

### Delivering on high expectations

Reiterate Buy, TP raised to MYR2.02

#### 4Q23 results review – meeting high expectations, another growth year ahead

CTOS reported headline 4Q23 net income of MYR56.3mn, up 310% y-y and 131% q-q. This was boosted by a MYR27.8mn of related tax credit, as the company received approval for renewal of tax incentives and wrote-back all the excess taxes booked from 2021-23 in the quarter. Even on a normalized level, the company met the high bar of expectations, with 4Q23 net income of MYR28.5mn, up 38% y-y but down 3% q-q. FY23 normalized net income of MYR104mn formed 103%/99% of our/Bloomberg consensus estimates. Sequentially, the marginal decline in earnings was due to higher admin. expenses owing to bonuses which was offset by revenue growth in key accounts and commercial segments, and higher contribution from associates. CTOS announced a quarterly DPS of 1.71 sen (~70% payout on the quarter's EPS) implying a full-year payout of 65%, with management hinting at a upward revision in dividend payout policy.

#### Operationally solid; margins down q-q due to year-end bonus accruals

CTOS' operational performance was solid, in our view: 1) Key Accounts/Commercial businesses revenue was up 20%/3% q-q, but Direct-to-Consumer (D2C) business revenue was down 4% q-q, 2) associates earnings were up 1.7% q-q; all key associates (BOL, RAM, Experian and JurisTech) are within expectations, they are contributing dividends as well, 3) future revenue accretion is likely from the launch of FICO in Thailand, and the recently-acquired alternate credit scoring *companies in the Philippines and Indonesia* which started contributing to revenue/earnings. Gross margins were stable and net margins were down 5pp q-q due to higher admin expenses (+23% q-q) due to year-end bonus accruals.

#### Reiterate Buy as upcoming quarters to see continued improvement

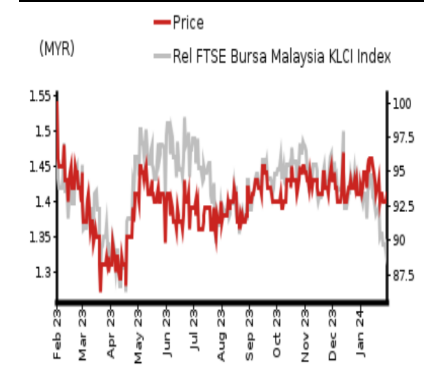
We raise FY24F/25F revenue by 11%/14% and earnings by 4%/9% to build in a more positive outlook, but our numbers are still below management targets which leaves room to positively surprise. We reiterate our Buy rating with a new, higher TP of MYR2.02 (implied upside of 43%). Our new TP continues to be DCF-based, using a WACC of 7.9% and a terminal growth rate of 5%. Our TP implies FY24F P/E of 38x (currently trading at 27x). Note that the stock trades in line with the KLTECH Index (*Fig. 10*), but with better earnings growth than the tech-hardware stocks, valuations are starting to look more attractive, and we reiterate Buy.

Year-end 31 Dec	FY23	FY24F		FY25F		FY26F	
Currency (MYR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	261	292	323	332	377	0	430
Reported net profit (mn)	118	118	122	134	146	0	167
Normalised net profit (mn)	104	118	122	134	146	0	167
FD normalised EPS	4.50c	5.11c	5.30c	5.80c	6.31c		7.23c
FD norm. EPS growth (%)	20.9	17.1	17.7	13.6	19.1		14.5
FD normalised P/E (x)	31.3	–	26.6	–	22.3	–	19.5
EV/EBITDA (x)	27.0	–	23.6	–	19.8	–	17.3
Price/book (x)	5.5	–	5.2	–	4.8	–	4.4
Dividend yield (%)	2.4	–	2.4	–	2.9	–	3.3
ROE (%)	21.4	19.3	20.2	20.1	22.5		23.6
Net debt/equity (%)	22.3	7.6	19.8	2.3	13.2		6.8

Source: Company data, Nomura estimates

Rating Remains	Buy
Target price Increased from MYR 1.97	MYR 2.02
Closing price 31 January 2024	MYR 1.41
Implied upside	+43.3%
Market Cap (USD mn)	689.0
ADT (USD mn)	1.0

#### Relative performance chart



Source: LSEG, Nomura

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# Key data on CTOS Digital

## Performance

(%)	1M	3M	12M		
Absolute (MYR)	0.0	-2.8	-8.4	M cap (USDmn)	689.0
Absolute (USD)	-2.9	-2.0	-17.4	Free float (%)	81.6
Rel to FTSE Bursa Malaysia KLCI Index	-4.0	-7.7	-10.3	3-mth ADT (USDmn)	1.0

## Income statement (MYRmn)

Year-end 31 Dec	FY22	FY23	FY24F	FY25F	FY26F
Revenue	195	261	323	377	430
Cost of goods sold	-30	-60	-76	-89	-102
Gross profit	165	202	247	288	328
SG&A	-94	-113	-141	-161	-184
Employee share expense					
Operating profit	71	89	106	127	145
EBITDA	79	99	115	137	156
Depreciation	-7	-7	-6	-7	-9
Amortisation	-1	-4	-3	-3	-3
EBIT	71	89	106	127	145
Net interest expense	-4	-6	-6	-5	-4
Associates & JCEs	23	26	29	31	35
Other income					
Earnings before tax	90	109	128	153	176
Income tax	-5	-5	-6	-7	-8
Net profit after tax	85	104	122	146	167
Minority interests	0	0	0	0	0
Other items					
Preferred dividends					
Normalised NPAT	85	104	122	146	167
Extraordinary items	-14	14	0	0	0
Reported NPAT	72	118	122	146	167
Dividends	-43	-77	-80	-95	-109
Transfer to reserves	28	41	43	51	58

## Valuations and ratios

Reported P/E (x)	45.1	27.5	26.6	22.3	19.5
Normalised P/E (x)	37.9	31.3	26.6	22.3	19.5
FD normalised P/E (x)	37.9	31.3	26.6	22.3	19.5
Dividend yield (%)	1.3	2.4	2.4	2.9	3.3
Price/cashflow (x)	38.4	29.1	29.5	24.7	21.6
Price/book (x)	6.4	5.5	5.2	4.8	4.4
EV/EBITDA (x)	33.2	27.0	23.6	19.8	17.3
EV/EBIT (x)	36.1	29.5	25.2	21.1	18.4
Gross margin (%)	84.5	77.1	76.4	76.4	76.3
EBITDA margin (%)	40.5	38.0	35.5	36.4	36.4
EBIT margin (%)	36.3	34.0	32.7	33.7	33.6
Net margin (%)	36.8	45.3	37.9	38.6	38.8
Effective tax rate (%)	5.2	4.6	4.7	4.8	4.8
Dividend payout (%)	60.4	65.0	65.0	65.0	65.0
ROE (%)	17.5	21.4	20.2	22.5	23.6
ROA (pretax %)	18.1	15.2	16.5	18.7	20.2

## Growth (%)

Revenue	27.2	34.2	23.7	16.7	14.0
EBITDA	33.2	26.1	15.5	19.7	13.8
Normalised EPS	80.5	20.9	17.7	19.1	14.5
Normalised FDEPS	80.5	20.9	17.7	19.1	14.5

Source: Company data, Nomura estimates

## Cashflow statement (MYRmn)

Year-end 31 Dec	FY22	FY23	FY24F	FY25F	FY26F
EBITDA	79	99	115	137	156
Change in working capital	13	-33	1	-1	0
Other operating cashflow	-8	45	-5	-5	-6
Cashflow from operations	84	112	111	132	151
Capital expenditure	-15	-20	-11	-14	-15
Free cashflow	69	92	99	118	136
Reduction in investments	0	0	0	0	0
Net acquisitions	-368	-25	0	0	0
Dec in other LT assets					
Inc in other LT liabilities					
Adjustments	-3	-8	11	13	14
CF after investing acts	-302	59	110	130	150
Cash dividends	-42	-46	-95	-90	-104
Equity issue	174	0	0	0	0
Debt issue	151	0	0	0	0
Convertible debt issue					
Others	-11	-8	-7	-7	-7
CF from financial acts	271	-54	-101	-97	-111
Net cashflow	-31	5	9	34	39
Beginning cash	43	12	17	27	60
Ending cash	12	17	27	60	99
Ending net debt	137	132	123	89	51

## Balance sheet (MYRmn)

As at 31 Dec	FY22	FY23	FY24F	FY25F	FY26F
Cash & equivalents	12	17	27	60	99
Marketable securities					
Accounts receivable	39	71	88	103	118
Inventories					
Other current assets	5	3	3	3	3
Total current assets	57	92	118	167	220
LT investments	575	574	591	610	631
Fixed assets	16	12	15	18	21
Goodwill					
Other intangible assets	87	133	133	133	133
Other LT assets	2	0	0	0	0
Total assets	735	811	857	928	1,005
Short-term debt	10	49	49	49	49
Accounts payable	31	57	71	82	94
Other current liabilities	39	12	15	18	21
Total current liabilities	81	117	135	149	164
Long-term debt	139	101	101	101	101
Convertible debt					
Other LT liabilities	2	0	0	1	1
Total liabilities	223	218	236	251	265
Minority interest	0	0	0	0	0
Preferred stock					
Common stock	584	584	584	584	584
Retained earnings	124	197	225	281	343
Proposed dividends					
Other equity and reserves	-196	-188	-188	-188	-188
Total shareholders' equity	513	593	621	677	740
Total equity & liabilities	735	811	857	928	1,005

## Liquidity (x)

Current ratio	0.70	0.78	0.88	1.12	1.34
Interest cover	18.5	14.5	18.0	23.4	38.0

## Leverage

Net debt/EBITDA (x)	1.74	1.33	1.07	0.65	0.32
Net debt/equity (%)	26.7	22.3	19.8	13.2	6.8

## Per share

Reported EPS (MYR)	3.13c	5.12c	5.30c	6.31c	7.23c
Norm EPS (MYR)	3.72c	4.50c	5.30c	6.31c	7.23c
FD norm EPS (MYR)	3.72c	4.50c	5.30c	6.31c	7.23c
BVPS (MYR)	0.22	0.26	0.27	0.29	0.32
DPS (MYR)	0.02	0.03	0.03	0.04	0.05

## Activity (days)

Days receivable	60.4	77.3	90.5	92.6	93.6
Days inventory	0.0	0.0	0.0	0.0	0.0
Days payable	321.6	268.6	307.3	313.9	314.6
Cash cycle	-261.2	-191.3	-216.9	-221.2	-220.9

Source: Company data, Nomura estimates

## Company profile

CTOS Digital is a Malaysian private credit reporting agency (CRA), with a dominant domestic market share of 71% (2020). It also has exposure to Thailand's credit reporting industry through a 24.8% stake in BOL (BOL TB, not rated), a leading Thai CRA. CTOS Digital and its subsidiaries are mainly involved in the business of credit reporting, digital software related services, software development, outsourcing and training services and investment holding. CTOS provides credit information and analytics digital solutions on companies, businesses and consumers for use by banks and businesses at various stages of the customer lifecycle and provide credit information and analysis to consumers. CTOS's databases contain profiles of approximately 15 million consumers and approximately 8 million companies and businesses. CTOS Digital caters to three segments of customers: Key Accounts, Commercial and Direct-to-Consumer.

## Valuation Methodology

We value CTOS Digital based on a discounted cash flow (DCF) model of free cash flows to firm (FCFF). We use a WACC of 7.9%, terminal growth rate of 5%, and assume tax rates revert to 24% from FY27F due to expiry of the tax incentives. Our TP is MYR2.02, which implies a target P/E of 38x on FY24F earnings estimates. This is at a premium to CTOS' peers in the global credit bureau, ratings agencies, financial data providers and value-added services peer groups, in view of CTOS' superior earnings growth expected compared to peers. The benchmark index for this stock is the FBMKLCI Index.

## Risks that may impede the achievement of the target price

Downside risks to our view are: 1) slower than expected revenue or earnings growth from main segments; 2) FX risks due to exposure to Thailand; 3) regulatory and data security risks; and 4) acquisitions not delivering expected returns.

## ESG

We ascribe a score of 4.0 (out of 5.0) for CTOS Digital's Environment-related (E) achievements and risks. As a digital business providing credit reporting data to customers, CTOS does not have any major adverse environment impacts. We ascribe a score of 4.0 (out of 5.0) for CTOS Digital's Social-related (S) achievements and risks. Due to the highly sensitive nature of data which CTOS collects, data protection and privacy are of prime importance to CTOS, and sufficient safeguards are needed to protect such data from any outside attempted intrusions, or data leaks. CTOS frequently promotes financial literacy to consumers and businesses. We ascribe a score of 3.0 (out of 5.0) for CTOS Digital's Governance-related (G) achievements and risks. The company's board composition, committee structure follows best practices. However, a history of acquisitions, with one from its major shareholder, and an intent to use inorganic opportunities for future growth is a factor to monitor, due to the inherent risk of overpaying and lack of control over associate entities. The company qualifies for low tax rates due to pioneer incentives.

## 4Q23 results summary

- CTOS reported 4Q23 net income of MYR56.3mn, up 310% y-y and 131% q-q. The headline net income was higher, as CTOS recognised MYR27.8mn of tax credit related to the excess tax booked from November 2021 until Sep 2023 as it received the final approval from MOF on the 5-year extension of tax incentives which will last up to 8-Nov-26. This reversal of tax was guided by management in the prior quarter.
- Normalized net income was MYR28.5mn, up 38% y-y but down 3% q-q. FY23 normalized net income of MYR104mn formed 103%/99% of our/Bloomberg consensus estimates. Sequentially, the marginal decline in earnings was due to higher admin. expenses (bonus provisions) which was offset by revenue growth in key accounts and commercial segments and higher contribution from associates. CTOS announced a quarterly DPS of 1.71 sen (~70% payout on the quarter's EPS) implying a full-year payout of 65%. Management mentioned that the board is reviewing the dividend payout policy (currently 60% payout) and might revise it higher; the company will provide an update during the next quarterly briefing.
- 4Q23 associate earnings, mainly reflecting the earnings from CTOS' stakes in BOL (BOL TB, Not rated), JurisTech (unlisted), Experian Malaysia (unlisted) and RAM Holdings (unlisted) were up 1.75% q-q / 1.6% y-y.
- Included within Key Accounts revenue, for FY23, there was MYR6mn revenue contribution from recent acquisitions – Prime Analytics (unlisted) (4 months' recognition) and FinScore (unlisted; 2 months recognition). We think almost all the revenue and profits from these are from the Philippine acquisition, Finscore. CTOS also received a special dividend of ~MYR10mn in 2Q23 from its associate RAM.
- In terms of seasonality in associate income, management mentioned that usually 2H is stronger for RAM as credit ratings are issued in the 2H of the year. For JurisTech, the revenue recognition is lumpy and because of the timing of the delivery of the software solutions, it can be volatile on a q-q basis, but full-year performance is expected to grow steadily.
- Recall that CTOS had also partnered with FICO (FICO US, Not rated) to distribute FICO scores in the ASEAN market and it is starting with Thailand. As per management, meaningful earnings contribution from the partnership should come once they secure a few clients.
- CTOS's net gearing is at 22% and management intends to gear up to fund future acquisitions (if any).
- For 2024, management expects revenue growth to be in-line with 2023 growth rates, with additional revenue from the international business. Management revised down internal management targets for FY24F net income to MYR125-130mn (previously: MYR127-135mn), but FY25F targets were unchanged (refer [Fig. 6](#)).

## Revenue growth continues to be strong

Revenue growth in 4Q23 was at 39% y-y and 10% q-q. Note that starting 1Q23, revenue includes CCRIS fee, as the waiver ended in Dec-22, as per the central bank directive ([see our note on CCRIS fee-waiver extension](#)). As a result, some of this revenue growth y-y can be attributed to CCRIS fee. Cost of sales was higher by 11% q-q to MYR17.5mn due to higher admin. expenses (+23% q-q) owing to year-end bonus accruals.

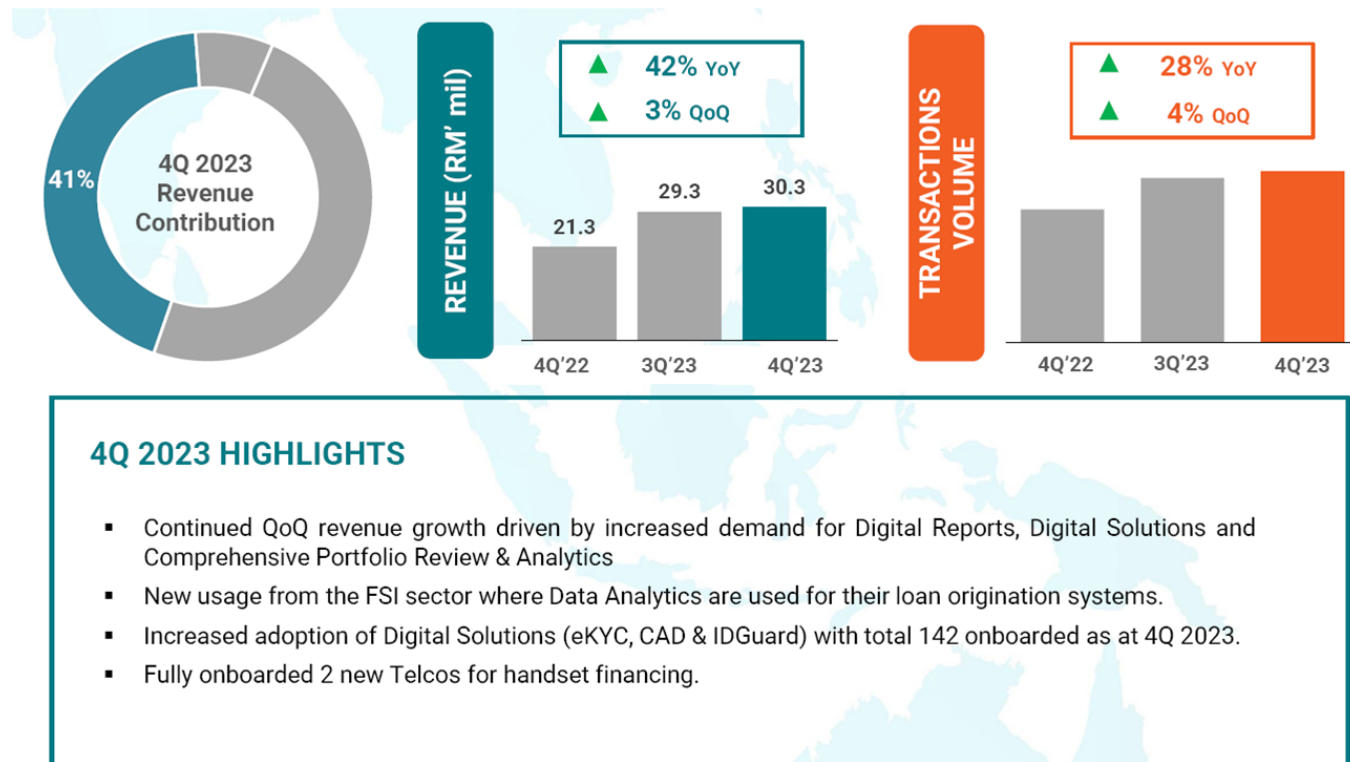
## Segment-wise highlights

Key Accounts/Commercial/Direct-to-Consumer (D2C) businesses revenue was up 68%/16%/35% y-y and +20%/3%/-4% q-q. As noted in the last briefing, CTOS's core businesses (including associates like RAM) tend to have a seasonally stronger 2H and the trend is expected to continue in 2024, with 1H24F associate contribution likely to be softer than 2H24F.

1. **Key accounts (KA):** CTOS has seen increased adoption of its digital solutions (eKYC, CAD and IDGuard), with total 142 clients onboarded as of 4Q23. Management sees further room for growth from cross-selling to these clients and potentially onboard more fintech and digital banks in Malaysia. CTOS has onboarded 2 new telcos handset financing customer. Client base is >470.

2. **Commercial:** According to management, revenue increased q-q despite lower volume, driven by higher monitoring usage & improved sales from CTOS Basis. Basis revenue grew in double-digits y-y, driven by improved BAU consumption and acquisition of a large global client. Customer base is c.21k.
3. **D2C:** Registered users number is ~3.6mn, and management is monetizing this segment through marketing and awareness campaigns and contests. CTOS acquired >365K new self-check users in 4Q 2023, up by 2% q-q and 147% y-y.

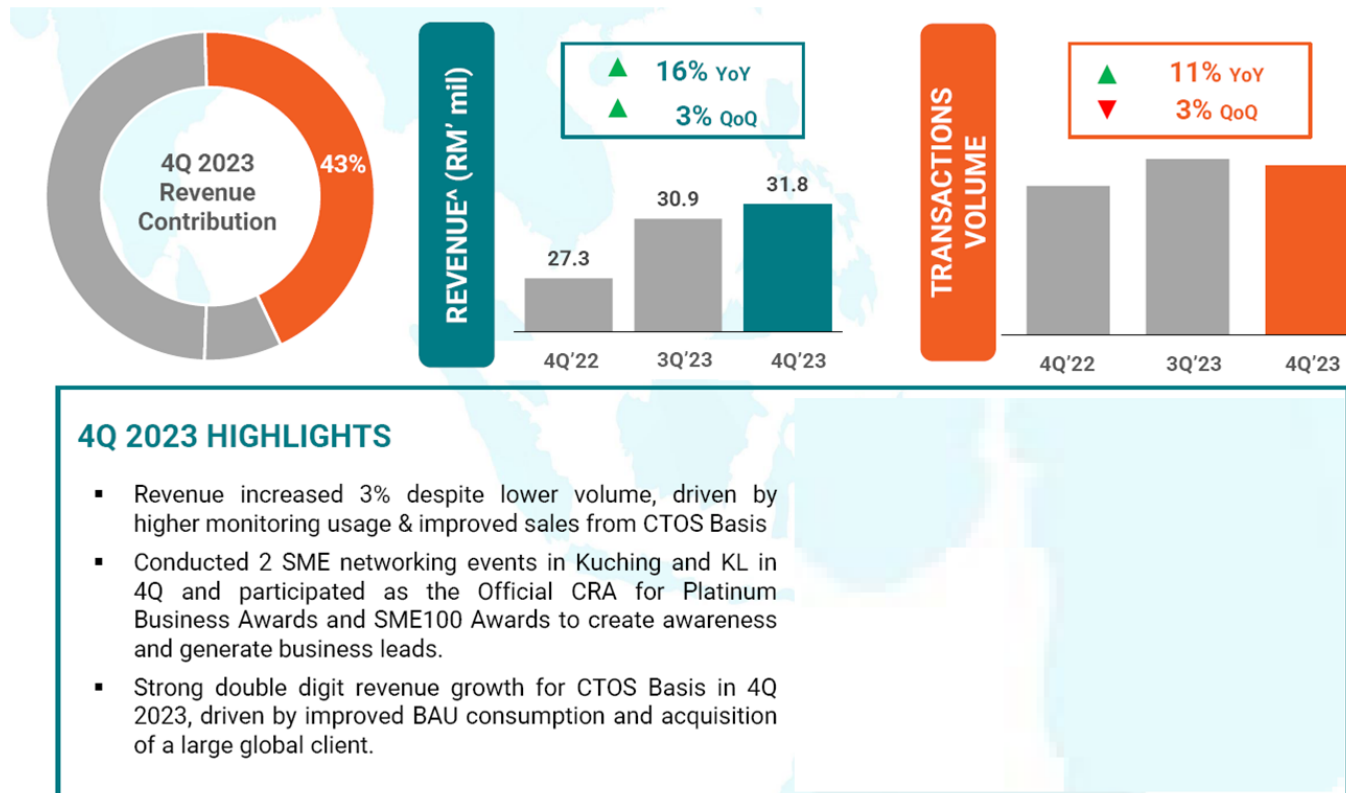
Fig. 1: CTOS: Key accounts segment performance in 4Q23



Note: The figures in this page exclude International segment

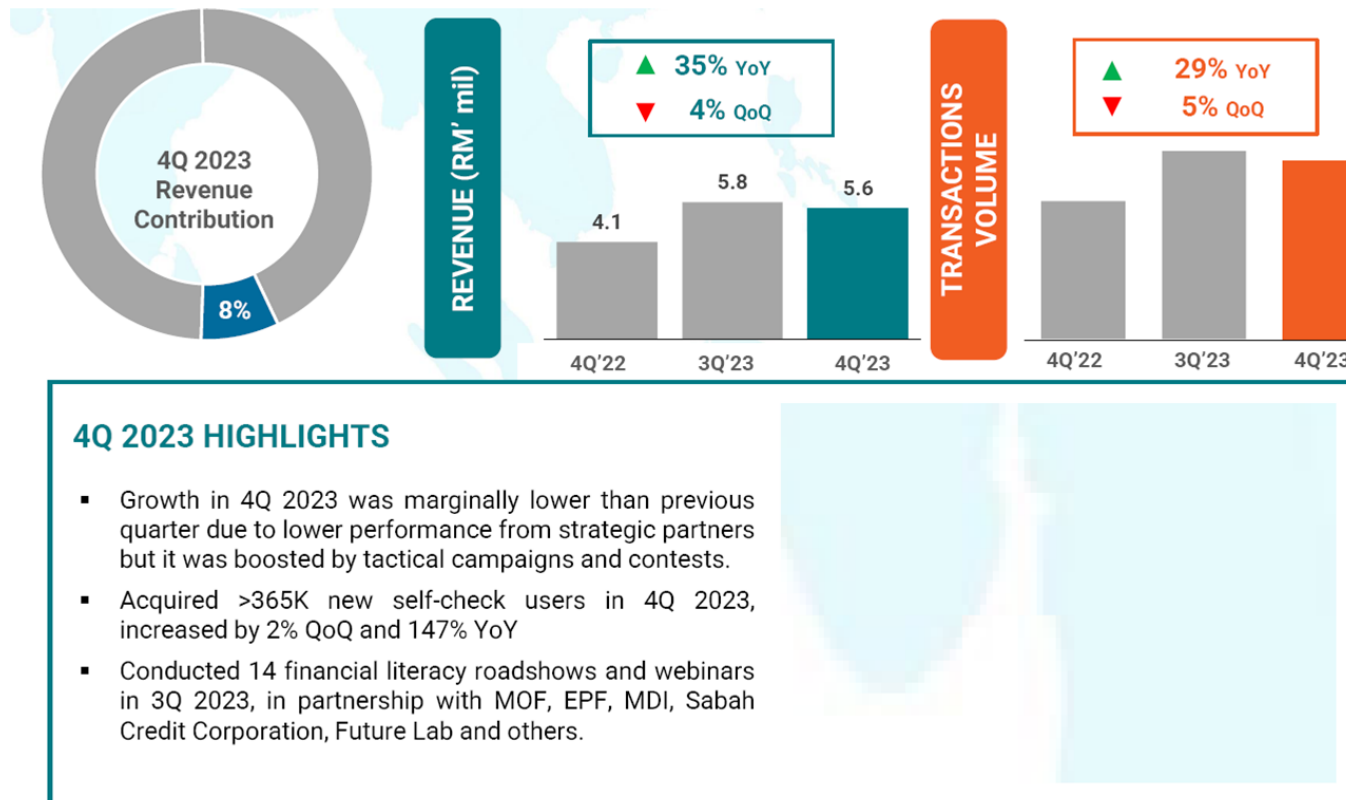
Source: Company data, Nomura research

Fig. 2: CTOS: Commercial segment performance in 4Q23



Source: Company data, Nomura research

Fig. 3: CTOS: Direct-to-consumer segment performance in 4Q23



Source: Company data, Nomura research



Fig. 4: CTOS: 4Q23 results review

MYR mn, except per share items	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	% y-y	% q-q	FY22	FY23	% y-y	FY23F	as % of FY23F
<b>Revenue</b>	<b>42.7</b>	<b>46.5</b>	<b>52.8</b>	<b>52.7</b>	<b>59.6</b>	<b>62.2</b>	<b>66.5</b>	<b>73.2</b>	<b>38.7%</b>	<b>10.1%</b>	<b>194.8</b>	<b>261.4</b>	<b>34.2%</b>	<b>250.7</b>	<b>104.3%</b>
Key Accounts	15.4	17.8	20.2	21.3	25.7	27.7	29.7	35.8	67.8%	20.5%	74.8	118.9	59.0%	112.2	106.0%
Commercial - Malaysia + Basis	23.9	24.8	28.7	27.3	28.5	28.9	30.9	31.8	16.5%	2.8%	104.7	120.2	14.7%	116.0	103.6%
Direct-to-Consumer	3.3	3.9	4.0	4.1	5.4	5.6	5.8	5.6	35.0%	(4.3%)	15.3	22.4	46.4%	22.6	99.2%
International B2B (discontinued in early 2021)															
<b>Cost of sales</b>	<b>(6.3)</b>	<b>(7.7)</b>	<b>(7.4)</b>	<b>(8.8)</b>	<b>(12.1)</b>	<b>(14.5)</b>	<b>(15.7)</b>	<b>(17.5)</b>	<b>97.6%</b>	<b>10.9%</b>	<b>(30.2)</b>	<b>(59.8)</b>	<b>97.6%</b>	<b>(54.3)</b>	<b>110.0%</b>
<b>Gross Profit</b>	<b>36.4</b>	<b>38.8</b>	<b>45.5</b>	<b>43.9</b>	<b>47.5</b>	<b>47.7</b>	<b>50.7</b>	<b>55.7</b>	<b>26.9%</b>	<b>9.8%</b>	<b>164.5</b>	<b>201.7</b>	<b>22.6%</b>	<b>196.4</b>	<b>102.7%</b>
Other income / (expenses)	(0.0)	1.4	(0.1)	(2.3)	(0.1)	0.4	0.2	0.2	NM	15.0%	(1.0)	0.6	(159.6%)	0.2	281.9%
Selling and marketing expenses	(7.6)	(8.5)	(8.1)	(8.9)	(8.7)	(10.3)	(10.0)	(9.3)	3.7%	(7.3%)	(33.1)	(38.2)	15.4%	(38.9)	98.4%
Admin expenses	(13.9)	(13.9)	(14.6)	(20.8)	(17.2)	(16.9)	(17.3)	(23.2)	11.7%	34.0%	(63.2)	(74.7)	18.2%	(73.0)	102.3%
Finance costs	(0.7)	(0.8)	(1.0)	(1.9)	(1.7)	(1.6)	(1.6)	(1.8)	(4.8%)	15.8%	(4.3)	(6.7)	54.9%	(5.2)	128.7%
Share of profits of associates	2.4	5.7	5.9	8.4	2.2	6.8	8.4	8.6	1.6%	1.7%	22.5	26.0	15.4%	29.3	88.7%
<b>PBT</b>	<b>16.6</b>	<b>22.7</b>	<b>27.6</b>	<b>18.4</b>	<b>21.9</b>	<b>26.1</b>	<b>30.4</b>	<b>30.2</b>	<b>63.5%</b>	<b>(0.9%)</b>	<b>85.4</b>	<b>108.6</b>	<b>27.1%</b>	<b>108.7</b>	<b>99.9%</b>
Tax	(4.1)	(0.3)	(4.9)	(4.7)	(5.4)	(4.9)	(6.1)	26.0	NM	NM	(14.0)	9.7	(169.1%)	(7.9)	(121.5%)
Effective tax rate	29%	2%	22%	47%	27%	26%	28%	(121%)			22%	(12%)		10%	
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1			0.0	0.1	NM	0.0	NQ
<b>Reported NPATAMI - equityholders</b>	<b>12.5</b>	<b>22.5</b>	<b>22.8</b>	<b>13.7</b>	<b>16.6</b>	<b>21.1</b>	<b>24.4</b>	<b>56.3</b>	<b>309.9%</b>	<b>130.8%</b>	<b>71.4</b>	<b>118.4</b>	<b>65.7%</b>	<b>128.6</b>	<b>92.0%</b>
<b>Normalised NPATAMI - equityholders</b>	<b>16.3</b>	<b>21.8</b>	<b>26.4</b>	<b>20.6</b>	<b>20.8</b>	<b>25.5</b>	<b>29.3</b>	<b>28.5</b>	<b>38.1%</b>	<b>(2.7%)</b>	<b>85.1</b>	<b>104.0</b>	<b>22.2%</b>	<b>100.8</b>	<b>103.2%</b>
<b>One-offs included in reported NPATAMI</b>															
Discontinued operations / losses from CIBI and CIBI Holdings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0			
Costs related to acquisitions	(0.7)	(0.1)	(0.3)	(3.3)	(0.1)	(0.0)	(0.1)	(0.1)			(4.4)	(0.3)			
Share-based payment expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0			
Interest expense on borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0			
Unrealised foreign exchange gain / (loss)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0			
Impact of higher tax rate	(3.1)	0.7	(3.3)	(3.5)	(4.1)	(4.3)	(4.8)	27.9			(9.2)	14.6			
<b>Total one-offs included in reported NPATAMI</b>	<b>(3.8)</b>	<b>0.6</b>	<b>(3.6)</b>	<b>(6.9)</b>	<b>(4.2)</b>	<b>(4.4)</b>	<b>(4.9)</b>	<b>27.8</b>			<b>(13.6)</b>	<b>14.4</b>		<b>27.8</b>	
<b>Gross profit margins</b>	<b>85.3%</b>	<b>83.4%</b>	<b>86.0%</b>	<b>83.3%</b>	<b>79.8%</b>	<b>76.6%</b>	<b>76.3%</b>	<b>76.1%</b>	<b>-7.1 ppt</b>	<b>-0.2 ppt</b>	<b>84.5%</b>	<b>77.1%</b>	<b>-7.3 ppt</b>	<b>78.3%</b>	
<b>PBT margins</b>	<b>38.9%</b>	<b>48.9%</b>	<b>52.3%</b>	<b>35.0%</b>	<b>36.8%</b>	<b>41.9%</b>	<b>45.8%</b>	<b>41.2%</b>	<b>6.3 ppt</b>	<b>-4.6 ppt</b>	<b>43.8%</b>	<b>41.5%</b>	<b>-2.3 ppt</b>	<b>43.4%</b>	
<b>Net margins</b>	<b>29.2%</b>	<b>48.3%</b>	<b>43.1%</b>	<b>26.0%</b>	<b>27.8%</b>	<b>34.0%</b>	<b>36.7%</b>	<b>76.9%</b>	<b>50.9 ppt</b>	<b>40.2 ppt</b>	<b>36.7%</b>	<b>45.3%</b>	<b>8.6 ppt</b>	<b>51.3%</b>	
<b>Revenues</b>	<b>1Q22</b>	<b>2Q22</b>	<b>3Q22</b>	<b>4Q22</b>	<b>1Q23</b>	<b>2Q23</b>	<b>3Q23</b>	<b>4Q23</b>							
<b>Total</b>	<b>42.7</b>	<b>46.5</b>	<b>52.8</b>	<b>52.7</b>	<b>59.6</b>	<b>62.2</b>	<b>66.5</b>	<b>73.2</b>							
digital reports	16.6	19.6	24.1	18.7	26.8	26.4	28.4	33.6							
subscriptions and monitoring services	20.4	21.2	21.8	22.5	23.1	23.4	23.6	23.6							
comprehensive portfolio review and analytics / SCRUBS	3.5	2.2	3.5	6.1	6.4	4.4	7.7	9.2							
digital solutions	2.2	3.6	3.5	5.4	3.2	8.0	6.8	6.8							
<b>% breakdown</b>															
digital reports	39%	42%	46%	35%	45%	42%	43%	46%	<-CCRIS fee back in FY23						
subscriptions and monitoring services	48%	46%	41%	43%	39%	38%	35%	32%							
comprehensive portfolio review and analytics / SCRUBS	8%	5%	7%	12%	11%	7%	12%	13%							
digital solutions	5%	8%	7%	10%	5%	13%	10%	9%							

Source: Company data, Nomura research

Fig. 5: CTOS: Key forecasts

	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26
MYR mn	FY19	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F
<b>Revenue breakdown</b>								
Key Accounts	49	47	54	75	119	161	193	221
Commercial - Malaysia + International (Basis)	74	80	90	105	120	132	144	157
Direct-to-Consumer	5	6	9	15	22	31	41	51
International B2B	0	7	0	0	0	0	0	0
<b>Total Revenue</b>	<b>129</b>	<b>140</b>	<b>153</b>	<b>195</b>	<b>261</b>	<b>323</b>	<b>377</b>	<b>430</b>
% y-y	16.9%	8.8%	9.0%	27.2%	34.2%	23.7%	16.7%	14.0%
<b>% breakdown</b>								
Key Accounts	38%	34%	35%	38%	45%	50%	51%	51%
Commercial - Malaysia + International (Basis)	58%	57%	59%	54%	46%	41%	38%	37%
Direct-to-Consumer	4%	4%	6%	8%	9%	10%	11%	12%
International B2B	0%	5%	0%	0%	0%	0%	0%	0%
<b>Costs as % of revenue</b>								
Selling and marketing expenses	21.5%	24.1%	19.1%	17.0%	14.6%	15.0%	15.0%	15.0%
Admin expenses	29.5%	32.0%	35.3%	32.7%	28.6%	28.8%	27.7%	27.7%
<b>Share of profits of associates</b>	<b>1</b>	<b>2</b>	<b>7</b>	<b>23</b>	<b>26</b>	<b>29</b>	<b>31</b>	<b>35</b>
<b>PBT</b>	<b>41</b>	<b>40</b>	<b>53</b>	<b>90</b>	<b>109</b>	<b>128</b>	<b>153</b>	<b>176</b>
PBT margins	31.9%	28.7%	34.6%	46.2%	41.6%	39.7%	40.6%	40.8%
<b>NPATAMI - equityholders</b>	<b>39</b>	<b>39</b>	<b>43</b>	<b>72</b>	<b>118</b>	<b>122</b>	<b>146</b>	<b>167</b>
Net profit margins	30.2%	27.9%	28.2%	43.8%	39.8%	37.9%	38.6%	38.8%

Source: Company data, Nomura estimates

Fig. 6: CTOS: our numbers are more conservative than internal management targets, leaving room to surprise on upside

MYR mn	Internal management target		Nomura estimates	
	FY24E	FY25E	FY24F	FY25F
Revenue	340-360	415-435	323	377
EBITDA	145-155	180-190	115	137
Normalised PATAMI	125-130	150-160	122	146
P/E (x)	25.5	21.0	26.6	22.3

Source: Company data, Nomura estimates

Fig. 7: CTOS: Changes in estimates

	Old estimates		New estimates		Comment
MYR mn	FY24F	FY25F	FY24F	FY25F	
Revenue breakdown					
Key Accounts	135	155	161	193	Factoring in new acquisitions in ID/PH and better KA momentum
Commercial - Malaysia + International (Basis)	127	139	132	144	Higher ARPU and BASIS revenues
Direct-to-Consumer	30	38	31	41	Slight change
Total Revenue	292	332	323	377	
% y-y	16.4%	13.7%	23.7%	16.7%	
Costs as % of revenue					
Cost of sales	21.7%	21.7%	23.6%	23.6%	Higher due to acquisitions and new products
Selling and marketing expenses	15.5%	15.5%	15.0%	15.0%	Slight reduction due to economies of scale
Admin expenses	29.0%	29.0%	28.8%	27.7%	Slight reduction due to economies of scale
Share of earnings from associates	33	37	29	31	Slightly slower performance from RAM, Juris
PBT	127	145	128	153	Up by 1%/6% for FY24F/25F
% y-y	17.2%	13.7%	18.0%	19.2%	
PBT margins	43.7%	43.7%	39.7%	40.6%	
NPATAMI - equityholders	118	134	122	146	Up by 4%/9% for FY24F/25F
% y-y	17.1%	13.6%	17.7%	19.1%	
Net profit margins	40.4%	40.4%	37.9%	38.6%	
Gross debt/shareholders' equity	21.9%	20.1%	24.1%	22.1%	
Net debt/shareholders' equity	7.6%	2.3%	19.8%	13.2%	

Source: Nomura estimates

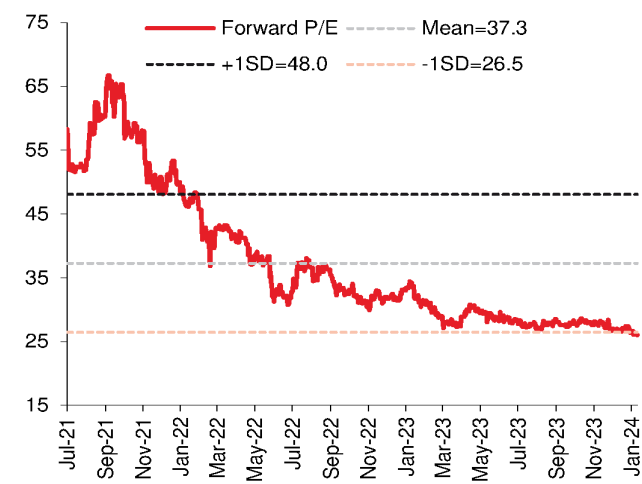
Fig. 8: CTOS: DCF-based valuation

DCF based on free cash flows (MYR mn)	FY21	FY22	FY23	FY24F	FY25F	FY26F	FY27F
Revenue	153	195	261	323	377	430	456
% y-y growth		27.2%	34.2%	23.7%	16.7%	14.0%	6.0%
EBIT	52	71	90	107	129	148	146
% y-y growth		38.1%	25.9%	19.0%	20.5%	15.0%	(1.2%)
EBIT margin	33.6%	36.5%	34.3%	33.0%	34.0%	34.3%	32.0%
Tax rate (t)	20.4%	7.1%	6.0%	6.0%	6.0%	6.0%	24.0%
EBIT (1-t)	41	66	84	100	121	139	111
Add, depreciation and amortisation	9	8	10	9	10	12	12
Less, working capital investment	3	0	(16)	1	1	1	1
Less, capex	(57)	(342)	(28)	(9)	(9)	(10)	(10)
FCFF	(5)	(267)	51	101	123	142	114
Terminal value of FCFF							4,779
Year				0	1	2	3
Discount factor				1.00	0.93	0.86	0.80
Discounted FCFF				101	114	122	3,894
Present value of FCFF		4,231					
Add, carrying value of associates (end-23F)		574					
Add, net cash / (debt) (end-23F)		(132)					
<b>Target equity value</b>		<b>4,673</b>					
<b>Target price (MYR / sh)</b>		<b>2.02</b>					

Source: Company data, Nomura estimates

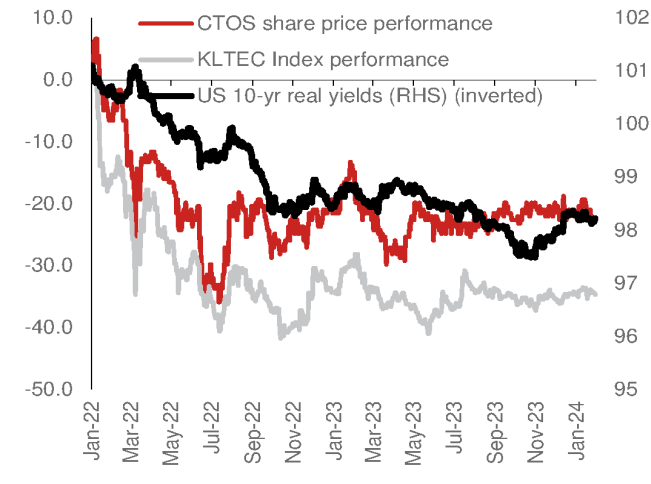


Fig. 9: CTOS: Forward P/E on consensus estimates



Source: Bloomberg Finance L.P., Nomura research

Fig. 10: CTOS' share price is correlated with KLTEC index



Source: Bloomberg Finance L.P., Nomura research

# Appendix A-1

## Analyst Certification

I, Tushar Mohata, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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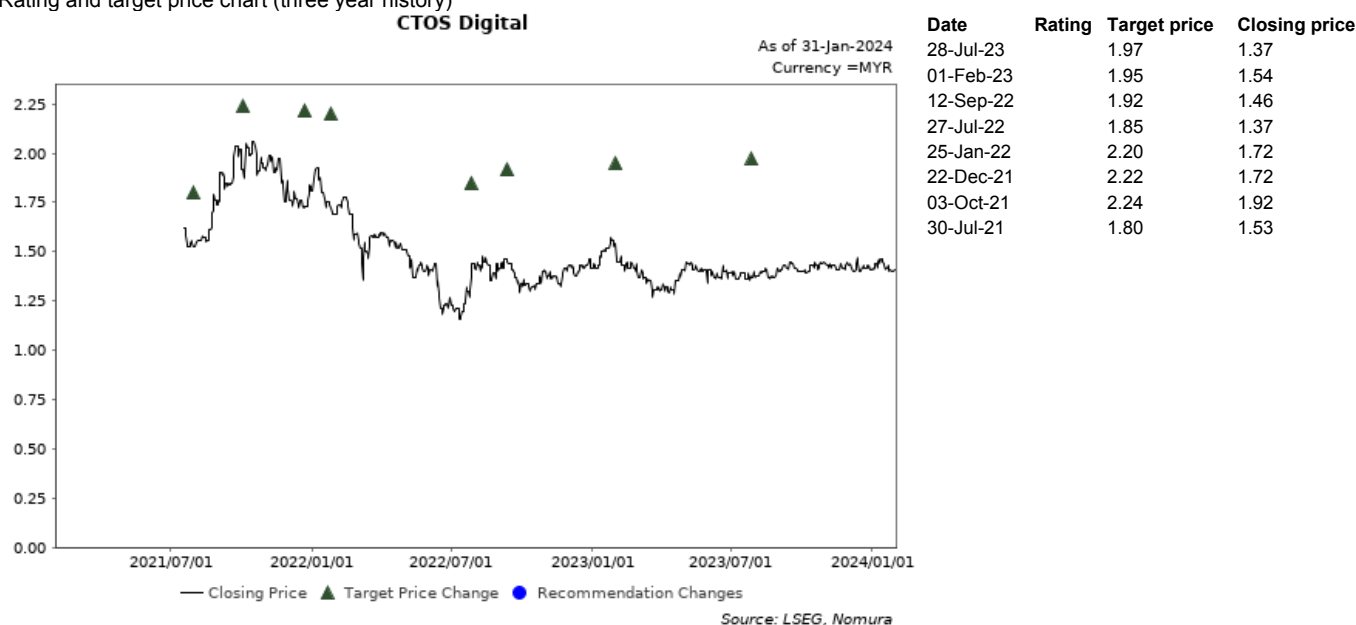
### Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
CTOS Digital	CTOS MK	MYR 1.41	31-Jan-2024	Buy	N/A	

### CTOS Digital (CTOS MK)

MYR 1.41 (31-Jan-2024) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We value CTOS Digital based on a discounted cash flow (DCF) model of free cash flows to firm (FCFF). We use a WACC of 7.9%, terminal growth rate of 5%, and assume tax rates revert to 24% from FY27F due to expiry of the tax incentives. Our TP is MYR2.02, which implies a target P/E of 38x on FY24F earnings estimates. This is at a premium to CTOS' peers in the global credit bureau, ratings agencies, financial data providers and value-added services peer groups, in view of CTOS' superior earnings growth expected compared to peers. The benchmark index for this stock is the FBMKLCI Index.

**Risks that may impede the achievement of the target price** Downside risks to our view are: 1) slower than expected revenue or earnings growth from main segments; 2) FX risks due to exposure to Thailand; 3) regulatory and data security risks; and 4) acquisitions not delivering expected returns.

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As at 31 December 2023.

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