October 18, 2021

Maybank IB Research

CTOS Digital Berhad (CTOS MK)

3Q FY21: Results ahead

BUY

Share Price	MYR 2.06
12m Price Target	MYR 2.34 (+14%)
Previous Price Target	*MYR 2.17*

Maintain BUY, raising TP to MYR2.34

CTOS Digital 9M21 core net profit came ahead of our/consensus FY21E expectations, making up 85%/86% respectively. We remain upbeat on the overall credit bureau market in Malaysia, with CTOS' growth potential further supported by strong market positioning and attractive verticals - reiterate BUY with higher MYR2.34 TP (vs. MYR2.17 previously) pegged to 2.8x PEG, in-line with updated global peer basket mean (2.6x previously).

Robust earnings delivery

CTOS' 3Q21 core net profit came in at MYR15m (+16.8% YoY, +0.5% QoQ), bringing 9M21 core net profit to MYR46m ((+70% YoY), ahead of expectations at 85%/86% of our /consensus FY21 forecasts, respectively. Meanwhile, 3Q21 revenue was reported at MYR39m (+149% YoY, +15% QoQ), bringing 9M21 figure to MYR114m (+16% YoY). 9M21 core net profit margin improved to 41% (9M20: 28%).

Growth across all segments

Revenue was higher for all 3 key categories of customers (Key Accounts, Commercial and D2C), driven by growth in new CTOS Credit Manager subscribers as well as strong demand for CTOS Data Systems Reports and digital solutions. The International operations contributed revenue of MYR5m and segment profit of MYR3m in the current period following the Basis acquisition in Jan 2021. 9M21 profit growth was also driven by higher share of profits of associates of MYR4m mainly due to the contribution from BOL Thailand – however, this was offset by higher finance costs of MYR3m and forex losses of MYR4m, mainly from its USD borrowings.

Outlook remains favorable

CTOS remains in a dominant position within the credit reporting industry, and is poised to gain from accelerated economic reopening as credit reporting demand is expected to grow from hereon, in our view. Expanding new verticals spanning real estate, automotive, telco as well as the huge demand potential that is digital banking, the latter pending award of licenses by Bank Negara, would be some of the key drivers for this growth stock. Meanwhile, application of artificial intelligence (AI) in CTOS existing multi-channel credit solutions gives it an edge against its competitors, we believe. The 3Q21 analyst briefing is to be held on 20th Oct 2021.

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	83.1	63.2	52.7
P/BV (x)	na	na	14.6	13.4	12.2
Net dividend yield (%)	na	na	0.7	0.9	1.1
ROAA (%)	71.6	21.6	15.9	19.3	21.2
EV/EBITDA (x)	94.4	88.6	71.8	54.2	46.1
Net gearing (%) (incl perps)	nm	net cash	net cash	net cash	net cash
Consensus net profit	-	-	49	73	90
MKE vs. Consensus (%)	-	-	12.4	(1.8)	(4.0)

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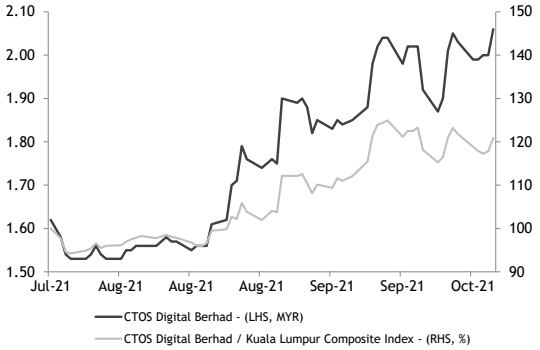
Company Description

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)	14.0
Free float (%)	50.9
Issued shares (m)	2,200
Market capitalisation	MYR4.5B
	USD1.1B
Major shareholders:	
Inodes Ltd.	40.0%
CHUNG TZE KEONG	4.5%
CHUNG TZE WEN	4.5%

Price Performance



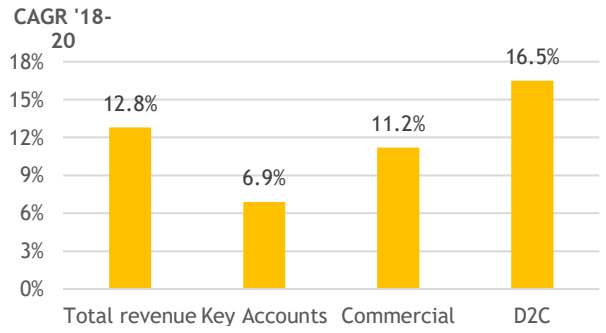
	-1M	-3M	-12M
Absolute (%)	12	na	na
Relative to index (%)	9	na	na

Source: FactSet

Value Proposition

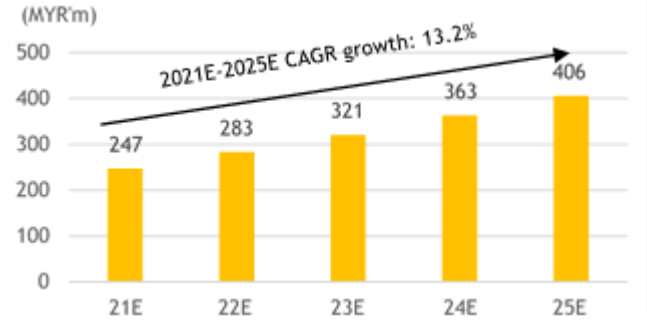
- CTOS Digital is the market leading credit reporting agency in Malaysia with a 71.2% revenue market share in 2020, while 20%-owned BOL is the largest company information bureau in Thailand, with an estimated 59% market share.
- With over 30 years of experience, the company has an extensive database 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



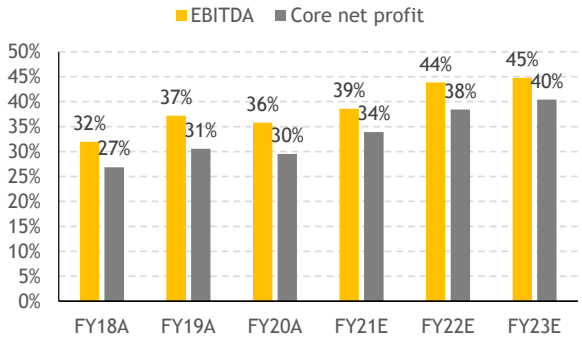
Source: Company, Maybank Kim Eng

- 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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Fig 1: Results Summary

	Quarterly results					Cumulative		
FYE Dec (MYR m)	3Q21	2Q21	%QoQ	3Q20	%YoY	9M21	9M20	%YoY
Turnover	**38.6**	**33.5**	***15.0***	**15.5**	***148.6***	**114.4**	**98.7**	***15.8***
EBIT	21.4	14.9	*43.4*	11.8	*81.8*	48.2	29.7	*62.2*
Interest expense	(0.5)	(1.6)	*(71.1)*	(0.7)	*(35.6)*	(5.7)	(2.3)	*146.1*
Pre-tax profits	**23.1**	**15.1**	***53.1***	**11.5**	***100.7***	**48.2**	**28.4**	***69.6***
Tax	(2.4)	(2.3)	*4.8*	(0.6)	*290.6*	(7.4)	(1.9)	*293.0*
Net profit	**20.7**	**11.9**	*74.2*	**10.9**		**40.2**	**26.5**	***51.7***
Exceptional items	(5.6)	3.2	*(275.1)*	2.0	*(372.9)*	6.3	0.8	
Recurring net profit	**15.1**	**15.0**	***0.5***	**12.9**	*16.8*	**46.5**	**27.3**	***70.2***
	3Q21	**2Q21**	***+/- ppt***	**3Q20**	***%YoY***	**9M21**	**9M20**	***+/- ppt***
EBIT margin (%)	55.6	44.6	*11.0*	76.0	*(20.4)*	42.2	30.1	*12.1*
Core NP margin (%)	39.2	44.9	*(5.7)*	83.5	*(44.2)*	40.7	27.7	*13.0*
Tax rate (%)	10.5	15.3	*(4.8)*	5.4	*5.1*	15.3	6.6	*8.7*
Key Accounts	**14.1**	**12.8**	***10.6***	**12.3**	***14.9***	**39.4**	**35.8**	***10.1***
Commercial - MY	**20.6**	**21.1**	***(2.6)***	**20.3**	***1.6***	**62.6**	**58.8**	***6.5***
Commercial - Int	**1.6**	**1.3**	***15.6***	**0.0**	***#DIV/0!***	**4.9**	**0.0**	***#DIV/0!***
D2C	**2.3**	**2.6**	***(11.9)***	**4.2**	***(44.6)***	**7.5**	**4.2**	***78.9***

Source: Maybank KE, Company

Fig 2: Peer Comparison

Stock	Ticker	Ctry.	Mkt cap	Shr px	PER (x)			2Y CAGR	PEG	EV/EBITDA (x)			P/B (x)	
			(USD)	(LC)	CY21E	CY22E	CY23E	21-23E	(x)	CY21E	CY22E	CY23E	CY21E	CY22E
MY Software Services														
GHL Systems	GHLS MK	MY	557	2.03	69.0	48.0	36.2	38%	1.3	27.2	21.9	17.3	4.1	3.7
Revenue Grp	REVENUE MK	MY	206	1.85	46.0	36.0	32.4	19%	1.9	24.4	20.1	62.1	4.9	4.7
MYEG	MYEG MK	MY	1,834	1.06	23.0	21.4	20.5	6%	3.6	19.2	15.6	14.1	5.6	4.8
CTOS Digital	CTOS MK	MY	1,090	2.06	83.6	59.1	46.7	34%	1.7	74.9	54.6	43.9	14.4	13.3
Credit Bureau														
Experian Plc	EXPN LN	GB	40,665	3,203	24.3	21.8	19.5	12%	1.9	14.3	12.6	9.9	721.8	583.8
Transunion	TRU US	US	22,172	115.78	31.2	28.0	25.0	12%	2.4	20.6	18.0	16.0	7.0	5.9
Nice Information	030190 KS	KR	1,039	20,250	22.2	19.8	17.4	13%	1.5	11.8	10.0	8.8	4.1	3.6
Credit Bureau	CBA SP	SG	210	1.23	33.9	29.4	27.2	11%	2.6	9.1	8.0	7.5	5.6	5.6
Equifax	EFX US	US	32,159	263.95	35.3	29.3	25.1	19%	1.6	20.9	69.5	54.2	10.4	8.1
Financial Data Solutions														
S&P Global	SPGI US	US	106,985	443.92	33.6	31.6	29.3	7%	4.4	23.7	22.2	20.4	43.0	37.3
Moodys	MCO US	US	69,114	371.18	30.9	30.3	27.7	6%	5.3	23.3	23.0	21.2	25.0	20.7
Thompson Reuters	TRI CN	China	57,380	144.13	76.0	61.0	45.7	29%	2.1	36.8	32.2	26.9	4.6	4.6
MSCI Inc	MSCI US	US	50,791	616.08	62.2	54.9	48.7	13%	4.2	45.0	41.1	36.7	-77.9	-82.4
IHS Markit	INFO US	US	49,018	122.90	37.4	30.9	28.1	15%	2.0	26.6	70.5	47.8	5.3	5.1
Factset	FDS US	US	15,674	414.89	32.7	30.4	28.5	7%	4.3	25.0	15.2	27.2	13.3	13.4
BOL	BOL TB	US	319	13.00	42.5	32.7	na	na	na	32.4	25.5	46.0	15.5	13.7
GBG	GBG LN	US	2,495	920.50	44.3	39.7	35.4	12%	3.3	33.2	-35.5	-18.2	na	na
Mean					**42.8**	**35.5**	**30.8**	**16%**	**2.8**	**27.5**	**25.0**	**26.0**	**50.4**	**40.4**

Source: Maybank KE, Bloomberg consensus

Fig 3: TP Derivation

FY22E EPS (cents)	3.3
Earnings 2Y CAGR 21-23E (%)	25.6
PEG ratio (x)	2.8
Implied PER at FY22E (x)	71.7
Value Per Share	2.34

Source: Maybank KE

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	na	na	83.1	63.2	52.7
Core P/E (x)	na	na	83.1	63.2	52.7
P/BV (x)	na	na	14.6	13.4	12.2
P/NTA (x)	na	na	19.6	17.5	15.4
Net dividend yield (%)	na	na	0.7	0.9	1.1
FCF yield (%)	na	na	1.1	1.6	1.9
EV/EBITDA (x)	94.4	88.6	71.8	54.2	46.1
EV/EBIT (x)	nm	nm	82.1	61.6	50.7
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		8.8	14.4	16.0	14.2
EBITDA growth		5.2	22.8	31.8	16.6
EBIT growth		2.6	26.8	32.4	20.5
Pretax growth		(2.2)	39.1	31.4	20.0
Reported net profit growth		0.5	39.2	31.4	20.0
Core net profit growth		5.1	31.5	31.4	20.0
Profitability ratios (%)					
EBITDA margin		35.9	38.6	43.8	44.8
EBIT margin		30.4	33.8	38.5	40.7
Pretax profit margin		28.7	34.9	39.5	41.6
Payout ratio		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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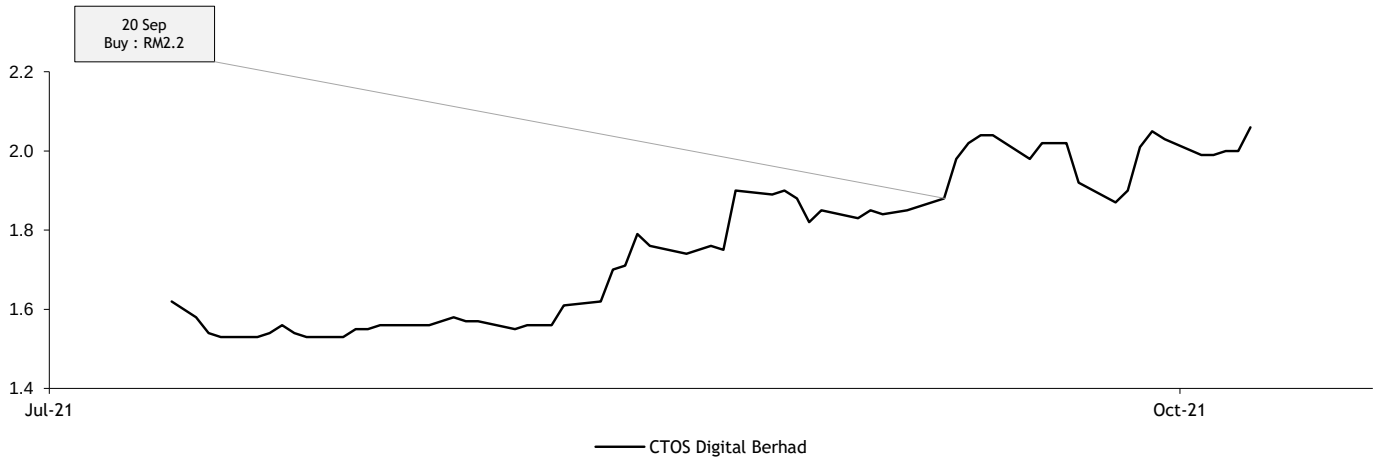

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