



AmInvestment Bank

Company Report

CTOS DIGITAL

(CTOS MK EQUITY, CTOS.KL)

02 Feb 2024

Resilient growth across the board

BUY

(Maintained)

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Rationale for Report: Company Result

Price RM1.41
Fair Value RM1.80
52-week High/Low RM1.56/RM1.27

Key Changes

Fair value ⇄
EPS ⇄

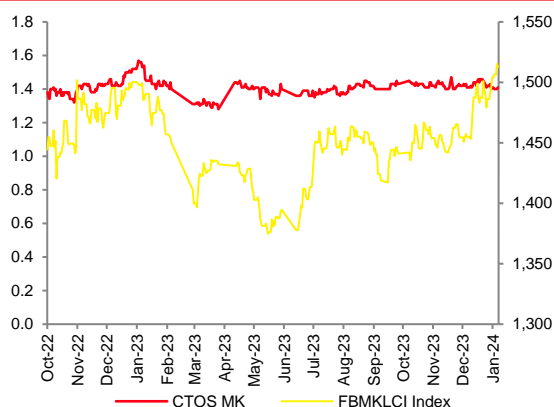
YE to Dec	FY23	FY24F	FY25F	FY26F
Revenue (RM mil)	261.4	354.2	433.7	501.6
Core net profit (RM mil)	104.0	127.1	154.1	196.1
FD Core EPS (sen)	4.5	5.5	6.7	8.5
FD Core EPS growth (%)	78.2	22.1	21.3	27.3
Consensus Net Profit (RM mil)	-	122.4	146.0	n/a
DPS (sen)	3.3	3.6	4.3	5.5
PE (x)	31.3	25.6	21.1	16.6
EV/EBITDA (x)	35.0	25.5	20.8	16.0
Div yield (%)	2.4	1.8	1.8	1.8
ROE (%)	21.4	20.3	21.9	23.9
Net Gearing (%)	22.3	23.9	25.4	20.1

Stock and Financial Data

Shares Outstanding (million)	2,310.0
Market Cap (RM mil)	3,234
Book Value (RM/share)	0.26
P/BV (x)	5.5
ROE (%)	21.4
Net Gearing (%)	14.1

Major Shareholders	Jade Vine (18.4%) Employees Provident Fund (11.6%) Abrdn Plc (6.7%)
Free Float	57.4
Avg Daily Value (RM mil)	4.6

Price performance	3mth	6mth	12mth
Absolute (%)	(2.8)	2.9	(7.8)
Relative (%)	(7.5)	(1.3)	(8.7)



Investment Highlights

- We maintain BUY on CTOS Digital Holdings (CTOS) with an unchanged SOP-based fair value (FV) of RM1.80/share. We ascribe an unchanged 4-star ESG rating, which adds a 3% premium to our FV.
- Our FY24F-25F earnings are maintained as FY23 core earnings of RM104mil (+23% YoY), after stripping out prior year taxes which had been written back and a one-off acquisition cost of RM14.4mil, came in within expectations, just 1%-2% below our and consensus estimates. We introduce FY26F earnings with a growth of 27% premised on revenue expansion of 16% and 3%-point pretax improvement.
- YoY, FY23 revenue rose by 34% mainly due to robust growth from all business segments. The increase in revenue for key accounts (+51% YoY) and direct-to-consumer (D2C) (+46% YoY) segments were supported by a stronger demand for CTOS data systems reports, digital solutions and comprehensive portfolio review/analytics services. FY23 net profit increased by 22% YoY mainly due to higher revenue from comprehensive portfolio review/analytics services, digital reports and solutions as well as higher share of profit from associates (+12% YoY).
- QoQ, 4QFY23 net profit slid by 3% due to higher operating expenses on staff cost and IT coupled with higher finance cost related to new borrowings for acquisition. Gearing ratio remained healthy at 0.22x while net profit margin remains solid above 35% over the past 4 quarters.
- We continue to hold a positive outlook on the stock, owing to CTOS' multifaceted approach to driving future earnings growth. The company's associates continued to contribute significantly by increasing new solutions and have acquired 12 clients for its new digital lending platform for moneylenders. Additionally, CTOS is well-positioned to capitalise on emerging trends in digital banking and financial services.
- RAM contributed 23% of FY23 total associate profits. For RAM, we anticipate a 10% revenue growth in FY24F driven by: (i) new contribution on Digital Issuer Platform (a JV between RAM and Bursa Malaysia) which is a debt fundraising platform for PLCs and unlisted entities, (ii) ongoing quarterly publication of RAM-CTOS BCI Index, and (iii) new products solution to corporates and SMEs.
- CTOS continues to focus its growth on key account segments by increasing the adoption of digital solutions (eKYC, CAD and IDGuard), resulting in a total of 142 clients onboarded as at 4QFY23 (from 135 customers in 3QFY23). We understand that CTOS will also cross-sell digital solutions to their existing customers to increase revenue.
- International segment contributed 2% of total FY23 revenue. We believe that its international segment will continue to grow by increasing product penetration in the banking and fintech sectors as well as cross-selling new products to existing and new customers to gain more market share.

- 4th interim dividend of 1.706 sen/share has been declared, bringing FY23 dividends to 3.33 sen/share, translating to a payout of 65%. We revised our FY24F-FY26F DPS to a dividend payout ratio of 65% as the company is likely to continue rewarding shareholders on its resilient earnings.
- The stock is trading at an undemanding FY24F PE of 26x, below its 5-year mean at 34x.

EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	4Q22	3Q23	4Q23	QoQ %	YoY %	2022	2023	YoY %
Revenue	53	66	73	10.1	38.7	195	261	34.2
Gross profit	44	51	56	9.8	26.9	165	202	22.6
EBIT	12	23	23	-0.9	97.4	67	89	33.0
Net interest expense	-2	-1	-2	14.9	-9.0	-4	-6	60.1
Share of profits of associates	8	8	9	1.7	1.6	23	26	11.7
Pretax profit	18	30	30	-0.9	63.5	85	109	27.1
Taxation	-5	-6	26	>-100	>-100	-14	10	>-100
PATAMI	14	24	56	>100	>100	71	118	65.7
Core PATAMI	21	29	28	-2.6	38.2	85	104	22.3
FD Core EPS (sen)	0.9	1.3	1.2	-2.6	38.2	3.7	4.5	22.3
Gross DPS (sen)	0.6	0.6	1.7			0.0	2.3	
EBIT margin (%)	22.2	35.2	31.7	-3.5ppt	9.4ppt	34.3	33.9	-0.3ppt
Pretax margin (%)	35.0	45.8	41.2	-4.6ppt	6.3ppt	43.8	41.5	-2.3ppt
Core net profit margin (%)	39.1	44.0	38.9	-5.1ppt	-0.2ppt	43.7	39.8	-3.9ppt
Effective tax rate (%)	-26.6	-20.0	86.3	>100ppt	>100ppt	-16.6	8.9	25.5ppt
FYE Dec (RM mil)	4Q22	3Q23	4Q23	QoQ %	YoY %	2022	2023	YoY %
By type of customers								
Revenue	53	66	67	1.1	27.4	195	255	31.2
Key accounts	21	30	30	0.4	39.7	75	113	51.0
Commercial	44	26	35	33.5	-18.9	116	120	3.7
Direct to Consumer	5	6	6	-4.3	4.3	15	22	46.2
By type of services								
Revenue	53	66	73	10.1	38.7	195	261	34.2
Digital reports	19	28	34	18.3	79.6	79	115	45.9
Subscription and monitoring services	22	24	24	0.0	4.9	86	94	9.2
Comprehensive portfolio review & analytics	6	8	9	20.3	50.1	15	28	81.0
Digital solutions	5	7	7	-0.6	24.4	15	25	68.6
Geographical								
Malaysia	49	73	68	-7.0	36.9	195	255	31.2
International	3	0	0	na	na	0	6	na

EXHIBIT 2: SOP VALUATION

Sum-of-parts	Valuation method	Value (RM mil)	Value/share (RM)
CTOS	DCF: TG: 3%, WACC: 8.6%	3,418	1.50
Associates	FY24F PE: 22x	637	0.28
ESG rating	4-star: 3% premium	114	0.05
Fair value		4,169	1.80
Implied PE (x)			35.2

Source: CTOS, AmlInvestment Bank

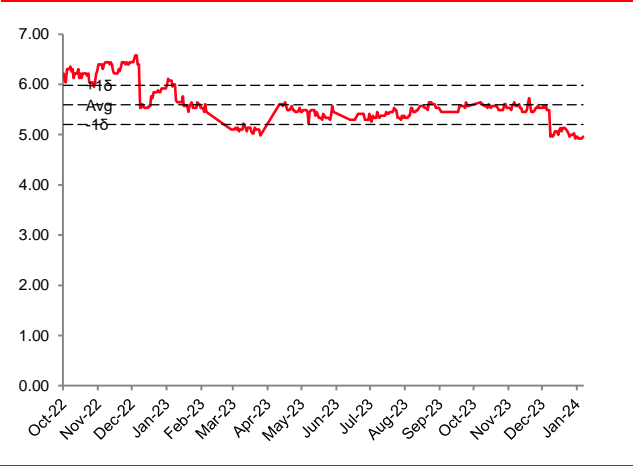
EXHIBIT 3: ESG RATING

Overall	★	★	★	★	★
Board composition	★	★	★	★	
Employee wellbeing	★	★	★		
Human capital development	★	★	★	★	
Energy efficiency	★	★	★		
Corporate social responsibility	★	★	★		
Earnings quality	★	★	★	★	
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-stars.

Source: AmlInvestment Bank

EXHIBIT 4: PB BAND CHART



Source: AmlInvestment Bank

EXHIBIT 5: PE BAND CHART

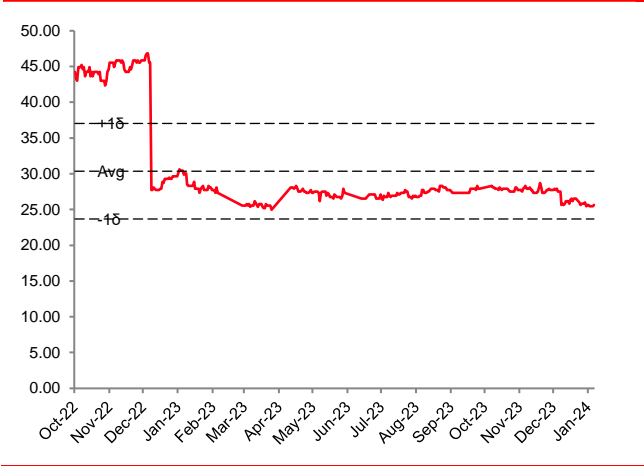


EXHIBIT 6: FINANCIAL DATA

Income Statement (RM mil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	194.8	261.4	354.2	433.7	501.6
EBITDA	75.0	95.4	130.7	157.6	198.0
Depreciation/Amortisation	-8.3	(6.6)	(8.1)	(9.6)	(9.9)
Operating income (EBIT)	66.7	88.7	122.6	148.0	188.0
Other income & associates	23.3	26.0	28.6	30.9	32.4
Net interest	(3.8)	(6.1)	(7.2)	(7.3)	(6.3)
Exceptional items	-	-	-	-	-
Pretax profit	85.4	108.6	144.0	171.5	214.1
Taxation	(14.2)	9.7	(17.1)	(17.6)	(18.2)
Minorities/pref dividends	-	(0.1)	(0.1)	(0.2)	(0.2)
Net profit	71.4	118.4	127.1	154.1	196.1
Core net profit	85.1	104.0	127.1	154.1	196.1
Balance Sheet (RM mil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Fixed assets	12.7	10.1	12.0	12.4	12.5
Intangible assets	86.6	133.3	133.3	133.3	133.3
Other long-term assets	579.2	575.9	604.5	635.3	667.7
Total non-current assets	678.5	719.3	749.8	781.0	813.5
Cash & equivalent	12.4	17.3	42.1	88.6	176.4
Stock	-	-	-	-	-
Trade debtors	40.1	71.5	90.6	107.0	121.0
Other current assets	5.1	3.2	3.2	3.2	3.2
Total current assets	57.6	92.0	135.9	198.8	300.6
Trade creditors	31.8	56.6	71.8	84.8	95.9
Short-term borrowings	-	-	-	-	-
Other current liabilities	49.0	60.7	60.7	60.7	60.7
Total current liabilities	80.8	117.3	132.4	145.4	156.5
Long-term borrowings	139.5	100.7	120.1	105.1	90.1
Other long-term liabilities	2.2	0.3	0.3	0.3	0.3
Total long-term liabilities	141.7	100.9	120.3	105.3	90.3
Shareholders' funds	512.7	593.1	656.8	753.2	891.6
Minority interests	-	(0.1)	(0.1)	(0.2)	(0.2)
BV/share (RM)	0.22	0.26	0.28	0.33	0.39
Cash Flow (RM mil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Pretax profit	86.2	108.6	144.0	171.5	214.1
Depreciation/Amortisation	8.3	6.6	8.1	9.6	9.9
Net change in working capital	0.2	(15.9)	(3.9)	(3.4)	(2.9)
Others	(10.5)	12.8	(38.5)	(41.1)	(44.2)
Cash flow from operations	84.1	112.0	109.6	136.6	176.9
Capital expenditure	(5.3)	(2.6)	(10.0)	(10.0)	(10.0)
Net investments & sale of fixed assets	(368.2)	-	(28.6)	(30.9)	(32.4)
Others	11.8	(50.4)	28.6	30.9	32.4
Cash flow from investing	(361.7)	(53.0)	(10.0)	(10.0)	(10.0)
Debt raised/(repaid)	150.6	(0.5)	(10.0)	(15.0)	(15.0)
Equity raised/(repaid)	173.8	-	-	-	-
Dividends paid	(42.3)	(76.9)	(57.8)	(57.8)	(57.8)
Others	(11.0)	23.4	(7.2)	(7.3)	(6.3)
Cash flow from financing	271.2	(54.0)	(74.9)	(80.1)	(79.1)
Net cash flow	(6.4)	5.1	24.7	46.6	87.8
Net cash/(debt) b/f	17.1	10.7	15.8	40.5	87.1
Net cash/(debt) c/f	10.7	15.8	40.5	87.1	174.9
Key Ratios (YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue growth (%)	27.2	34.2	35.5	22.5	15.7
EBITDA growth (%)	25.9	27.2	37.0	20.6	25.6
Pretax margin (%)	44.2	41.5	40.7	39.6	42.7
Net profit margin (%)	37.0	45.3	35.9	35.5	39.1
Interest cover (x)	17.4	14.5	17.1	20.2	29.6
Effective tax rate (%)	16.4	8.9	11.9	10.3	8.5
Dividend payout (%)	59.7	65.0	65.0	65.0	65.0
Debtors turnover (days)	61	78	83	83	83
Stock turnover (days)	-	-	-	-	-
Creditors turnover (days)	50	62	66	66	66

Source: Company, AmlInvestment Bank Bhd estimates

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