

INITIATE COVERAGE

CTOS Digital (CTOS MK)

A Paramount In The Credit Bureau Ecosystem

CTOS is well-positioned to prosper in the ASEAN credit bureau ecosystem, riding on its diversified customer portfolio, dominant market share with extensive database (>30 years) and ambitious regional growth strategy across multiple markets. The large unbanked population and prospective credit growth in under-penetrated emerging countries where CTOS serves also offers plenty of opportunities for supercharged earnings growth. Initiate with BUY and target price of RM1.32.

- Robust growth trajectory anchored by regional business expansion blitz.** Since its founding in 1990, CTOS Digital (CTOS) has established its dominance as the leading credit rating agency (CRA) and digital credit data solutions provider in Malaysia (>70% market share). In 2020, the group went full speed ahead with its aggressive business expansion blitz by acquiring stakes in Basis Corporation (Basis) and Business Online (BOL), which are both significant local players in Malaysia and Thailand respectively. The synergistic partnerships are expected to help CTOS expand its footprint and expand further into the ASEAN market where it is a leading regional credit bureau.
- Defensive business nature, impressive earnings margin, lush dividend yield.** CTOS' asset-light business model has a minimal capex commitment, mostly for technology infrastructure maintenance and upgrades. This promises healthy cash flow streams that allow for rapid expansion and capital management. Furthermore, CTOS commands stellar profitability margins (net margin >25%) due to its unique business model of accumulating and repackaging credit information into useable reports and data solutions for sale, which is highly lucrative. While CTOS targets a dividend ratio of about 60% of net profit, we expect 1.7 sen and 2.0 sen to be declared in 2021 and 2022, which offer a dividend yield of 1.6% and 1.8% respectively.
- Bridging the gap between digital and traditional banks.** Leveraging on its extensive database and already-rich ecosystem of digital services such as e-KYC, CTOS is able to source for big data and credit profiles that digital banks require in a cost-efficient manner. A comprehensive e-KYC solution that credit bureaus such as CTOS can provide is crucial as it allows a swift but yet tight credit assessment process, giving digital banks greater advantage to utilise big data and artificial intelligence to have a more robust internal credit scoring process and faster customer acquisition.
- Initiate coverage with BUY and target price of RM1.32,** based on 40x 2022F PE. This is largely in line with the industry's 3-year PE mean of 37x which we reckon is justifiable given its multi-year robust growth story and it being the direct proxy to growing demand for credit reporting in Malaysia. We forecast CTOS to deliver an impressive 3-year net profit CAGR of 27% in 2021-23.

KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	129	148	169	194	222
EBITDA	42	37	64	73	83
Operating profit	42	45	69	78	89
Net profit (rep./act.)	38	35	64	73	83
Net profit (adj.)	38	35	64	73	83
EPS (sen)	1.7	1.6	2.9	3.3	3.8
PE (x)	62.0	61.7	37.8	33.2	29.1
P/B (x)	8.5	8.4	9.1	8.3	7.6
EV/EBITDA (x)	58.0	46.3	32.8	28.9	25.4
Dividend yield (%)	0.9	1.0	1.6	1.8	2.1
Net margin (%)	29.6	23.7	37.8	37.6	37.4
Net debt/(cash) to equity (%)	(7.0)	(20.1)	(24.3)	(29.1)	(34.0)
Interest cover (x)	34.4	4.6	n.a.	n.a.	n.a.
ROE (%)	55.0	19.0	21.2	22.2	23.4
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: CTOS, Bloomberg, UOB Kay Hian

BUY

Share Price	RM1.10
Target Price	RM1.32
Upside	+20.0%

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 solutions and services.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker	CTOS MK
Shares issued (m)	2,200.0
Market cap (RMm)	2,420.0
Market cap (US\$m)	580.9
3-mth avg daily t'over (US\$m)	0.0

Price Performance (%)

52-week high/low	RM/RM			
1mth	3mth	6mth	1yr	YTD
n.a.	n.a.	n.a.	n.a.	n.a.

Major Shareholders

Inodes	40.0
Chung Tze Keong	4.5
Chung Tze Wen	4.5

FY21 NAV/Share (RM)	0.14
FY21 Net Cash/Share (RM)	0.03

ANALYST

Jack Goh
 +603 2147 1983
 jackgoh@uobkayhian.com

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Investment Highlights

LEVERAGING ON STRATEGIC EXPANSION TO ACHIEVE RESILIENT GROWTH

Embarking on better growth proposition in 2022-23. CTOS recorded a stellar 2-year net profit CAGR of 15% in 2018-20. We opine this growth momentum is sustainable in 2021 and beyond, mainly driven by: a) resilient earnings visibility from its large corporate customer base in Malaysia, b) incremental revenue from newly-acquired associates – BOL and Basis, c) further vertical expansion into and strategic acquisition of selected companies, 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 and consumer contributed data.

Robust growth momentum to continue in 2022 and beyond, driven by various catalysts

On track to becoming a significant regional player amid synergistic expansion... In line with the group's regional expansion plans, CTOS acquired a 50% equity stake in CIBI Information Inc (CIBI), a credit bureau in the Philippines, in 2020. Despite CTOS recently excluding CIBI as a subsidiary of the group, we believe CIBI has significant room for growth and CTOS may evaluate CIBI for future re-investment once the Philippines market matures. In 2020, CTOS also acquired a 20% stake in BOL, providing the group a foothold in the fast-growing Thailand market. With BOL's significant position (59% market share) in the Thailand market and extensive database with over 1.6m local business records, we believe CTOS' investment in BOL would pave the way for CTOS to become an established multinational platform with comprehensive data analytics and performance insights.

Establishing a multinational platform via synergistic acquisitions...

...and local acquisitions. More recently, in Jan 21, CTOS acquired the entire equity interest in Basis, a Malaysian CRA, for strategic purposes such as complementary digital solutions, cost synergies and further expansion of the group's market share in Malaysia. The acquisition has expanded the range of CTOS' international business reports and provides CTOS with a complementary base of international customers in industries such as insurance, services and credit reporting who are located primarily in Asia Pacific and Europe.

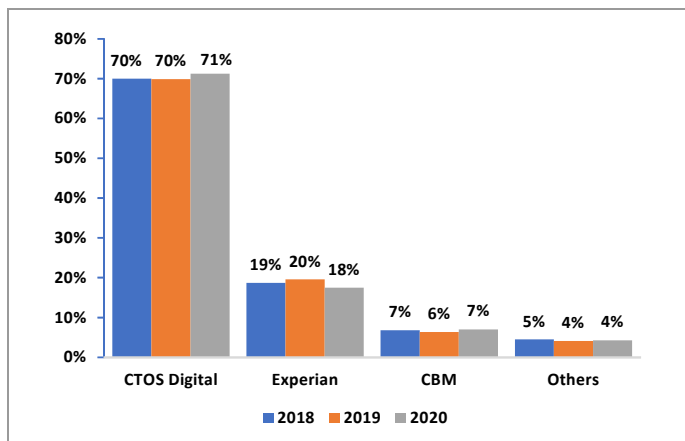
...and local expansion by acquisition of stakes in Basis

DOMINANT MARKET POSITION IN MALAYSIA; DEFENSIVE BUSINESS NATURE

High barriers to entry with highly-concentrated market share. Due to the stringent regulatory landscape, there are only seven registered CRAs in Malaysia. Among the seven CRAs, CTOS is Malaysia's market leader in the credit reporting segment with an estimated 71.2% of the total market share by revenue in 2020 (Figure 1). Leveraging on its lengthy operating track record (>30 years), CTOS has accumulated a large credit database which comprises about 15m consumer and 8m businesses profiles. The extensive access to key financial databases and credit history helps CTOS to stay ahead of competitors with higher earnings margins (Figure 2) and serves as an economic moat that new entrants will find hard to replicate.

CTOS' leading market share in Malaysia creates a prime economic moat

FIGURE 1: CRA MARKET SHARE BY REVENUE (2018-20)



Source: CTOS, UOB Kay Hian

FIGURE 2: EARNINGS OF MALAYSIA'S TOP THREE CRAS (2020)

Revenue & Financial Ratios	CTOS Digital 31-Dec-20	Experian 31-Mar-20	CBM 31-Dec-19
Revenue (RMm)	140.5	46.0	12.5
Three Year Revenue CAGR (%)	15.1	23.6	15.5
EBITA Margin (%)	36.9	24.0	13.9
Returns-on-Equity	39.0	43.8	-8.1

Source: CTOS, UOB Kay Hian

Inelastic business model to weather different economic cycles. CTOS' customer base mainly comprises: a) key accounts such as banks, telcos and corporates; b) 17,000 commercial customers primarily in Malaysia, including SMEs from a diverse range of business sectors; and c) direct-to-consumer businesses. From our perspective, the high dependency on key accounts and commercial customers (>90%) helps CTOS to thrive across different economic cycles, as CTOS' products play an essential role in assessing counterparty risk and creditworthiness during periods of economic expansion or recessions.

Resilient recurring income resulting in a less cyclical business model. While a big chunk of CTOS' business is habitually recurring income (>75% for key accounts), the group's business model has become less volume driven over time. For example: a) a loyal customer base serves as stable revenue guarantees; b) CTOS' various digital solutions are counter-cyclical and widely utilised in credit quality assessments in daily life; c) management's innovation in the development of new services, modelling and analytics business can also adapt to new client needs as they emerge.

PLAYING A VITAL ROLE IN DIGITAL BANKS' SUCCESS

The digital banking landscape in Malaysia. To recap, BNM is looking to issue up to five digital banking licences to qualified applicants. More than 40 contenders have submitted their applications before the deadline of 30 Jun 21, and the results will be announced in 2022. Note that digital banks are mainly focused on serving the underserved market segments, which include the bottom 40% of income earners (B40) and the micro, small and medium enterprises (MSME).

Importance of big data and analytics insights for digital banking. The underserved market typically comprises customer segments which could have higher credit risk profiles and lower product cross-selling opportunities. Loan product segments would largely comprise personal loans, credit cards to lower-income borrowers and, on the business front, loans for start-ups and micro enterprises. Having robust access to and analysis of crucial big data on these segments is important to limit the potentially high credit risk in this underserved market segment. Hence, CRAs like CTOS play a crucial role in facilitating digital banks with limited access and analytics expertise to such credit data.

CTOS to bridge the gap between digital banks and traditional banks. Leveraging on its extensive database and already-rich ecosystem of digital services such as 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.

Prospective credit growth to benefit CTOS. Following the commencement of digital banks in 2022, we expect expansion of the marketplace for both the suppliers and customers of CTOS. We also believe digital banks will accelerate the adoption of cashless transactions in Malaysia, which in turn will stimulate credit and loans growth and eventually demand for credit reports and solutions from CTOS.

DIGITALISATION AND ONE-STOP PLATFORM PROVIDE EDGE OVER PEERS

Full digital platform to cater to every stage of customer lifecycle. Over the years, CTOS has developed a full-fledged ecosystem of credit management solutions which provides digital solutions to support its customers' businesses at every stage of the customer lifecycle. CTOS's ability to offer a full suite of digital solutions and seamless user experience helps differentiate it from most competitors and further positions the group as the leading CRA in Malaysia.

Emphasis on technology promises security and efficiency. CTOS emphasises on the security and protection of consumers' and businesses' data, and also complies strictly with Bank Negara Malaysia's (BNM) risk management guidelines established. The group has a two-tier infrastructure with systems running on flash array or multiple flash memory drives to handle a high volume of disparate data and analytics. CTOS' technology infrastructure is also horizontally and vertically scalable, connecting multiple levels of networks, servers and storages through virtualisation. These digitalisation efforts have increased the group's productivity and efficiency while also optimising costs and enhancing margins.

Defensive business model with product relevance across different economic cycles

High recurring income and customised solutions help maintain a stable revenue

Five digital banks will be selected to serve the underserved market segments in 2022

Credit assessments for underserved market segments require extensive database and analytical expertise

CTOS' ecosystem provides strong support during a digital bank's customer acquisition process

Digital banks to drive marketplace expansion and credit growth, benefitting CTOS

Competitive advantage over peers with full-fledged digitalised platform

Technological advancement drives efficiency and enhances margins

Valuation

Initiate coverage with a BUY call and target price of RM1.32. This is largely in line with the industry's 3-year PE mean of 37x (Figure 3) which we reckon is justifiable given its multi-year robust growth story. We like the company for: a) its growth potential as it is in a sweet spot to benefit from the credit growth which spurs demand for credit and risk information solutions; b) its digitalisation efforts and distinctive advantages when combining traditional datasets with advanced analytics and consumer contributed data, putting it ahead of its peers; c) it being a proxy to potential marketplace expansion, particularly the underserved market segments once digital banks commence operations; and d) vertical expansion and strategic acquisition to enhance customer base and market share. These factors will provide CTOS with a resilient 3-year net profit CAGR of 27% in 2021-23.

CTOS is expected to achieve a robust earnings CAGR of 27% for 2021-23

Potential risk from failure to extend group's pioneer status and tax incentives. CTOS' subsidiary, CTOS Data Systems, was awarded pioneer status incentives under the PIA 1986 for MSC Malaysia Qualifying Activities. As a result, the group's effective tax rate for 2018-20 was only 5-7%, significantly lower than the statutory tax rate of 24% in Malaysia. While its pioneer status has expired in Jun 21, CTOS has already submitted the application for an extension and remains confident for an extended relief period of five years until Nov 26. If the pioneer status of CTOS Data Systems is revoked or not renewed, though unlikely, our net profit forecasts for 2022-23 will be reduced by 18-19%.

Failure of tax incentive extension will reduce our 2022-23 net profit forecasts by 18-19%.

FIGURE 3: PEER COMPARISON

Company	Ticker	Rec	Share Price 1 Jul 21 (local currency)	Market Cap (US\$m)	PE			P/B			2022F Div Yield (%)
					2020 (x)	2021F (x)	2022F (x)	2020 (x)	2021F (x)	2022F (x)	
CTOS Digital	CTOS MK	BUY	RM1.10	580.9	61.7	37.8	33.2	8.5	8.5	8.3	1.8
Credit Bureau Asia	CBA SP	NOT RATED	S\$1.31	222.3	37.4	n.a.	n.a.	6.2	n.a.	n.a.	n.a.
Fair Isaac Corp	FICO US	NOT RATED	US\$511.04	14,397.6	56.7	40.6	34.7	46.1	43.5	26.6	-
Verisk Analytics Inc	VRSK US	NOT RATED	US\$206.89	28,657.7	34.8	34.5	30.1	11.2	9.5	9.2	0.7
TransUnion	TRU US	NOT RATED	US\$99.05	21,125.3	37.1	31.1	28.0	8.5	6.9	5.9	0.3
Dun & Bradstreet Holdings	DNB US	NOT RATED	US\$24.90	9,167.4	23.0	20.4	18.4	2.2	2.6	2.5	0.1
Equifax Inc	EFX US	NOT RATED	US\$192.10	29,351.0	36.0	34.3	28.5	9.2	7.8	6.9	0.7
GB Group PLC	GBG LN	NOT RATED	£934.21	2,265.3	78.9	34.8	46.8	5.0	n.a.	n.a.	0.5
Experian PLC	EXPN LN	NOT RATED	£2743.77	36,031.5	39.6	32.4	28.7	13.6	10.0	8.5	1.4
Sector					45.0	33.2	31.1	12.3	12.7	9.7	0.8

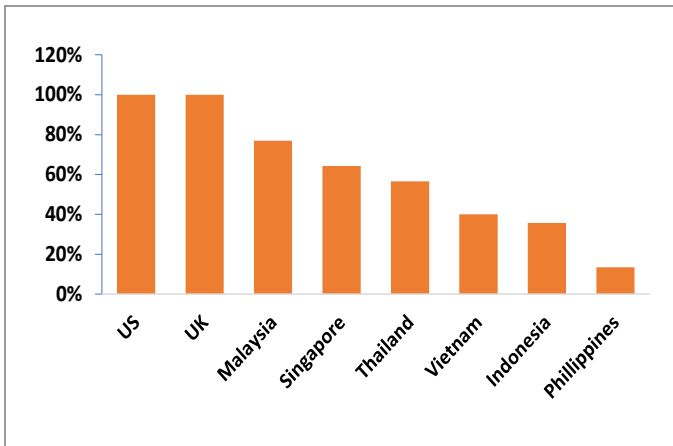
Sources: Bloomberg, UOB Kay Hian

Business And Industry Outlook

CTOS is a direct proxy to the robust growth of the ASEAN region’s credit reporting industry. Based on Independent market research carried out by IDC Malaysia, the penetration rate of credit reporting and solutions in Malaysia and neighbouring ASEAN markets, such as Thailand where CTOS has a presence, remains significantly lower when compared with developed market peers (Figure 4). This is measured by the respective countries’ credit bureau coverage of the population. The research by IDC Malaysia also forecasts ASEAN’s credit reporting market to record a much higher 5-year CAGR of 10.8% in 2021-25, compared with that of developed countries like the US (7.5%) and the UK (5.3%). Moving forward, we believe the greater demand for credit reporting services and other analytic services will narrow the gap between ASEAN and other developed countries, thus sustaining CTOS’ future growth.

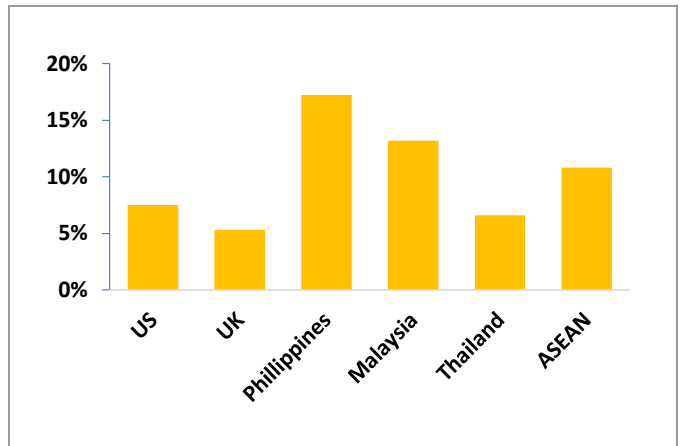
CTOS to ride on the ASEAN credit reporting market’s compelling growth

FIGURE 4: CREDIT BUREAU’S COVERAGE OF POPULATION (2019)



Source: IDC Malaysia, CTOS, UOB Kay Hian

FIGURE 5: CREDIT REPORTING INDUSTRY’S MARKET SIZE CAGR (2021-25)

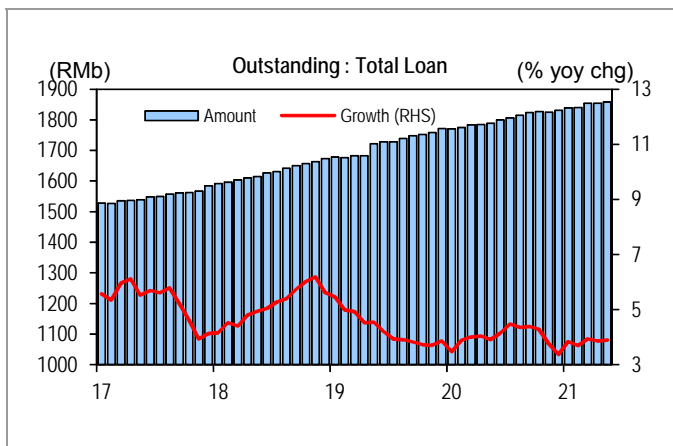


Source: IDC Malaysia, CTOS, UOB Kay Hian

Compelling long-term structural growth, tracing positive GDP and loans momentum. Based on BNM’s data, Malaysia is poised to deliver GDP growth of 6.0-7.5% in 2021. The anticipated progressive recovery after the disruption of COVID-19 is expected to stimulate loans growth momentum, complemented by accelerated commercial lending under the current low interest rate regime. We expect the credit reporting industry in Malaysia to tap on this credit demand growth, assuming more credit pulls result in potential income pulls for credit assessment solutions. Note that Malaysia’s loan growth recorded a healthy 5-year CAGR from 2017-21 (Figure 5).

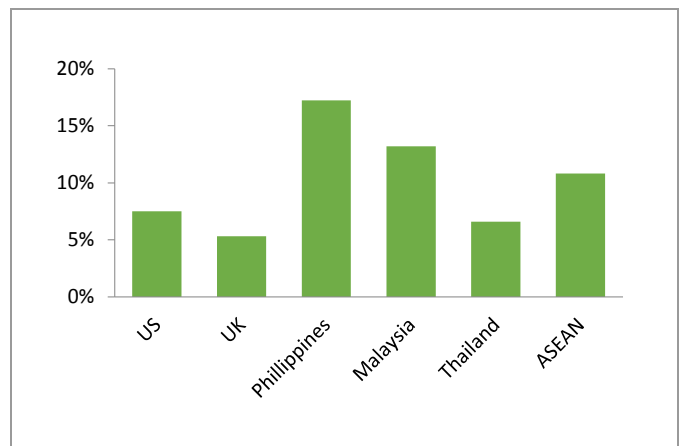
In a sweet spot to trace Malaysia’s loans growth and GDP uptick

FIGURE 6: MALAYSIA TOTAL LOANS GROWTH



Source: BNM, UOB Kay Hian

FIGURE 7: CREDIT REPORTING INDUSTRY’S CAGR (2021-25)



Source: IDC Malaysia, CTOS, UOB Kay Hian

Ample organic growth trajectory for credit reporting industry in Malaysia. Based on independent market research carried out by IDC Malaysia, Malaysia's credit reporting industry is expected to deliver a 5-year CAGR of 13.2% in 2021-25, much higher than that of developed countries such as the US and the UK. The forecasted growth will be largely driven by increasing financial literacy of the population, the growing SME segment, increasing demand for credit by businesses and consumers, as well as the introduction of digital banking or entry of fintech companies hailing from a variety of industries. Furthermore, Malaysia's credit reporting revenue per capita was significantly lower at RM6.86 in 2020, compared with that of the US (RM83.39) and the UK (RM59.38), signifying plenty of room for revenue growth in Malaysia. CTOS will be the direct beneficiary given its market leader position in Malaysia's credit reporting industry.

Ambitious goals to expand into new verticals including automobile, real estate and insurance sectors. CTOS aims to expand into new sectors with strong growth potential such as automobile, real estate and insurance. These sectors are typically present in global credit bureaus but relatively nascent and unique to the Malaysian credit reporting industry. CTOS has digital solutions in the pipeline that are related to motor vehicle checks and collections, which it aims to launch in the next two years based on current development timelines. CTOS also believes its analytics can be utilised to predict the associated risks of an insurance policy. We expect successful vertical expansion to be one of the key catalysts to fuel the group's earnings in the coming years.

Enormous credit database with extensive access to key financial databases. CTOS has a large credit database on individuals and businesses in Malaysia, having accumulated over 30 years of data in the industry since its establishment in 1990. Its database contains about 15m consumer profiles and 8m company and business profiles. CTOS sources information for their databases from a wide range of public sources including domestic governmental organisations and publicly available information. Its international data is sourced from Basis' network of global data partners. CTOS also manages its proprietary databases such as eTR, eTR Plus and CED, collecting trade references records and payment history from non-traditional information sources.

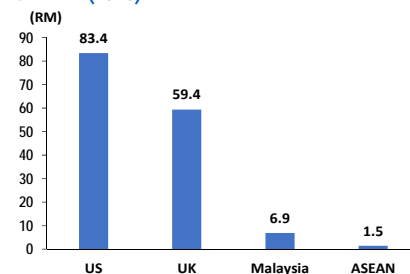
Extensive distribution network and sales force. Focusing on strong marketing and distribution strategies, CTOS' key account and commercial sales team consists of >170 employees and a 24/7 digital marketing team. Various marketing efforts, including brand networking events, digital marketing and advertising, are targeted at each of their different categories of customers. With a comprehensive service system and well-trained after-sales support team, CTOS' end-to-end credit management solutions have become an integral part of customers' daily business processes. Figure 8 summarises the group's revenue by customer type.

FIGURE 8: REVENUE BREAKDOWN

	FYE 31 December					
	2018		2019		2020	
	RM' 000	%	RM' 000	%	RM' 000	%
Malaysia						
Key Accounts	41,440	37.5	49,321	38.2	47,335	33.7
Commercial ⁽¹⁾	64,391	58.3	74,449	57.6	79,600	56.7
Direct-to-Consumer	4,634	4.2	5,371	4.2	6,290	4.5
Sub-Total	110,465	100.0	129,141	100.0	133,225	94.8
International B2B⁽²⁾	-	-	-	-	7,271	5.2
Total	110,465	100.0	129,141	100.0	140,496	100.0

Source: CTOS

FIGURE 9: CREDIT REPORTING REVENUE PER CAPITA (2020)



Source: IDC Malaysia, CTOS, UOB Kay Hian

Vertical expansion into automobile, real estate and insurance sectors to fuel group's future earnings

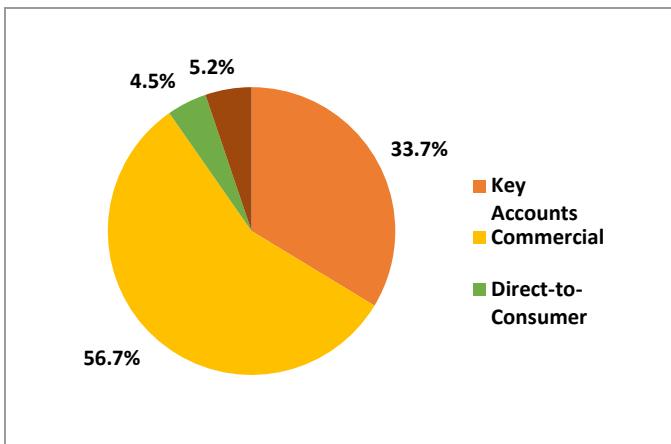
Extensive database of >30 years from various sources

Excellent marketing strategies and support system

Diversified customer base with long-term relationships. With over 30 years in operation, CTOS has developed long-standing relationships with a number of customers from different sectors. The group has four categories of customers: a) key accounts, b) commercial customers, c) direct-to-consumer businesses, and d) international B2B customers. Nonetheless, CTOS' revenue stream is highly-diversified and not dependent on the group's top five customers (who contributed only 14.2% of CTOS' revenue in 2020). Note that CTOS' top five major customers have been with the company for 8-19 years, and the group has retained 100% of its key account customers since 2017.

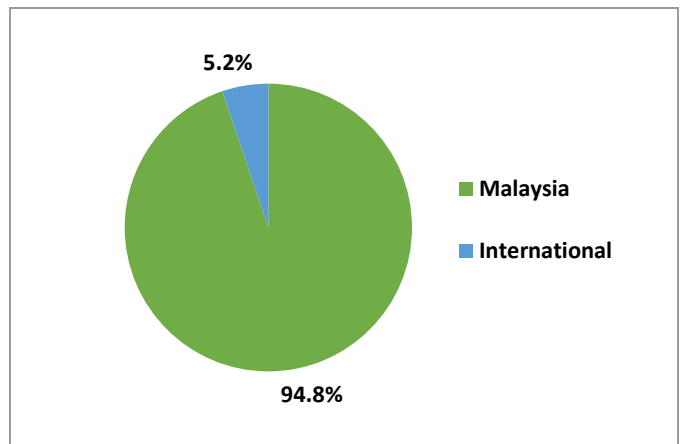
CTOS has retained 100% of its key customers since 2017

FIGURE 10: REVENUE BY SEGMENT (2020)



Source: CTOS, UOB Kay Hian

FIGURE 11: REVENUE BY GEOGRAPHY (2020)



Source: CTOS, UOB Kay Hian

Experienced management team to drive company forward. CTOS is spearheaded by an experienced management team with long-standing experience and knowledge in credit reporting and related industries globally. The group is led by Dennis Colin Martin (Group CEO) and supported by key personnel such as Chin Kuan Weng (CEO of CTOS Data Systems), Chen Thai Foong (Group CFO) and Tracy Gan Jo Lin (COO of CTOS Data Systems). All of them have more than 20 years of experience each in the credit reporting industry (Appendix II).

CTOS is spearheaded by a management team with >20 years' experience

Backed by well-known Malaysian private equity firm Creador. In 2014, Inodes, which is backed by Creador Group, a Malaysian mid-market private equity fund group, acquired a 70% equity interest in CTOS and has been the group's major shareholder since then. Inodes then further increased its equity stake in CTOS to 80% before the IPO. The Creador Group has played a crucial role in propelling the growth and expansion of CTOS' digital solutions over the past six years. During this period, CTOS has grown its commercial base, increased market share of wallet in their key accounts, penetrated new verticals and new capabilities, and expanded into new markets including Thailand.

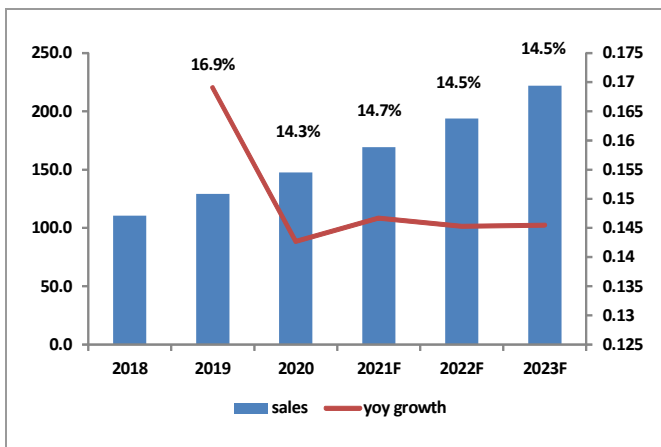
Creador has facilitated CTOS' development since 2014

Earnings Outlook

Organic growth and margins proved resilient in 2018-20. CTOS recorded a 2-year revenue CAGR of 16% from 2018 to 2020, underpinned by: a) deeper penetration into the consumer market, b) higher recurring income and sales of digital solutions, and c) contributions from strategic acquisitions of new associates and subsidiaries. All three major business segments recorded robust CAGR during the period – key accounts (+6.9%); commercial customers (+11.2%) and direct-to-consumer businesses (+17.0%). The group also sustained consistently high net margin of 26-30% in 2018-20, and was among the three top players in the industry in Malaysia.

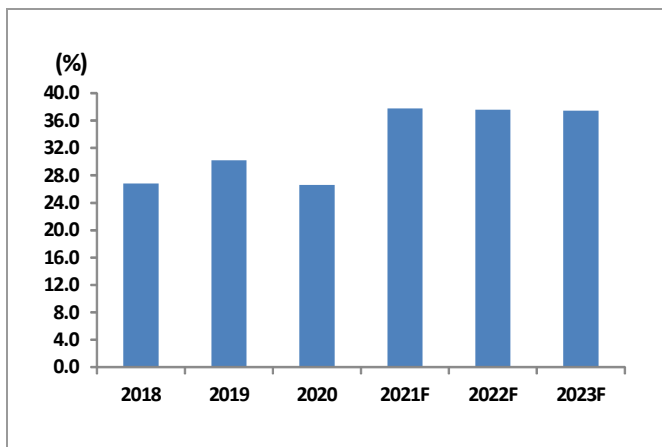
CTOS has the best margins and growth among peers

FIGURE 12: REVENUE



Source: CTOS, UOB Kay Hian

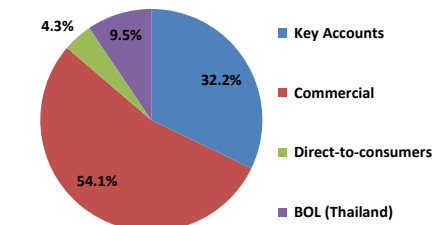
FIGURE 13: NET MARGIN



Source: CTOS, UOB Kay Hian

Forecasting a 3-year net profit CAGR of 27%. We estimate CTOS' core net profit at RM72.9m/RM83.1m in 2022/23, which implies earnings growth of 14% each year. This is on the back of a 3-year revenue CAGR of 15% whereby growth will be mainly driven by organic growth from Malaysia's operations and BOL's earnings contributions (10% annual revenue growth). This is also backed by better market penetration and sales of newly-launched credit solutions as well as customer base expansion. Meanwhile, we also expect the award of five digital banking licences in 2022 to progressively enhance the credit and loans growth in Malaysia, particularly in the underserved market segments.

FIGURE 15: FORECASTED REVENUE BY SEGMENT (2021F)



Source: CTOS, UOB Kay Hian

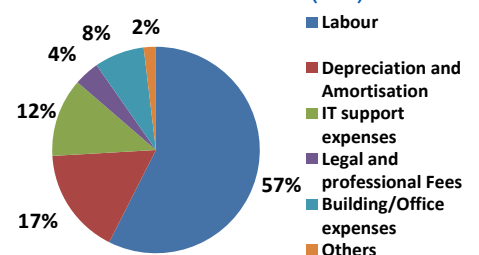
FIGURE 14: KEY ASSUMPTIONS

Year to 31 Dec	2021F	2022F	2023F
Key Accounts	54.4	62.6	72.0
Commercial	91.5	105.3	121.1
Direct-to-consumers	7.2	8.3	9.6
Malaysia Total	153.2	176.2	202.6
BOL (Thailand)	16.0	17.6	19.4
Total Revenue	169.2	193.8	222.0

Source: UOB Kay Hian

Cost structure analysis. CTOS' costs are skewed towards labour expenses and have remained relatively constant at about 57% of sales over time. Other sizeable chunks include depreciation and amortisation (17%), IT support (12%), building/office expenses (8%), legal and professional fees (4%) and others (2%). We notice that CTOS' business model has low variable costs and expect a meaningful margins uptick when sales grow. In our earnings assumptions, we forecasted a lower COGS (13%) for 2021-23, which is lower than its 2018-20 COGS of 15-17%.

FIGURE 16: COST BREAKDOWN (2020)



Source: CTOS, UOB Kay Hian

Dividend payout ratio of 60%; prospective yield of 1.8%. While CTOS targets a 60% dividends payout after listing, the group has been paying out dividends of 57-63% of net profit in 2018-19. Assuming a payout of 60%, we expect 1.7 sen and 2.0 sen to be declared in 2021 and 2022, which will give a prospective yield of 1.6% and 1.8% respectively.

Financial Statements

FIGURE 17: PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Net turnover	148	169	194	222
EBITDA	37	64	73	83
Deprec. & amort.	(8)	(5)	(6)	(6)
EBIT	45	69	78	89
Associate contributions	n.a.	n.a.	n.a.	n.a.
Net interest income/(expense)	(8)	0	0	0
Pre-tax profit	37	69	78	89
Tax	(3)	(5)	(5)	(6)
Minorities	1	0	0	0
Net profit	35	64	73	83
Net profit (adj.)	35	64	73	83

Source: CTOS, UOB Kay Hian

FIGURE 18: BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Fixed assets	16	19	20	22
Other LT assets	231	231	231	230
ST debt	n.a.	n.a.	n.a.	n.a.
LT debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	58	77	99	125
Other current assets	24	27	31	36
Total assets	330	354	381	413
Other current liabilities	26	28	31	35
Other LT liabilities	10	10	10	10
Shareholders' equity	288	316	341	369
Total liabilities & equity	330	354	381	413

Source: CTOS, UOB Kay Hian

FIGURE 19: CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Operating	52	64	73	83
Pre-tax profit	42	69	78	89
Tax	(2)	(5)	(5)	(6)
Deprec. & amort.	8	5	6	6
Associates	(6)	0	0	0
Working capital changes	(2)	(3)	(1)	(1)
Non-cash items	1	(2)	(5)	(5)
Investing	(134)	(7)	(7)	(7)
Capex (growth)	(7)	(7)	(7)	(7)
Investments	(127)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	85	(38)	(44)	(50)
Dividend payments	(11)	(38)	(44)	(50)
Proceeds from borrowings	226	0	0	0
Loan repayment	(120)	0	0	0
Others/interest paid	(10)	0	0	0
Net cash inflow (outflow)	3	19	22	26
Beginning cash & cash equivalent	6	58	77	99
Changes due to forex impact	0	n.a.	n.a.	n.a.
Ending cash & cash equivalent	58	77	99	125

Source: CTOS, UOB Kay Hian

FIGURE 20: KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	25.0	37.6	37.5	37.6
Pre-tax margin	24.8	40.6	40.4	40.2
Net margin	23.7	37.8	37.6	37.4
ROA	14.8	18.7	19.8	20.9
ROE	19.0	21.2	22.2	23.4
Growth				
Turnover	14.3	14.7	14.5	14.5
EBITDA	(11.7)	72.7	14.4	14.6
Pre-tax profit	(9.6)	87.6	14.0	14.0
Net profit	(8.7)	83.2	14.0	14.0
Net profit (adj.)	(8.7)	83.2	14.0	14.0
EPS	(8.7)	83.2	14.0	14.0
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	(20.1)	(24.3)	(29.1)	(34.0)
Interest cover (x)	4.6	n.a.	n.a.	n.a.

Source: CTOS, UOB Kay Hian

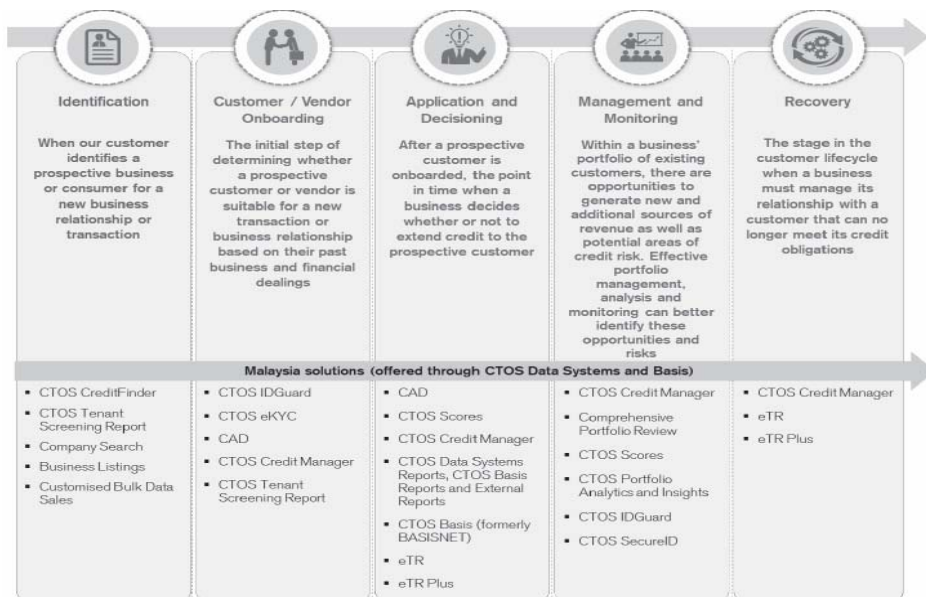
Appendix I: Company Background

Established in 1990, CTOS is Malaysia's leading CRA under the purview of the Registrar Office of Credit Reporting Agencies, Ministry of Finance and regulated under the Credit Reporting Agencies Act 2010.

CTOS's principal activity is investment holding while its subsidiaries are primarily involved in the business of credit reporting, digital software-related services, software development, outsourcing and training services, and investment holding. Meanwhile its associates are mainly involved in the business of credit reporting, information services, development of local and global financial information systems, online and offline business information services, consulting services, debt collection services and database management. The group 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 and provides credit information and analysis to consumers.

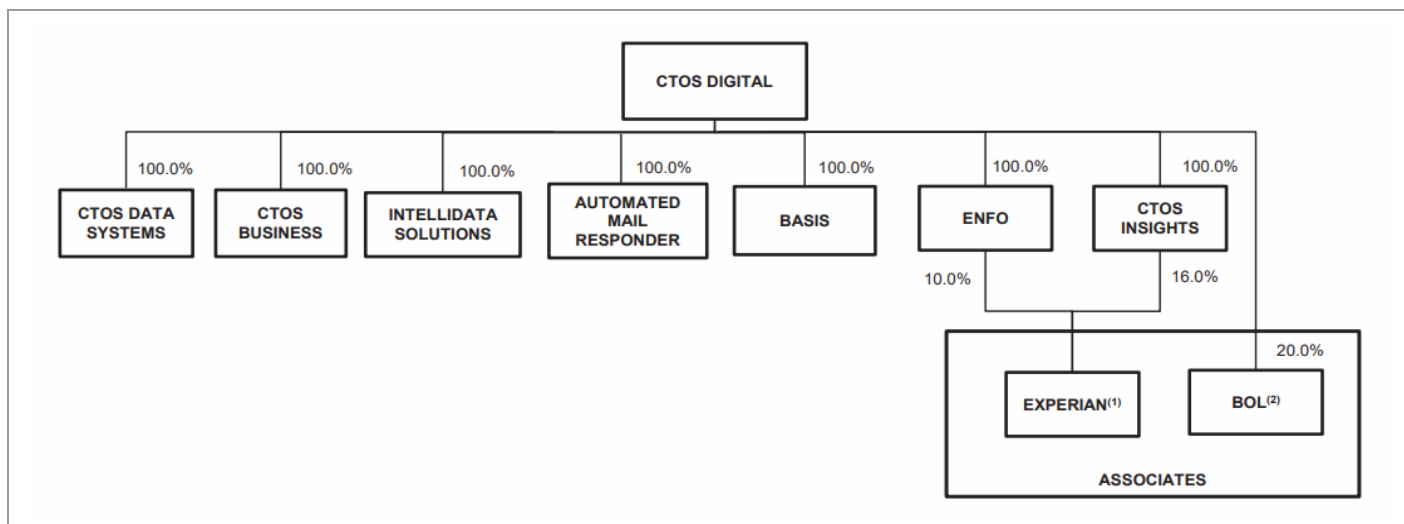
The stages of the customer lifecycle and the digital solutions that CTOS offers at each stage are summarised below:

STAGES OF CUSTOMER LIFECYCLE



Source: CTOS

GROUP STRUCTURE



Source: CTOS

CTOS derives its revenue primarily from Malaysia and mainly serves three types of customers – key accounts, commercial, and direct-to-consumer. From 2018 to 2020, its percentage of group revenue was mainly contributed by customers from commercial (57-58%) followed by key accounts (34-38%) and direct-to-consumer (4%). Revenue from the key accounts segment is reliable and consistent with 75% recurring and 25% transaction-based.

- **Key accounts customers.** These are the highest revenue-generating customers and selected customers including those with complex requirements. CTOS has around 430 key accounts which include Malaysian banks and corporates.
- **Commercial customers.** These are Malaysian commercial customers including SMEs, other than key accounts in industries like financial services, telecommunications, wholesale and retail trade, manufacturing, construction, professional services, and insurance. CTOS has about 17,000 commercial customers.
- **Direct-to-consumer customers.** These are retail consumers. CTOS provides them with credit scores and detailed information to help them understand and manage their credit health and improve their financial literacy. This includes information from Central Credit Reference Information System (CCRIS), and on directorships, business interests, litigation cases and trade references.

Meanwhile, in recent years, CTOS has also expanded via acquisitions and investments in related businesses. These include the acquisitions of:

- A 26.0% equity interest in Experian, a Malaysian CRA which is majority owned by a company associated with Experian Plc in Jul 19.
- A 51.0% equity interest in CIBI, a credit bureau in the Philippines, in Jun 20. However, CTOS had on 15 Jun 21 completed the distribution by way of dividend-in-specie of its entire equity interest in CIBI to existing shareholders. The decision to exclude CIBI was on the basis that further investments are needed to capture growth opportunities in the Philippines.
- A 20.0% equity interest in BOL in Oct 20. BOL is among the largest credit and company information bureaus in Thailand. Its principal activities include provision of local and global financial information systems, as well as consulting services, debt collection and database management.
- A 100.0% equity interest in Basis in Jan 21. Basis is principally involved in credit reporting with a focus on comprehensive commercial credit reports. The acquisition has expanded CTOS' range of international business reports and provided the group with a complementary base of international customers in various industries across Asia Pacific and Europe.

IPO ISSUE STATISTICS

- Offer Size:** a) 200.0m of New Ordinary Shares
- Eligible persons – 120.0m shares
 - Malaysian public – 44.0m shares
 - Institutional investors – 36.0m shares
- b) 900.0m of Offer For Sales
- Institutional investors – 900.0m shares

Price: RM1.10

Net Asset Per Share (post-IPO): RM0.13

Historical PE: 61.8x (FY20)

Market Cap (post-IPO): RM2,420.0m

Open: 30 Jun 21

Close: 6 Jul 21

Listing Date: 19 Jul 21

Joint Principal Advisers, Joint Global Coordinators, Joint Bookrunners, Joint Managing Underwriters and Joint Underwriters: Maybank Investment Bank Bhd, RHB Investment Bank Bhd

Joint Global Coordinators and Joint Bookrunners: Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse (Singapore) Ltd

Joint Bookrunner, Joint Managing Underwriter and Joint Underwriter: AmlInvestment Bank Bhd

Source: Prospectus, UOB Kay Hian

USE OF IPO PROCEEDS

The intended use of the expected gross proceeds from the proposed public issue is as follows:

	(RMm)	(%)	Expected Timeframe for Utilisation from the Date of Listing
Repayment of Bank Borrowings	155.2	70.5	Within 3 months
Defray Fees and Expenses for Its IPO and Listing	6.1	2.8	Within 6 months
Acquisitions to be Identified	58.7	26.7	Within 36 months
Total	220.0	100.0	

Source: Prospectus

COMPETITIVE STRENGTHS

- The group has developed a fully digital platform for end-to-end credit management that provides its customers with an automated and seamless user experience.
- Visible growth upside with the penetration of credit reporting and credit management solutions in Malaysia and neighbouring ASEAN markets as these regions are a fraction of the developed market peers.
- An extensive distribution network and sales force, supported by a well-trained after-sales support team to ensure strong customer acquisition and retention.
- A large credit database on individuals and businesses in Malaysia with extensive access to key financial databases.
- A strong financial profile – robust growth, high margins and consistent ROE.

BUSINESS STRATEGY AND FUTURE PLANS

- Intends to continue to invest in further developing and extending its ecosystem of end-to-end credit management solutions.
- Will continue to deepen and broaden its data sources.
- Aims to expand into new verticals including the automobile, real estate and insurance sectors.
- Aims to maintain and grow its current market-leading share for CRA services in Malaysia.
- May selectively pursue acquisitions and investments in companies as part of its growth strategy.

Appendix II: Management Overview

Dennis Colin Martin, Group CEO. Mr Dennis has more than 20 years of experience in the credit reporting industry, including leading roles at Experian Asia Pacific Holdings and Dun & Bradstreet (New Zealand). He also previously served in different roles with Baycorp Advantage (New Zealand), a credit bureau based in Australia and New Zealand. Prior to his career in the credit reporting industry, he worked for more than 15 years in the banking industry, including with Bank of New Zealand (now part of National Australia Bank).

Chin Kuan Weng, CTOS Data Systems' CEO. Mr Chin has over 25 years of experience in senior leadership roles in business, sales and operational functions for multinationals and local corporates. He joined CTOS Group in 2014 and has since been involved in the management of key accounts. He was previously the COO of Credit Bureau Malaysia.

Chen Thai Foong, Group CFO. Ms Chen has over 32 years of experience in finance and treasury. Before joining CTOS, she held CFO positions in DHL Express (M) and Taylor's Education.

Tracy Gan Jo Lin, CTOS Data Systems' COO. Ms Gan has more than 23 years of experience in operations. Prior to joining CTOS, she held various key roles in different companies, such as General Manager for Customer Service and Human Resources at e-pay (M), Head of Customer Operations at TIME dotCom and Head of Distributor and Modern Trade Management at Maxis.

MANAGEMENT TEAM



Dennis Colin Martin



Chin Kuan Weng



Chen Thai Foong



Tracy Gan Jo Lin

Source: CTOS

Appendix III: Risk Factors

Failure to comply with government's regulations, laws and orders. CTOS and its associates' businesses are subject to various governmental regulations, laws and orders, including the CRA Act in Malaysia. These laws and regulations are complex and may change from time to time, and a failure to comply with them could subject CTOS and its associates to civil or criminal penalties or other liabilities. CTOS's CRA certificates held under its subsidiaries, CTOS Data Systems and Basis, will also expire in Sep 21. Failure to renew the CRA certificates in a timely manner or at all would negatively impact the group's business, financial conditions and results of operations.

Losing access to external data sources and providers. CTOS is dependent on continued access to and receipt of data from external sources, including data obtained directly or indirectly from their customers, strategic partners and various government and public record repositories such as the CCRIS and the Companies Commission of Malaysia in Malaysia, and the Department of Business Development in Thailand. If the group's access to external data sources is reduced or if such data becomes more expensive to obtain, the group's ability to provide digital solutions could be negatively impacted and adversely affect their business operations. Governmental agencies may also provide free credit information to consumers. For example, in Jun 20, BNM began providing free access to its CCRIS database which will continue until end-21, which has reduced the group's revenue.

Failure to maintain integrity of databases. The integrity and reliability of information databases are critical to CTOS' financial conditions, results of operations, brand and reputation. Any staleness or inaccuracy of information in the group's databases, if not rectified in a timely manner, may result in enforcement actions from regulators. Furthermore, if the quality of the group's databases decreases or is compromised, CTOS may face customer or third-party claims and loss of customers' confidence.

Inability to extend group's pioneer status and losing tax incentives. CTOS' subsidiary, CTOS Data Systems, has been awarded pioneer status incentives under the PIA 1986 for MSC Malaysia Qualifying Activities. As a result, the group's effective tax rate for 2018-20 is only 5-7%, much lower than the statutory tax rate of 24% in Malaysia. Its pioneer status expired in Jun 21, and CTOS has already submitted the application for an extended relief period of five years until Nov 26. If the pioneer status of CTOS Data Systems is revoked or not renewed, CTOS Data Systems' statutory income would be subject to the prevailing statutory tax rate of 24%, which in turn would adversely impact the group's earnings.

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