

## UOBKH HIGHLIGHTS

### CTOS Digital (CTOS MK/HOLD/RM1.92/Target: RM1.71)

BNM Temporarily Suspended CCRIS Services To Credit Reporting Agencies

#### WHAT'S NEW

CTOS Digital (CTOS) announced that Bank Negara Malaysia (BNM) has temporarily suspended the Central Credit Reference Reporting System (CCRIS) services to all the credit reporting agencies in Malaysia.

#### COMMENT

- **BNM suspended CCRIS services to all CRAs.** Last Friday, CTOS made an announcement that its wholly-owned subsidiary – CTOS Data Systems had received a letter from BNM relating to the temporary suspension of access to the CCRIS for all the Credit Rating Agencies (CRAs) effective 1 Oct 21.
- **Rationale of BNM's CCRIS suspension.** We understand that the temporary suspension is a proactive, precautionary and necessary step against potential cyber threats and the possibility of data leak incidents in the credit reporting agency; the suspension is applicable to all CRAs in Malaysia and not only CTOS. CTOS' group chief executive officer (CEO) Dennis Martin also assured that as of now, there are no indications that its data assets had been breached. Therefore, we rule out the risk of CTOS losing access to the CCRIS database in the future and believe that the suspension will be lifted once the issue is resolved.
- **BNM has been providing free access to CCRIS since Jun 20.** To note, BNM has implemented a full waiver of the fees charged for extracting CCRIS reports and allowed free access to its CCRIS database from Jun 20 to end-21. The free access is to help financial institutions establish a view of the credit histories of potential or current borrowers during the challenging COVID-19 period. In compliance with BNM's measures and to encourage more people to take the first step towards managing their financial health, CTOS has been offering free MyCTOS reports with CCRIS' information for consumers as part of the nationwide financial empowerment campaign.
- **Minimal impacts to our FY21 earnings forecasts.** While CTOS will momentarily halt reports and services containing CCRIS information in its platform, the financial impacts to our FY21 earnings forecast are not meaningful as we have not factored in any revenue from CCRIS-related reports in our earnings projection earlier, having factored in the CCRIS fee waiver that initially would last till end-21. Nevertheless, potential earnings impact is about 6-7% of our FY22 revenue forecasts if the suspension is not lifted throughout entire 2022, which we deem unlikely. Our assumptions are premised on CTOS recording a RM6.2m higher revenue in 1H21 without the CCRIS fee waiver.
- **CTOS offers free dark web monitoring to all Malaysians for one month.** On a separate note, CTOS is making dark web monitoring available to all Malaysians through its SecureID free of charge for one month, effective 4 Oct. To note, CTOS SecureID's data breach and dark web monitoring feature scans the dark web for information that consumers have provided consensually, and the system will send an alert or notification to users if their information turns up on the dark web. With this, consumers are able to take action and protect themselves by changing their passwords or shutting down certain accounts. We are positive on the offer as it allows CTOS to showcase its SecureID platform to consumers and garners more subscription for its services moving forward.

#### EARNINGS REVISION

- None.

#### RECOMMENDATION

- **Maintain HOLD with higher target price of RM1.71.** Our revised target price of RM1.71 implies a 51x 2022F PE (+1SD above mean). This also implies a PEG ratio of 1.4x, taking into account CTOS' impressive 2-year EPS CAGR of 36% in FY21-23, which we reckon is justifiable given that CTOS is a high growth company with a multi-year robust growth history and is the direct proxy to the growing demand for credit reporting in Malaysia. We expect the stock to continue delivering resilient earnings growth in 2021-23, and look forward to more value-accretive expansion. However, lofty valuations after the recent steep share price rally might increase the company's vulnerability to significant profit taking.

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