the group saw significant increase in demand for its solutions (Comprehensive Portfolio Review and CTOS Portfolio Analytics and Insights solutions) among its key accounts customers as more proactive actions were taken to assess and manage risks. We also find the group's 75% recurring revenue from key accounts and the industry's high barriers to entry (regulations, cybersecurity, database & brand) attractive.

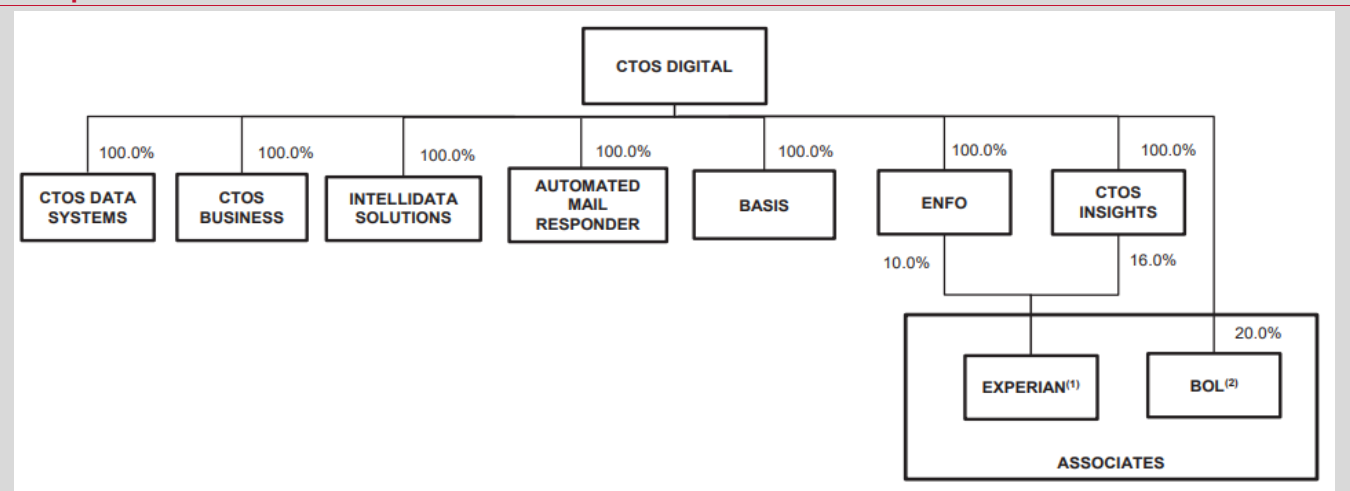
Deserving a greater premium to valuation. IPO price of RM1.10 implies valuations of FY22E PER of 35.5x which is close to its peers' c.31x. However, CTOS is deserving of a greater premium given its: (i) market leader status with 71.2% share in an underpenetrated market, (ii) more robust industry growth (2021-25 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 47-18% (vs. peers' 12-14%), as well as (iv) scarcity premium for ASEAN-listed CRA.

COMPANY BACKGROUND

Company history. Incorporated in 1990, the company first started to provide fax-based enquiries services for banks in Malaysia. Subsequently, in August 2014, Inodes acquired a 70.0% equity interest in the company and gone on a series of acquisitions. The group now provides credit information and analytics digital solutions on companies, businesses and consumers for use by banks and businesses at each stage of the customer lifecycle as well as provide credit information and analysis to consumers.

To-date, the group provides digital solutions to approximately 430 Key Accounts customers (banks & corporates) in Malaysia, and approximately 17,000 Commercial Malaysian customers, including SMEs in industries such as financial services, telecommunications, wholesale and retail trade, manufacturing, construction, professional services and insurance. The group also provides Direct-to-Consumer customers with credit scores and detailed information including CCRIS information, directorships and business interests, litigation cases and trade references. CTOS has approximately 1.3m users registered for a CTOS ID account and its databases contain profiles of approximately 15m consumers and approximately 8m companies and businesses.

Group Structure



Source: Prospectus

Customer Lifecycle Stages and Digital Solutions Offered



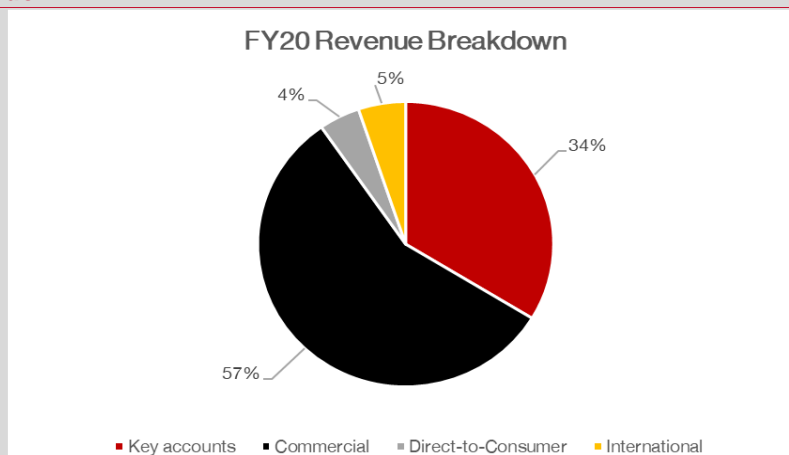
Source: Prospectus

CTOS Revenue Breakdown

Revenue Breakdown (RM m)	FY18	FY19	FY20
Malaysia	110.5	129.1	133.2
Key accounts	41.4	49.3	47.3
Commercial	64.4	74.4	79.6
Direct-to-Consumer	4.6	5.4	6.3
International	0.0	0.0	7.3
Total	110.5	129.1	140.5

Source: Prospectus, Kenanga Research

FY20 Revenue Breakdown



Source: Kenanga Research

FINANCIAL ANALYSIS

Review of 1HFY21. 1HFY21 saw PATAMI increasing 27% YoY to RM19.9m. This stemmed from an increase in revenue of 24% YoY as contributions from its customers grew on all fronts: (i) key accounts (+8% YoY), (ii) commercial/SMEs (+18% YoY), and (iii) direct-to-consumers (+90% YoY). The considerable growth, in spite of the Covid-19 pandemic impact, is a testament to the group’s resilient business model. Historically, the group’s 2H earnings are seasonally stronger than 1H owing to: (i) festivities in 1H, (ii) tendency of customers to maximise budget allocations in 2H, and (iii) stronger demand for insights and analytics towards the end of the year.

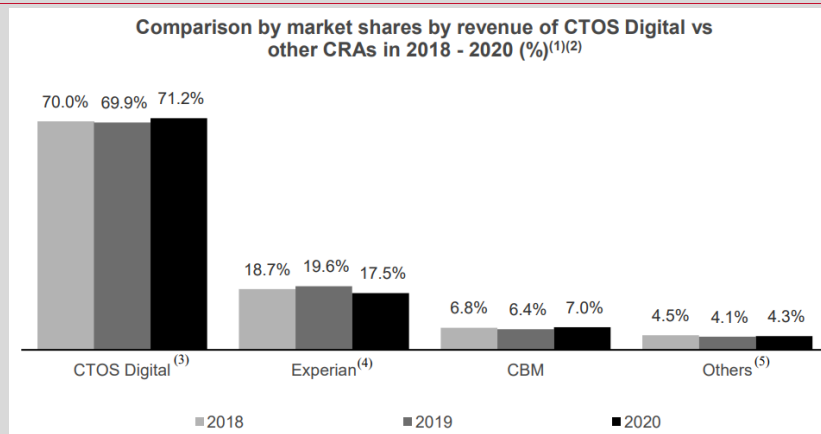
FY21-22E earnings forecasts. Our FY21E/FY22E PATAMI of RM57.5m/RM68.1m is derived from the assumptions of: (i) 2-year CAGR of 15%, 20%,30% for its key accounts, commercial/SMEs, direct-to-consumers, and (ii) effective tax rate of 5.8% as we expect clawback of tax expenses upon extension of the group’s pioneer status.

Dividend policy. The group has a dividend policy with a 60% pay-out ratio to PATAMI.

VALUATION AND PEERS COMPARISON

OUTPERFORM, with fair value of RM1.40. Our fair value is derived from 45x PER on FY22E EPS. This is at a 50% premium to regional peers justified by CTOS’: (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 47-18% (vs. peers’ 12-14%), as well as (iv) scarcity premium for ASEAN-listed CRA.

Local CRAs Market Share



Source: Prospectus

Local CRA Comparison by Digital Solutions Offered

	ctos ⁽¹⁾ CTOS Digital	CREDIT BUREAU MALAYSIA CBM	experian ⁽²⁾ Experian	CRIF ⁽¹⁾ CRIF	D&B D&B	FIS ⁽³⁾ FIS
CORE PRODUCTS						
Access to CCRIS	✓	✓	✓			
Credit Scoring ⁽⁴⁾	✓	✓	✓			
Credit Rating ⁽⁵⁾	✓	✓	✓	✓	✓	
Consumer Credit Report	✓	✓	✓			✓
Commercial Credit Report	✓	✓	✓	✓	✓	✓
- Business Information Report	✓	✓	✓	✓	✓	✓
- Credit Monitoring Service	✓	✓	✓			
- International Reports	✓		✓	✓	✓	
VALUE-ADDED SERVICES						
Business Analytics	✓	✓	✓	✓	✓	
Fraud Prevention	✓					
Fraud Monitoring	✓		✓			
Scoring/Rating Validation Services	✓	✓	✓			
Credit Decisioning & Analytics	✓		✓	✓		
Digital Onboarding/eKYC	✓		✓	✓		
Credit Risk Management	✓		✓		✓	
Credit Comparison Site	✓		✓			
Identity Theft Protection	✓		✓			
Tenant Screening	✓					

Source: Prospectus

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Peers' Comparison											
Name	Currency	Last Price	Market Cap (RM'mil)	Current FYE	PER (x) - Core Earnings			PBV (x)		Target Price (RM)	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.		
CTOS	MYR	1.10	2,420.0	12/2021	61.8	42.1	35.5	21.8	7.8	1.40	OUTPERFORM
EXPERIAN	GBP	3,086.0	830.5	03/2022	41.8	35.7	31.36	12.6	10.4	NOT RATED	NOT RATED
EQUIFAX	USD	254.63	30,989.1	12/2021	36.5	36.2	30.0	9.8	8.2	NOT RATED	NOT RATED
TRANSUNION	USD	115.76	22,144.9	12/2021	38.6	32.7	29.3	8.7	7.3	NOT RATED	NOT RATED
BUSINESS ONLINE PLC	THB	9.85	8,081.9	12/2021	45.2	N.A.	N.A.	11.4	N.A.	NOT RATED	NOT RATED

Source: Kenanga Research

Note: Peers' forward numbers are based on Bloomberg consensus, if available.

KEY RISKS

Loss of pioneer status. Although the group believes that its pioneer status will be renewed in 2021, failure will result in the loss of tax incentives, and higher effective tax rate.

Data breach. Failure to maintain the integrity and reliability of its database as well as comply with data protection laws may result in adverse impact to financial performance, tarnished brand reputation, and legal suits.

Dependent on external data sources. CTOS depends heavily on its contractual agreement with BNM to access information from the CCRIS. Reduced access to or higher cost of obtaining the data will negatively impact its businesses.

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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	54.2	64.5	Revenue	N.A.	16.9	8.8	16.1	15.2
PBT	31.8	41.2	40.3	61.1	72.3	EBIT	N.A.	30.7	2.6	26.7	18.9
Taxation	-2.1	-2.2	-2.4	-3.6	-4.2	PBT	N.A.	29.7	-2.2	51.4	18.4
PATAMI	29.7	39.0	39.2	57.5	68.1	Net Profit	N.A.	4.8	5.3	51.4	18.4
Balance Sheet						Profitability (%)					
FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E	EBIT Margin	28.9	32.3	30.4	33.2	34.3
Fixed Assets	17.5	16.9	16.9	15.8	14.9	PBT Margin	28.8	31.9	28.7	37.4	38.5
Intangible Assets	37.9	37.9	49.6	79.1	79.1	PATAMI Margin	26.8	30.2	27.9	35.2	36.2
Oth. Fixed Assets	0.0	59.8	154.9	152.4	152.4	Effective Tax Rate	6.7	5.4	5.8	5.8	5.8
Inventories	-	-	-	-	-	ROA	33.5	27.4	14.2	16.9	18.4
Receivables	17.9	21.4	28.2	32.6	37.6	ROE	49.4	49.4	33.9	18.5	20.1
Other CA	5.0	0.0	0.0	0.0	0.0	DuPont Analysis					
Cash	10.2	6.1	26.4	60.4	86.5	Net Margin (%)	26.8	30.2	27.9	35.2	36.2
Total Assets	88.6	142.2	276.0	340.2	370.4	Assets T/O (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	18.5	20.1
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	311.1	338.3	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	-60.4	-86.5
Reverse Acq. Reserve	-193.5	-193.5	-193.5	-193.5	-193.5	Net Debt/Equity (x)	Net Cash	0.0	0.0	Net Cash	Net Cash
Retained Earnings	54.3	71.5	106.0	92.1	119.3	Valuations					
Others	1.3	2.9	0.3	0.6	0.6	EPS (sen)	1.3	1.8	1.8	2.6	3.1
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	311.1	338.3	BV/share (RM)	0.03	0.04	0.05	0.14	0.15
Cashflow Statement						PER (x)	81.6	62.0	61.8	42.1	35.5
FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E	Div. Yield (%)	N.A.	N.A.	N.A.	1.4	1.7
Operating CF	37.5	48.8	49.6	65.4	75.5	P/BV (x)	40.3	30.7	21.8	7.8	7.2
Investing CF	-10.1	-58.9	-104.0	-10.0	-10.0						
Financing CF	-23.6	5.5	74.1	-34.5	-40.9						

Source: 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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