

CTOS Digital

JurisTech and BOL Acquisitions

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CTOS has proposed to acquire a 49% stake in JurisTech and an additional 2.25% stake in BOL, both funded via a private placement. Positive on the deals, we deem the 23x FY21E PER valuation for JurisTech as fair, as its complementary services bring synergistic benefits to CTOS. Together, both deals would lift FY22E CNP by 7%, but the private placement, which would result in an enlarged share base, would dilute EPS by 6%. Thus, we raised FY22E EPS by only ~1%. We reiterate **OUTPERFORM** with unchanged fully-diluted TP of RM2.00 on 55x FY22E PER.

Largest acquisition since inception. Last Friday, CTOS proposed to: (i) purchase 49% equity stake in Juris Technologies (JurisTech) for RM205.8m, (ii) acquire an additional 2.25% of BOL (post-acquisition stake of 24.9%) for no more than RM34.9m, and (iii) fund said acquisitions via a private placement. While we didn't expect any more deals in 2021, the acquisition of JurisTech was no surprise, as management was seeking for synergistic acquisitions that would enable CTOS to expand its digital solutions offerings.

JurisTech synergies. JurisTech (incorporated in 2003) provides an end-to-end credit management platform that allows its clients (mainly banks and financial institutions) to digitally acquire customers, evaluate borrowers, approve loans and recover debt. **Firstly**, these complement CTOS' existing services of providing credit information and analysis to customers. **Secondly**, by combining JurisTech's software and CTOS' expansive database, the duo can jointly develop new digital lending solutions that include credit data, software and analytics services. Such services are popular given: (i) banks' increased digital transformation and enhancement requirements (e.g. e-KYC), and (ii) growing demand for data analytics solutions. **Thirdly**, CTOS and JurisTech can cross-sell to each other's customers.

Fair deal. CTOS is paying ~23x FY21E PER for JurisTech. There are no direct comparables for a FinTech like JurisTech, and its closest competitors are not listed. However, given the evident synergies and scalability of JurisTech's software services, we think the price is fair. Note that other listed global credit bureaus (not direct comparables) trade at ~40x FY21E PER.

(refer overleaf for more on additional BOL stake)

Funding via private placement. We assume the deals will be fully funded by a private placement of 136.5m new shares. At a 5-day VWAP of RM1.7630, CTOS could raise RM240.7m, with RM205.8m for JurisTech and RM34.9m for BOL. This would expand CTOS' share base by 6.2%.

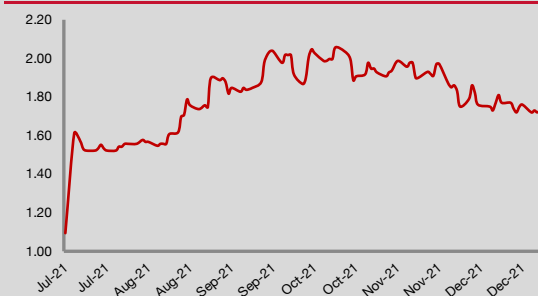
Earnings revision. The acquisitions would increase CTOS' profits from associates, lifting FY22E CNP by 7%. However, the 6.2% earnings dilution from an enlarged share base would weigh in and only enhance FY22E EPS by ~1%.

Positive on acquisitions, reiterate OUTPERFORM with TP of RM2.00. Although the earnings accretion is diluted by the placement, we are positive on the deals, especially on the JurisTech acquisition, as it allows CTOS to provide an end-to-end digital lending service. We maintain our fully-diluted TP of RM2.00 on 55x FY22E PER, as EPS enhancement is insignificant in FY22.

OUTPERFORM ↔

Price: RM1.73
Target Price: RM2.00 ↔

Share Price Performance



KLCI 1,516.45
YTD KLCI chg -6.8%
YTD stock price chg N/A

Stock Information

Shariah Compliant Yes
Bloomberg Ticker CTOS MK EQUITY
Market Cap (RM m) 3,806.0
Shares Outstanding 2,200.0
52-week range (H) 2.10
52-week range (L) 1.50
3-mth avg daily vol: 14,277,580
Free Float 51%
Beta N/A

Major Shareholders

Inodes 40.0%
Chung Tze Keong 4.5%
Chung Tze Wen 4.5%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Revenue	140.5	163.1	190.7
EBIT	42.8	59.1	72.6
PBT	40.3	68.6	96.3
PATAMI	39.2	64.0	84.7
Core NP	39.2	64.0	84.7
Consensus (NP)	N/A	55.5	75.5
Earnings Revision	N/A	N/A	7%
Core EPS (sen)	1.7	2.7	3.6
Core EPS growth (%)	0.5	63.4	32.3
NDPS (sen)	N/A	1.6	2.2
BV/Share (RM)	0.05	0.13	0.25
Core PER	103.2	63.1	47.7
Price/BV (x)	36.5	12.9	6.9
		Net	Net
Net Gearing (x)	0.9	Cash	Cash
Net Dvd. Yield (%)	N.A.	1.0	1.3

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Additional 2.25% BOL stake. CTOS will be buying an additional 18.5m shares from the open market and via direct transactions to bring its total BOL stake to 24.9%. No surprises here, as management has long expressed their interest to increase its equity interest in BOL. CTOS will be paying no more than THB15 per BOL share, which translates to FY22E PER of 40x, at a premium compared to global listed peers' 34x. This is fair given that: (i) CTOS' previous BOL acquisitions have also been at slight premiums, (ii) BOL is Thailand's leading credit bureau with ~59% market share.

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E	FY Dec	2018A	2019A	2020A	2021E	2022E
Revenue	110.5	129.1	140.5	163.1	190.7	Growth (%)					
EBIT	31.9	41.7	42.8	59.1	72.6	Revenue	N.A.	16.9	8.8	16.1	16.9
PBT	31.8	41.2	40.3	68.6	96.3	EBIT	N.A.	30.7	2.6	38.2	22.8
Taxation	-2.1	-2.2	-2.4	-4.5	-11.6	PBT	N.A.	29.7	-2.2	70.0	40.5
PATAMI	29.7	39.0	39.2	64.0	84.7	PATAMI	N.A.	31.5	0.5	63.4	32.3
Core PATAMI	29.7	39.0	39.2	64.0	84.7	Core PATAMI	N.A.	31.5	0.5	63.4	32.3
Balance Sheet						Profitability (%)					
FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E	EBIT Margin	28.9	32.3	30.4	36.2	38.1
Fixed Assets	17.5	16.9	16.9	44.5	56.4	PBT Margin	28.8	31.9	28.7	42.0	50.5
Intangible Assets	37.9	37.9	49.6	79.1	79.1	Core PATAMI Margin	26.8	30.2	27.9	39.3	44.4
Oth. Fixed Assets	0.0	59.8	154.9	152.4	393.1	Effective Tax Rate	6.7	5.4	5.8	6.6	12.0
Inventories	0.0	0.0	0.0	0.0	0.0	ROE	33.5	27.4	14.2	18.7	13.6
Receivables	17.9	21.4	28.2	32.6	38.1	ROA	49.4	49.4	33.9	20.4	14.4
Other CA	5.0	0.0	0.0	0.0	0.0	DuPont Analysis					
Cash	10.2	6.1	26.4	34.3	54.0	C. Net Margin (%)	26.8	30.2	27.9	39.3	44.4
Total Assets	88.6	142.2	276.0	342.8	620.7	Assets T'over (x)	1.2	0.9	0.5	0.5	0.3
Payables	13.7	13.6	17.1	19.6	22.9	Lev. Factor (x)	1.5	1.8	2.4	1.1	1.1
ST Borrowings	5.9	18.2	132.3	0.0	0.0	ROE (%)	49.4	49.4	33.9	20.4	14.4
Other ST Liability	2.9	20.1	10.0	0.0	0.0	Leverage					
Other LT Liability	6.2	11.4	0.8	9.6	9.6	Debt/Asset (x)	0.1	0.1	0.5	0.0	0.0
Net Assets	60.0	78.9	115.7	313.7	588.3	Debt/Equity (x)	0.1	0.2	1.1	0.0	0.0
Share Capital	198.0	198.0	198.0	411.9	652.6	Net Cash/(Debt)	-4.4	12.1	105.9	-34.3	-54.0
Reverse Acq. Reserve	-193.5	-193.5	-193.5	-193.5	-193.5	Net Debt/Equity (x)	Net Cash	0.2	0.9	Net Cash	Net Cash
Retained Earnings	54.3	71.5	106.0	94.7	128.6	Valuations					
Others	1.3	2.9	0.3	0.6	0.6	Core EPS (sen)	1.3	1.7	1.7	2.7	3.6
Minority Interest	0.0	0.0	5.0	0.0	0.0	DPS (sen)	N.A.	N.A.	N.A.	1.6	2.2
Total Equity	60.0	78.9	115.7	313.7	588.3	BV/share (RM)	0.03	0.03	0.05	0.13	0.25
Cashflow Statement						PER (x)	136.3	103.6	103.2	63.1	47.7
FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E	Div. Yield (%)	N.A.	N.A.	N.A.	1.0	1.3
Operating CF	37.5	48.8	49.6	70.3	91.5	P/BV (x)	67.3	51.2	36.5	12.9	6.9
Investing CF	-10.1	-58.9	-104.0	-36.9	-21.8						
Financing CF	-23.6	5.5	74.1	-38.4	-50.8						

Source: Kenanga Research

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Peer Comparison

Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)	(RM'm)			1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
AEON CREDIT SERVICE M BHD	13.60	3,472.2	N	02/2022	3.6%	5.5%	85.6%	-3.5%	15.5	8.4	8.7	2.1	1.8	23.1%	2.9%	16.60	OP
BURSA MALAYSIA BHD	6.30	5,098.6	Y	12/2021	-1.7%	-6.0%	-1.3%	-17.5%	13.4	13.6	16.5	5.6	5.4	40.7%	6.7%	7.60	MP
CTOS DIGITAL BHD	1.73	3,806.0	Y	12/2021	16.1%	16.9%	63.4%	32.3%	103.2	63.1	47.7	36.5	12.9	20.4%	1.0%	2.00	OP
LPI CAPITAL BERHAD	14.10	5,617.2	N	12/2021	2.9%	4.0%	2.4%	2.9%	16.7	16.3	15.8	2.7	2.6	16.3%	5.2%	14.20	MP
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	3.69	3,083.4	Y	12/2021	1.5%	5.1%	-3.2%	9.8%	8.4	8.7	7.9	2.0	1.8	21.8%	4.9%	5.85	OP
Simple Average					4.5%	5.1%	29.3%	4.8%	31.4	22.0	19.3	9.4	4.8	26.3%	4.1%		

Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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