October 3, 2021

Maybank IB Research

CTOS Digital Berhad (CTOS MK)

Temporary suspension to CCRIS access

A temporary setback action

The suspension of access to CCRIS is merely a precautionary exercise by BNM, and we expect the service to resume once CRAs have re-evaluated the integrity of their data systems. CTOS maintains a robust data security system, we believe, and while this is a temporary setback, we expect minimal financial impact to the group. We maintain a BUY call on the stock with an unchanged TP of MYR2.17, based on FY22E 2.6x target PEG, in-line with the median of its global peers' basket.

A precautionary measure

CTOS has announced that BNM has issued a letter/directive to all Credit Reporting Agencies (CRAs), of a temporary suspension of access to the central bank's Central Credit Reference Information System (CCRIS), with effect form 1 Oct 2021. This, as we understand, is just a precautionary measure taken by BNM in light of recent press reports of alleged data leakages at Government agencies. We understand that access to CCRIS will be restored once the CRAs have had the opportunity to re-evaluate the integrity of their data security systems. CTOS says it will momentarily halt reports and services containing CCRIS information on its platform.

Maintains a robust data security system

Upholding customer data security remains a key priority at CTOS. Apart from constant monitoring, it conducts quarterly internal data leakage prevention reviews, and is subject to annual external IT audits to ensure compliance with BNM's RMiT requirements. There are no reported cases of data security compromise at CTOS in the past that we are aware of.

Minimal financial impact expected

CTOS does not profit from CCRIS data, which are currently provided free to consumers. It does, however, bundle the CCRIS data into, among others, its own CTOS credit reports, which are then sold to customers. The sale of reports amounted to MYR27m in 1H21 and accounted for 36% of revenue. If we hypothetically assume a 1-month revenue loss of about MYR4.6m from report sales, the impact to our FY21 net profit forecast would be minimal at about 5%. Thus, we maintain our FY21-23E forecast, valuation multiple and TP unchanged for now.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	129	140	161	186	213
EBITDA	48	51	62	82	95
Core net profit	39	41	55	72	86
Core EPS (sen)	1.8	1.9	2.5	3.3	3.9
Core EPS growth (%)	33.1	5.0	31.5	31.4	20.0
Net DPS (sen)	1.0	0.5	1.5	2.0	2.3
Core P/E (x)	na	na	77.5	58.9	49.1
P/BV (x)	na	na	13.6	12.5	11.3
Net dividend yield (%)	na	na	0.8	1.0	1.2
ROAA (%)	71.6	21.6	15.9	19.3	21.2
EV/EBITDA (x)	88.0	82.5	66.9	50.4	42.8
Net gearing (%) (incl perps)	nm	net cash	net cash	net cash	net cash
Consensus net profit	-	-	50	73	89
MKE vs. Consensus (%)	-	-	9.3	(1.1)	(3.1)

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BUY

Share Price	MYR 1.92
12m Price Target	MYR 2.17 (+13%)
Previous Price Target	*MYR 2.17*

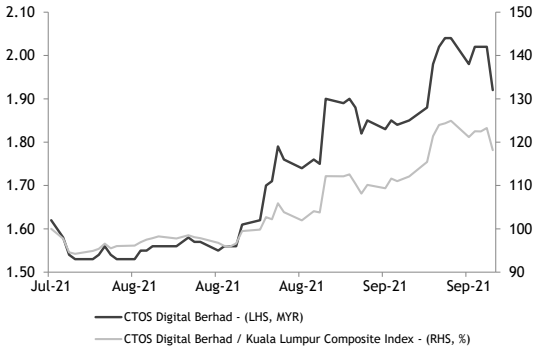
Company Description

CTOS Digital is a credit rating agency, principally involved in the business of credit reporting, digital related services, and investment holding.

Statistics

52w high/low (MYR)	na/na
3m avg turnover (USDm)	14.7
Free float (%)	50.9
Issued shares (m)	2,200
Market capitalisation	MYR4.2B
	USD1.0B
Major shareholders:	
Inodes Ltd.	40.0%
CHUNG TZE KEONG	4.5%
CHUNG TZE WEN	4.5%

Price Performance



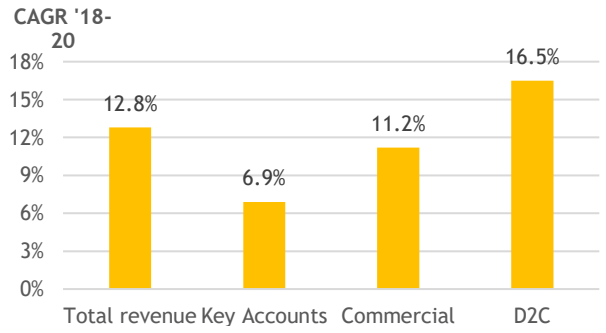
	-1M	-3M	-12M
Absolute (%)	9	na	na
Relative to index (%)	14	na	na

Source: FactSet

Value Proposition

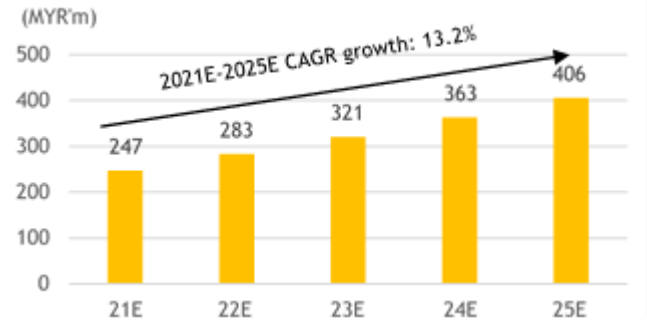
- CTOS Digital is the market leading credit reporting agency in Malaysia with a 71.2% revenue market share in 2020, while 20%-owned BOL is the largest company information bureau in Thailand, with an estimated 59% market share.
- With over 30 years of experience, the company has an extensive database of about 15m consumer profiles and 8m company and business profiles. CTOS Digital is said to have one of the largest trade reference databases in Malaysia.
- CTOS Digital caters to three types of customers: Key Accounts, Commercial and Direct-to-Consumer ("D2C"). The group have 430 Key Accounts, 17,000 commercial customers and 1.4 million users registered for a CTOS ID account.

2-year revenue CAGR (2018-2020) by customer type



Source: Company

Industry outlook



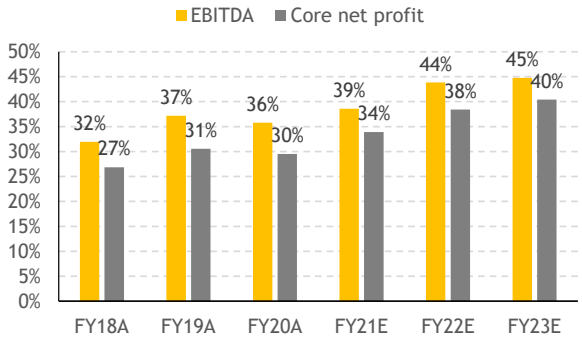
Source: Company, Maybank Kim Eng

- According to *IDC Market Research (Malaysia) Sdn Bhd ("IDC")*, the revenue of the credit reporting industry in ASEAN totalled MYR991m in 2020.
- *IDC* estimates the size of Malaysia's credit reporting industry to be MYR225m in 2020 (i.e. 23% the size of the ASEAN market).
- The domestic market expanded at a 5-year CAGR (2016-2020) of 12.9%, and IDC predicts that it will continue to grow in revenue at a 5-year CAGR (2021E-2025E) of 13.2%.
- IDC projects a 2021E-2025E revenue CAGR of 28.2% in respect of Malaysia's total addressable market. High growth sectors with a CAGR of 40% from 2016-2025E would be automotive, media technology, insurance, real estate, retail and healthcare.

Financial Metrics

- We project a 3-year (FY20-FY23E) core net profit CAGR of 28%, driven primarily by growth across all customer segments and average revenue per customer (i.e. from new offerings, new verticals, more value-added products).
- Our forecasts have imputed annual customer/account growth of +5-10% YoY.
- We expect profit margins to improve as the group is able to enjoy greater economies of scale (i.e. improving revenue and relatively stable costs).
- 60% dividend payout policy with low capital expenditure ("capex") requirements. Free cash flow generation is estimated to range between MYR51m-87m in FY21-FY23E.

EBITDA and core net profit margins (FY18-FY23E)



Source: Company

Swing Factors

Upside

- Greater marketing efforts amid an improved economic situation would drive accounts growth.
- The launch of new digital solutions and the penetration of new sectors will spur faster adoption and demand for CTOS Digital's services.
- Expansion into new regional markets or potential synergistic M&As that could further broaden the group's reach and market share.

Downside

- Slower-than-expected economic growth, particularly as a result of an extended COVID-19 pandemic that leads to more severe lockdowns, as this would negatively impact demand, particularly from SMEs.
- Breaches in security/compliance that could result in the revocation of its CRA Certificate or breaches to the Personal Data Protection Act.
- The entry of new players into the credit reporting space that could eventually erode the group's market share.

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FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	na	na	77.5	58.9	49.1
Core P/E (x)	na	na	77.5	58.9	49.1
P/BV (x)	na	na	13.6	12.5	11.3
P/NTA (x)	na	na	18.3	16.3	14.4
Net dividend yield (%)	na	na	0.8	1.0	1.2
FCF yield (%)	na	na	1.2	1.7	2.1
EV/EBITDA (x)	88.0	82.5	66.9	50.4	42.8
EV/EBIT (x)	nm	97.4	76.5	57.3	47.2
INCOME STATEMENT (MYR m)					
Revenue	129.1	140.5	160.7	186.5	212.9
EBITDA	48.0	50.5	62.0	81.8	95.4
Depreciation	(6.3)	(7.3)	(7.3)	(9.5)	(8.4)
Amortisation	0.0	(0.4)	(0.4)	(0.4)	(0.4)
EBIT	41.7	42.8	54.3	71.8	86.6
Net interest income /(exp)	(1.2)	(4.2)	0.0	0.0	0.0
Associates & JV	0.8	1.8	1.8	1.9	2.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	41.2	40.3	56.1	73.7	88.5
Income tax	(2.2)	(2.4)	(3.3)	(4.3)	(5.1)
Minorities	0.0	1.2	1.7	2.2	2.7
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	39.0	39.2	54.5	71.7	86.0
Core net profit	39.5	41.5	54.5	71.7	86.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments		58.0	75.5	104.3	139.5
Accounts receivable		23.8	27.3	31.7	36.2
Inventory		0.0	0.0	0.0	0.0
Property, Plant & Equip (net)		16.3	21.1	18.6	17.2
Intangible assets		79.1	79.1	79.1	79.1
Investment in Associates & JVs		150.8	150.8	150.8	150.8
Other assets		1.5	1.5	1.5	1.5
Total assets		**329.5**	**355.3**	**386.0**	**424.3**
ST interest bearing debt		0.0	0.0	0.0	0.0
Accounts payable		21.9	25.8	27.8	31.8
LT interest bearing debt		0.0	0.0	0.0	0.0
Other liabilities		20.0	20.0	20.0	20.0
Total Liabilities		**41.5**	**45.4**	**47.4**	**51.4**
Shareholders Equity		288.1	309.9	338.6	373.0
Minority Interest		0.0	0.0	0.0	0.0
Total shareholder equity		**288.1**	**309.9**	**338.6**	**373.0**
Total liabilities and equity		**329.5**	**355.3**	**386.0**	**424.3**
CASH FLOW (MYR m)					
Pretax profit		40.3	56.1	73.7	88.5
Depreciation & amortisation		7.7	7.8	9.9	8.8
Adj net interest (income)/exp		0.0	0.0	0.0	0.0
Change in working capital		(1.9)	0.5	(2.4)	(0.5)
Cash taxes paid		(2.4)	(3.3)	(4.3)	(5.1)
Other operating cash flow		1.2	1.7	2.2	2.7
Cash flow from operations		51.5	62.8	79.2	94.3
Capex		(4.7)	(12.1)	(7.0)	(7.0)
Free cash flow		46.8	50.7	72.2	87.3
Dividends paid		(10.5)	(32.7)	(43.0)	(51.6)
Equity raised / (purchased)		0.0	0.0	0.0	0.0
Change in Debt		122.3	0.0	0.0	0.0
Other invest/financing cash flow		(160.5)	(12.5)	(7.4)	(7.4)
Effect of exch rate changes		(0.2)	0.0	0.0	0.0
Net cash flow		(2.2)	5.4	21.8	28.2

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	16.9	8.8	14.4	16.0	14.2
EBITDA growth	36.1	5.2	22.8	31.8	16.6
EBIT growth	30.7	2.6	26.8	32.4	20.5
Pretax growth	29.7	(2.2)	39.1	31.4	20.0
Reported net profit growth	31.5	0.5	39.2	31.4	20.0
Core net profit growth	33.1	5.1	31.5	31.4	20.0
Profitability ratios (%)					
EBITDA margin	37.2	35.9	38.6	43.8	44.8
EBIT margin	32.3	30.4	33.8	38.5	40.7
Pretax profit margin	31.9	28.7	34.9	39.5	41.6
Payout ratio	55.7	26.8	60.0	60.0	60.0
DuPont analysis					
Net profit margin (%)		27.9	33.9	38.4	40.4
Revenue/Assets (x)		0.4	0.5	0.5	0.5
Assets/Equity (x)		1.1	1.1	1.1	1.1
ROAE (%)		na	na	na	na
ROAA (%)		21.6	15.9	19.3	21.2
Liquidity & Efficiency					
Cash conversion cycle		nm	nm	nm	nm
Days receivable outstanding		30.5	57.2	56.9	57.4
Days inventory outstanding		nm	nm	nm	nm
Days payables outstanding		206.6	381.6	398.4	387.6
Dividend cover (x)		3.7	1.7	1.7	1.7
Current ratio (x)		2.6	2.9	3.6	4.2
Leverage & Expense Analysis					
Asset/Liability (x)		7.9	7.8	8.1	8.3
Net gearing (%) (incl perps)		net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)		net cash	net cash	net cash	net cash
Net interest cover (x)		10.1	nm	nm	nm
Debt/EBITDA (x)		0.0	0.0	0.0	0.0
Capex/revenue (%)		3.3	7.5	3.8	3.3
Net debt/ (net cash)		(58.0)	(75.5)	(104.3)	(139.5)

Source: Company; Maybank

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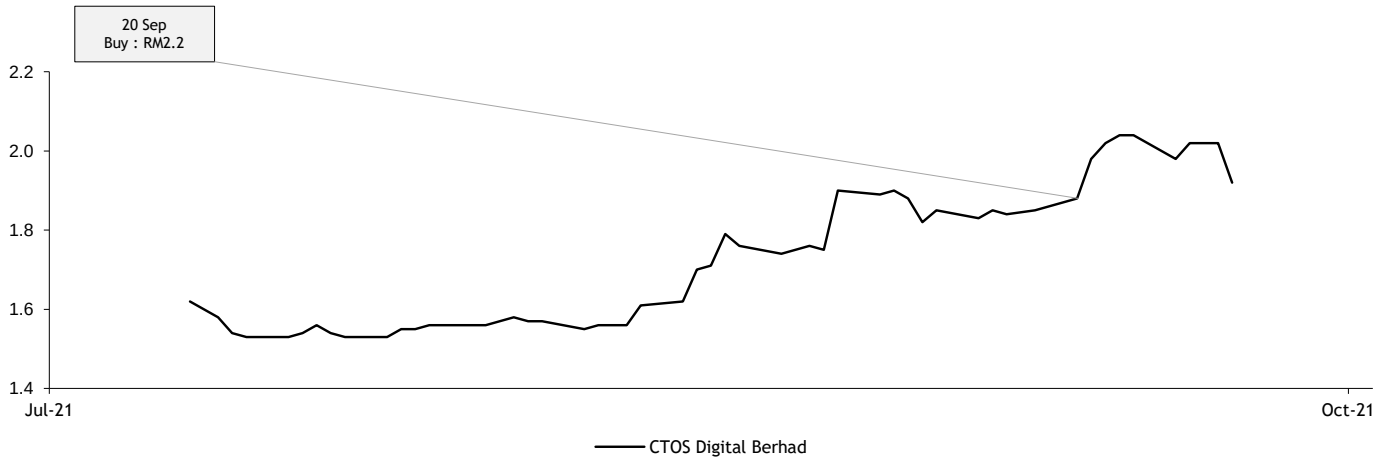

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