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## Investment Idea / IPO Note

**CTOS Digital Bhd****Supercharging its database**

By Rakuten Trade Research Team

CTOS Digital Bhd's (CTOS) market leading position within the credit reporting industry will be further secured by its synergistic and extensive database set for next lap of growth phase as the group is expanding its presence in the rapid-growing ASEAN region. Listing on the Main Market today, BUY with a target price of RM1.28 premised on 40x PER FY22 as per 3-year average valuation of industry peers.

CTOS is a leading player of credit bureaux in ASEAN, providing (i) credit information and analytics digital solutions for use by banks and businesses across all stage of customer lifecycle and (ii) credit information and analysis to consumer. Having established as the industry pioneer (>30 years), CTOS conquers over 70% of market share in Malaysia's credit report agency industry while its associates Experian is the second largest in Malaysia (17.5% of market share) and Business Online Public Company Ltd is the largest in Thailand (59% of market share). CTOS serves huge customer base of 430 key accounts (bank and corporates), 17,000 commercial accounts and 1.3m registered direct-to-consumer users.

Competitive edge of CTOS lies on its extensive proprietary database and data will continuously be enriched from time to time with addition of new customers. CTOS has been enjoying this synergistic effect from the long-established ecosystem via past proven strategic investments, leveraging on each other's database. The high entry barrier where there was only one new entrant for past 10 years has put CTOS in an advantageous position to gain market share in the region. The fully digital platform which is enriched with extensive database has helped to develop customers' reliance on CTOS's digital solutions (eg: linking to customers' back-end system) which is vital to maintain high customer stickiness. As such, 75% of the key accounts are recurring revenue and CTOS has a diversified customer base with long-term relationships. We also see CTOS's potential role in digital banking trend via its digital solutions (eg: e-KYC, CAD & CTOS Analytics).

While bulk of the IPO fund (70.5%) is earmarked to repay bank borrowing, CTOS has allocated RM58.7m for business acquisition which the group has identified within the region. CTOS also aims to increase market share in Malaysia with new digital solutions in the pipeline and seeking to expand into new verticals including automotive, real estate and insurance sectors.

Gearing ratio is high at 1.2x thus almost all borrowings will be paid using its IPO funds post listing. CTOS targets a dividend payout ratio of 60% or a projected yield of 1.3% and 1.7% in FY21 and FY22 respectively. Due to strong operating leverage underpinned by highly scalable proprietary data and credit management ecosystem, CTOS enjoys strong margins (3-year average net margin of 28%), which is significantly higher than industry players. Moving forward, we forecast EPS to grow 29% in FY21 and 39% in FY22.

★★★★☆ **BUY**

**IPO Price:** RM1.10  
**Target price:** RM1.28

KLCI	1,522.5
YTD FBM KLCI change	-6.4%
YTD FBM SC Index change	-0.1%

**Stock Information**

Market Cap Upon Listing (RM'm)	2,420
Enlarged Share Capital (m)	2,200

**IPO Proceeds (RM'm)**

Repayment of bank borrowings	155.2
Acquisitions to be identified	58.7
Estimated listing expenses	6.1
<b>Total</b>	<b>220.0</b>

**Major Shareholders**

Inodes Limited	40.0%
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**Summary Earnings Table**

FYE Dec (RM'm)	2019A	2020A	2021F	2022F
Turnover	129.1	140.5	162.9	200.5
EBIT	43.2	46.4	57.0	74.2
PBT	41.2	40.3	52.2	73.2
Net Profit	39.0	39.2	50.5	70.1
<b>Core Net Profit</b>	<b>39.0</b>	<b>39.2</b>	<b>50.5</b>	<b>70.1</b>
Consensus	-	-	-	-
EPS (sen)	1.8	1.8	2.3	3.2
EPS growth (%)	31.5	0.5	28.9	38.9
DPS (sen)	1.1	1.1	1.4	1.9
PER (x)	62.0	61.8	47.9	34.5
BV/Share (RM)	0.1	0.1	0.2	0.2
ROE (%)	49.4	35.4	14.6	18.8
Div. Yield (%)	0.9	1.0	1.3	1.7

Sources: Company, Rakuten Trade Research



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COMPANY	Definition
<b>Buy</b>	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
<b>Trading Buy</b>	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
<b>Take profit</b>	The stock return previously recommended has gained by >10%
<b>Hold</b>	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
<b>Sell</b>	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
<b>Overweight</b>	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
<b>Neutral</b>	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
<b>Underweight</b>	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

#### Scoring model:

The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

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All buy calls are based on the research team's judgement. Investing is risky and trading is at your own risk. We advise investors to:

- read and understand the contents of the disclosure document or any relevant agreement or contract before investing;
- understand the risks involved in relation to the product or service;
- compare and consider the fees, charges and costs involved; and
- make your own risk assessment and seek professional advice, where necessary.

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