

18 October 2021

Financial Services | Speciality Finance

CTOS Digital (CTOS MK)

Buy (Maintained)

Only Getting Better; Keep BUY

Target Price (Return): MYR2.42 (17.5%)
Price (Market Cap): MYR2.06 (USD1,090m)
ESG score: n/a
Avg Daily Turnover (MYR/USD) 54.0m/12.9m

- **Keep BUY with a higher TP MYR2.42 from MYR2.36, 17% upside, 1% yield.** CTOS' 9M21 results were above our expectations on more resilient than expected revenue during 3Q21. Key account still showed sequential growth while commercial revenue was only slightly lower QoQ amidst lockdown. We expect growth momentum to pick up and deem the temporary CCRIS suspension a minor hiccup, which should only affect October's revenue. We raise FY21F earnings by 10% and FY23F earnings by 6%. Briefing is on Wednesday, Oct 20.

- **Outlook and RHB's thoughts.** CTOS continued to show strong business resilience even amidst the lockdown during 3Q21. Revenue (flat QoQ) was more resilient than we predicted, especially the commercial segment which was only 2% lower QoQ. We expect revenue growth momentum to pick up, driven by the digitalization trend and recovery of the overall economy. The temporary suspension of the central credit reference information system (CCRIS) will affect October's revenue but pose no material threat to FY21F's performance, according to the company. Briefing will be held on October 20 at 10am.

- **9M21 beat.** CTOS' 9M21 reported PATAMI grew 19% YoY to MYR31.8m. However, core PATAMI (adjusted for the MYR5.47m listing expenses) jumped 39% YoY, mostly driven by 16% YoY revenue growth. The results were above our expectation. Normalized PATAMI (adjusted for non-recurring items) was also 48% YoY higher at MYR46.6m. The group declared a 0.32 sen interim DPS, implying a 60% payout.

- **3Q21 earnings drivers.** Reported PATAMI of MYR11.7m was only 5% higher YoY but core PATAMI (ex-listing expenses) jumped 42% QoQ/54% YoY to MYR17.1m based on our estimates. Revenue grew 13% YoY but was flat QoQ, likely due to the lockdown-induced slowdown. Both commercial (-2%) and direct-to-consumer (-11%) segments saw QoQ weakness but key accounts segment bucked the trend and grew 10% QoQ/15% YoY. Opex amount was fairly steady QoQ as business activity slowed during the quarter.

- **Earnings and forecasts.** We revised FY21F earnings by 10% largely due to the more-resilient-than-expected revenue. That said, we believe our forecast is conservative enough to absorb any impact arising from the CCRIS suspension. We also raised FY23F earnings by 6% in anticipation of the wider adoption of digital banks.

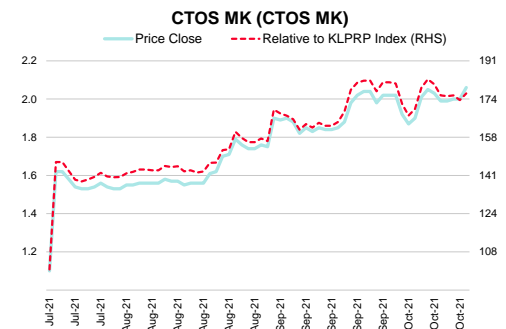
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	12.0	0.0	0.0	0.0
Relative	0.0	6.4	0.0	0.0	0.0
52-wk Price low/high (MYR)				1.10	2.06



Source: Bloomberg

Overall ESG Score: n/a

ESG scoring is unavailable at the moment given the lack of relevant data and disclosure

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	129	140	162	214	257
Recurring net profit (MYRm)	39	39	51	78	103
Recurring net profit growth (%)	31.5	0.5	30.8	51.9	32.7
Recurring P/E (x)	116.18	115.65	88.39	58.21	43.87
P/B (x)	57.4	40.9	13.1	12.0	10.8
P/CF (x)	67.23	137.65	80.04	58.08	45.31
Dividend Yield (%)	0.5	0.5	0.7	1.0	1.4
EV/EBITDA (x)	94.12	89.81	66.28	48.18	36.26
Return on average equity (%)	56.1	41.3	22.5	21.5	26.0
Net debt to equity (%)	27.3	91.6	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.02	0.02	0.02	0.04	0.05
Financial Services	DPS	0.01	0.01	0.01	0.02	0.03
CTOS Digital	BVPS	0.04	0.05	0.16	0.17	0.19
CTOS MK	Return on average equity (%)	56.1	41.3	22.5	21.5	26.0
Buy						
Valuation basis	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
DCF	Total turnover	129	140	162	214	257
	Gross profit	108	121	143	174	211
	EBITDA	48	50	65	88	116
	Depreciation and amortisation	(6)	(7)	(10)	(11)	(11)
	Operating profit	41	43	55	78	105
	Net interest	(1)	(4)	(6)	0	1
	Pre-tax profit	41	40	56	87	115
	Taxation	(2)	(2)	(6)	(9)	(11)
	Reported net profit	39	39	51	78	103
	Recurring net profit	39	39	51	78	103
Key drivers	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Key drivers to our earnings are:	Change in working capital	15.4	(13.2)	3.4	(3.5)	(5.4)
i) Growth in key accounts ARPU;	Cash flow from operations	67.4	32.9	56.6	78.0	100.0
ii) Growth in commercial and direct-to-consumer customers; and	Capex	(2.8)	(4.7)	(10.0)	(7.2)	(7.7)
iii) Contributions from associates.	Cash flow from investing activities	(58.9)	(104.0)	(71.3)	(9.6)	(10.3)
	Dividends paid	(21.7)	(10.5)	(30.8)	(46.7)	(62.0)
	Cash flow from financing activities	18.4	191.0	51.4	(46.7)	(62.0)
	Cash at beginning of period	10.2	6.1	26.4	62.5	82.8
	Net change in cash	26.9	119.9	36.8	21.7	27.7
	Ending balance cash	37.1	125.8	63.2	84.2	110.6
Key risks	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Key risks to our call are:	Total cash and equivalents	6	26	63	83	111
i) Unfavourable changes in the regulatory environment;	Tangible fixed assets	20	19	19	20	21
ii) Slower-than-expected topline growth; and	Total investments	57	151	186	194	203
iii) Data leaks.	Total assets	142	276	381	419	464
	Short-term debt	18	132	0	0	0
	Total long-term debt	9	0	0	0	0
	Total liabilities	63	160	36	42	46
	Total equity	79	116	346	377	418
	Total liabilities & equity	142	276	381	419	464
Company Profile	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
CTOS is the leading credit reporting agency (CRA) in Malaysia. It 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 provide credit information and analysis to consumers.	Revenue growth (%)	16.9	8.8	15.5	31.8	20.3
	Recurrent EPS growth (%)	19.6	0.5	30.8	51.9	32.7
	Gross margin (%)	83.3	86.4	88.5	81.3	82.2
	Operating EBITDA margin (%)	37.0	35.6	39.8	41.3	45.2
	Net profit margin (%)	30.2	27.9	31.6	36.4	40.2
	Dividend payout ratio (%)	56.4	63.2	60.0	60.0	60.0
	Capex/sales (%)	2.2	3.4	6.2	3.4	3.0
	Interest cover (x)	34.2	10.0	8.0	341.7	445.3

Source: Company data, RHB

Results At a Glance

Figure 1: 3Q21 and 9M21 results summary

FYE Dec (MYRm)	3Q20	2Q21	3Q21	YoY %	QoQ %	YTD20	YTD21	YoY%	Comments – 3Q21 vs 2Q21
Revenue	34.0	37.85	38.6	13.4	1.9	98.8	114.4	15.8	
Key accounts	12.3	12.80	14.1	14.8	10.3	35.8	39.4	10.0	
Commercial	20.3	21.10	20.6	1.6	(2.5)	58.8	62.6	6.5	
Direct-to-consumers	1.5	2.60	2.32	58.1	(10.8)	4.2	7.5	78.8	
International	0.0	1.40	1.6	n.m.	11.1	0.0	4.9	n.m.	
Cost of sales	(4.1)	(4.82)	(5.1)	22.8	5.6	(13.9)	(14.4)	3.7	
Gross profit	29.9	33.0	33.5	12.1	1.4	84.9	100.0	17.8	
Other income/(expenses)	0.0	(0.13)	0.1			(0.0)	(0.1)		
Selling & marketing expenses	(7.7)	(7.92)	(7.7)	(1.1)	(3.3)	(23.9)	(22.6)	(5.1)	
Admin expenses	(8.3)	(8.45)	(11.7)	40.5	38.0	(26.1)	(31.7)	21.6	3Q21 includes MYR5.47m listing expenses.
EBITDA	13.8	16.52	14.2	3.0	(13.8)	35.0	45.6	30.4	
Depreciation & amortization	(1.9)	(2.23)	(2.0)			(5.2)	(6.6)		
Interest income	0.0	0.04	0.2			0.2	0.3		
EBIT	12.0	14.33	12.4	3.4	(13.6)	29.9	39.2	30.9	
Finance cost	(0.7)	(1.62)	(0.5)			(2.3)	(5.7)		
Share of associates' profits	0.5	1.77	2.2			1.0	5.6		
Profit before tax	11.7	14.48	14.1	20.2	(2.7)	28.6	39.1	36.9	
Tax expenses	(0.6)	(2.46)	(2.4)			(1.9)	(7.4)		
ETR (%)	5.3	17.0	17.2			6.6	18.8		
PAT from continuing operations	11.1	12.02	11.7	5.2	(2.9)	26.7	31.8	19.0	
Losses from discontinued operations	(0.8)	(0.35)	0.0			(0.8)	(1.1)		
PAT for the period	10.3	11.7	11.7	13.3	0.0	25.9	30.6	18.2	
Non-controlling interest	0.4	0.2	0.0			0.4	0.6		
PATAMI	10.7	11.8	11.7	9.3	(1.4)	26.3	31.2	18.6	
PATAMI from continuing operations	11.1	12.0	11.7	5.2	(2.9)	26.7	31.8	19.0	3Q21 & YTD21 Core PATAMI (ex-listing expenses): MYR17.1m and MYR37.2m.
<u>Reconciliation</u>									
Reported PATAMI						26.3	31.2	18.6	
Losses from CIBI						0.4	0.6		
Acquisition costs						0.1	0.2		
Share-based payment						1.9	0.0		
Interest expenses on borrowings						2.2	5.6		
Unrealized FX losses						0.0	4.4		
Incremental tax expenses						0.6	4.6		
Normalized PATAMI						31.4	46.6	48.1	
<u>Key metrics</u>									
GP margin	87.8	87.3	86.8			86.0	87.4		
EBITDA margin	40.7	43.6	36.9			35.4	39.8		
EBIT margin	35.2	37.9	32.1			30.3	34.3		
PBT margin	34.4	38.3	36.5			29.0	34.2		
Net margin	32.6	31.8	30.3			27.1	27.8		Est 3Q21 & YTD21 core net margin (ex-listing expenses): 44.% and 32.6%.
Normalized net margin						31.8	40.7		

Source: Company data, RHB

Valuation

Figure 2: DCF valuation (simplified)

DCF workings	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Revenue	162.22	213.81	257.24	300.47	346.38	401.80	466.08	540.66	624.46	721.25
EBIT margin (%)	33.9%	36.6%	41.2%	43.0%	43.7%	43.7%	43.7%	43.5%	43.2%	43.0%
EBIT	55.04	78.23	106.03	129.35	151.53	175.77	203.90	235.17	270.06	310.12
Tax rate (%)	10.0%	10.0%	10.0%	10.0%	10.0%	24.0%	24.0%	24.0%	24.0%	24.0%
EBIT (1 - t)	49.54	70.41	95.43	116.41	136.38	133.59	154.96	178.73	205.25	235.69
Depreciation & amortisation	9.99	10.71	11.12	11.64	11.73	12.17	13.15	14.20	15.30	16.48
CAPEX	(72.66)	(9.62)	(10.29)	(11.12)	(11.86)	(12.81)	(13.84)	(14.94)	(16.10)	(17.35)
Working capital	(5.95)	(3.84)	(5.41)	(4.62)	(4.80)	(5.57)	(6.46)	(7.50)	(8.66)	(10.00)
Free cash flow to firm	(19.08)	67.67	90.85	112.31	131.44	127.38	147.81	170.48	195.78	224.82
Cost of capital	6.9%	6.9%	6.9%	6.9%	6.9%	7.0%	7.0%	7.0%	7.0%	7.0%
Cumulated discount factor	1.07	1.14	1.22	1.31	1.40	1.50	1.61	1.72	1.84	1.97
PV of FCFF	-17.85	59.19	74.32	85.93	94.05	84.70	91.83	98.96	106.17	113.90

Valuation workings

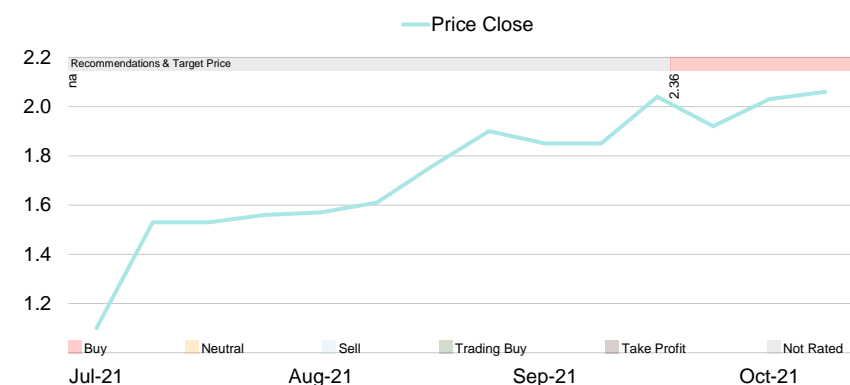
PV of Forecast FCFF	296
PV of New Verticals FCFF	496
PV of Transition FCFF	768
PV of Terminal value	3,412
Cumulative PV of FCFF	4,971
Net cash/(debt)	63
Minority interest	0.0
Equity value	5,034
Associate stakes	301
Total equity value	5,335
Target price (MYR/share)	2.42

Valuation inputs

	2021-25F	2026-30F	≥2031F
WACC	6.92	7.04	7.32
Cost of debt (1-t)	n.a.	n.a.	n.a.
Cost of equity	6.92	7.04	7.32
Rf	3.50	3.50	3.50
Equity premium	6.53	6.63	6.88
Beta	1.13	1.13	1.13

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-09-23	Buy	2.36	2.04

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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