

2 February 2024

Technology | Technology

## CTOS Digital (CTOS MK)

### Buy (Maintained)

### A Record-High Year, Sustainable Growth Path; BUY

Target Price (Return):	MYR1.93 (36.5%)
Price (Market Cap):	MYR1.41 (USD689m)
ESG score:	2.8 (out of 4)
Avg Daily Turnover (MYR/USD)	4.27m/0.91m

- **Keep BUY, higher MYR1.93 TP from MYR1.89, 37% upside, 2.4% FY24F yield.** CTOS Digital's FY23 record-high core PATAMI of MYR104m (+21.8% YoY) met expectations – supported by remarkable growth from all its business segments. We continue to like CTOS for its sustainable growth prospect from its various digital solutions and analytical insights, supported by secular trend of digitalisation, recession-proof business model, solid earnings delivery, cash flow generation, and strong ROE. It declared a fourth interim DPS of 1.706 sen (4Q23: 0.36 sen).
- **Strong growth momentum.** FY23 revenue of MYR261.4m (+34.2%) and core PATAMI of MYR104m met ours and Street's estimates at 100.3% and 99.4% full-year forecasts. Strong double-digit growth were seen in all segments – key accounts (+51%), commercial (+15%), and direct-to-consumer (+46%), boosted by new account activation, product penetration, higher demand for digital solutions, analytical insight, digital reports, and resumption of Central Credit Reference Information System (CCRIS) revenue (a cost pass-through) following the expiry of fee waiver in Dec 2022. International operation (newly-acquired subsidiaries) booked MYR5.9m revenue and MYR1.1m profit while share of profits from associates grew 11.6% YoY to MYR26m.
- **4Q23 boosted by newly-acquired subsidiaries and tax credit.** 4Q23 revenue grew 38.7% YoY and 10.1% QoQ to MYR73.2m – buoyed by growth from all business segments and contribution from Prime Analytics and Finscore. Consequently, core PATAMI was higher 36.7% YoY to MYR28.8m. However, sequential weakness (-1.1% QoQ) in core PATAMI can be attributed to higher staff and IT-related costs (+39.3% QoQ). Note that we excluded the reversal of c.MYR27.8m in tax credit when arriving at our core PATAMI, on the extension of a second 5-year tax exemption ending Nov 2026 as we have been factoring-in this tax incentive into our earnings forecasts.
- **FY24 outlook.** Management remains optimistic on CTOS' growth trajectory for its core business, driven by higher ARPU from the rising adoption of digital solutions and in-depth analytical insights, plus on-boarding of new customers. Continued innovation on advanced analytics and digital & fraud ID are set to drive growth. A new digital lending platform, loan origination systems, a digital issuer platform with Bursa Malaysia, ESG ratings, SME credit ratings, and product expansion for corporates and SMEs are among the initiatives to drive growth at associate company level. International operation expansion via new subsidiaries offers long-term growth potential for alternate data credit-centric solutions.
- **Reiterate BUY.** Our FY24-25 earnings forecasts are raised 2.8% and 6.9% as we factor-in the latest guidance and model upkeep exercises. Our DCF-derived TP is revised to MY1.93, with a 4% ESG discount baked in, as we rolled forward our valuation base year. Downside risks: Regulatory environment changes, slower-than-expected topline growth, and data security breaches.

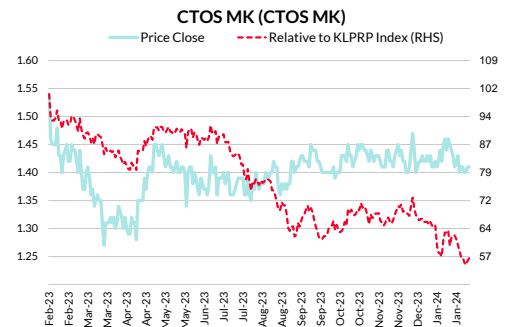
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	0.0	(2.8)	0.7	(8.5)
Relative	(6.8)	(6.8)	(11.5)	(18.5)	(44.0)
52-wk Price low/high (MYR)				1.27	–1.48



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23	Dec-24F	Dec-25F
Total turnover (MYRm)	153	195	261	296	341
Recurring net profit (MYRm)	51	85	104	124	152
Recurring net profit growth (%)	18.9	67.8	22.4	19.1	22.9
Recurring P/E (x)	64.22	38.28	31.29	26.28	21.39
P/B (x)	10.6	6.4	5.5	5.1	4.7
P/CF (x)	102.59	34.93	45.09	29.57	25.44
Dividend Yield (%)	0.8	1.3	2.4	2.4	2.9
EV/EBITDA (x)	51.38	37.49	28.39	22.36	17.92
Return on average equity (%)	22.0	12.0	14.9	16.9	21.8
Net debt to equity (%)	net cash	26.7	22.3	14.6	7.8

Source: Company data, RHB

#### Overall ESG Score: 2.8 (out of 4)

##### E: EXCELLENT

CTOS has initiated two flagship initiatives in "Going Green" and "Going Paperless" to reduce carbon footprint and put in place a sustainability blueprint for 2022-2025. The data centre in Cyberjaya was awarded the GBI certification. It achieved 30% cost savings in energy consumption and 60% of savings in printing paper in 2021, reduced hand paper, and only uses PEFC-certified papers.

##### S: GOOD

CTOS is an equal opportunity employer and does not discriminate against race, ethnicity, religion, nationality, gender, or disability. Access to a confidential reporting channel and a whistleblowing point of contact for harassment and hostility at the workplace are provided.

##### G: POOR

Majority of the board members are independent while women directors represent 37.5% of the board. However, the RPTs are deemed unfavourable to the governance pillar.

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Malaysia	Recurring EPS	0.02	0.04	0.05	0.05	0.07
Technology	DPS	0.01	0.02	0.03	0.03	0.04
<b>CTOS Digital</b>	BVPS	0.13	0.22	0.26	0.28	0.30
CTOS MK	Return on average equity (%)	22.0	12.0	14.9	16.9	21.8
Buy						
	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Valuation basis</b>	Recurring P/E (x)	64.22	38.28	31.29	26.28	21.39
DCF	P/B (x)	10.6	6.4	5.5	5.1	4.7
	FCF Yield (%)	0.9	2.7	2.1	3.1	3.7
<b>Key drivers</b>	Dividend Yield (%)	0.8	1.3	2.4	2.4	2.9
Key drivers to our earnings are:	EV/EBITDA (x)	51.38	37.49	28.39	22.36	17.92
i. Growth in key accounts ARPU;	EV/EBIT (x)	60.03	42.26	31.74	24.10	19.13
ii. Growth in commercial and direct-to-consumer customers;						
iii. Contributions from associates.						
<b>Key risks</b>	<b>Income statement (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Key risks to our call are:	Total turnover	153	195	261	296	341
i. Unfavourable changes in the regulatory environment;	Gross profit	134	165	202	233	268
ii. Slower-than-expected topline growth;	EBITDA	60	75	99	124	151
iii. Data leaks.	Depreciation and amortisation	(9)	(8)	(10)	(9)	(10)
	Operating profit	51	67	89	115	142
	Net interest	0	(4)	(8)	(5)	(4)
	Pre-tax profit	55	63	72	117	160
	Taxation	(9)	(14)	10	(12)	(15)
	Reported net profit	46	49	82	104	145
	Recurring net profit	51	85	104	124	152
<b>Company Profile</b>	<b>Cash flow (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
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 provides credit information and analysis to consumers.	Change in working capital	(25)	24	(15)	7	(1)
	Cash flow from operations	32	93	72	110	128
	Capex	(3)	(5)	(3)	(8)	(8)
	Cash flow from investing activities	(72)	(338)	(11)	7	7
	Dividends paid	(41)	(42)	(46)	(78)	(96)
	Cash flow from financing activities	(99)	284	(9)	(98)	(116)
	Cash at beginning of period	26	17	12	17	36
	Net change in cash	(138)	39	53	19	19
	Ending balance cash	(112)	56	65	36	55
	<b>Balance sheet (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total cash and equivalents	17	12	17	36	56
	Tangible fixed assets	19	16	12	14	16
	Total investments	173	575	574	589	607
	Total assets	361	735	811	832	877
	Short-term debt	0	10	49	130	110
	Total long-term debt	0	139	101	0	0
	Total liabilities	53	223	218	193	182
	Total equity	308	513	593	639	695
	Total liabilities & equity	361	735	811	832	877
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	15.0	27.2	34.2	13.1	15.2
	Recurrent EPS growth (%)	18.9	67.8	22.3	19.1	22.8
	Gross margin (%)	87.5	84.5	77.1	78.7	78.6
	Operating EBITDA margin (%)	39.0	38.6	37.9	41.8	44.4
	Net profit margin (%)	30.1	25.2	31.4	35.3	42.6
	Dividend payout ratio (%)	56.5	84.1	93.7	74.9	66.1
	Capex/sales (%)	1.7	2.7	1.0	2.7	2.4
	Interest cover (x)	12,773	18	11	20	33

Source: Company data, RHB

## Results At a Glance

Figure 1: FY23 results summary

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Revenue	52.7	66.5	73.2	10.1	38.7	194.8	261.4	34.2	YoY & QoQ: Double-digit growth in all business segments, driven by strong demand for CTOS data systems reports, digital solutions, and comprehensive portfolio review and analytics services.
Key accounts	21.3	29.7	35.8	20.5	67.8	74.8	118.9	59.0	
Commercial	17.3	30.9	31.8	2.8	83.5	94.8	120.2	26.8	
Direct-to-consumers	4.1	5.8	5.6	(4.3)	35.0	15.3	22.4	46.4	
Cost of sales	(8.7)	(15.7)	(17.5)	(10.9)	(99.6)	(30.2)	(59.8)	(98.2)	
<b>Gross profit</b>	<b>44.0</b>	<b>50.7</b>	<b>55.7</b>	<b>9.8</b>	<b>26.6</b>	<b>164.6</b>	<b>201.7</b>	<b>22.5</b>	
Other income/(expenses)	(2.4)	(0.0)	(0.0)	133.3	(98.9)	(1.5)	(0.0)	(99.2)	
Selling & marketing expenses	(9.0)	(10.0)	(9.3)	7.3	(3.0)	(33.2)	(38.2)	(15.2)	YoY: More targeted marketing via digital channels and social media to improve awareness.
Admin expenses	(19.1)	(14.7)	(20.5)	(39.3)	(7.3)	(55.4)	(64.3)	(15.9)	YoY and QoQ: Additional staff costs and IT-related expenses.
<b>EBITDA</b>	<b>13.5</b>	<b>26.0</b>	<b>25.9</b>	<b>(0.3)</b>	<b>92.4</b>	<b>74.5</b>	<b>99.2</b>	<b>33.1</b>	
Depreciation & amortisation	(2.2)	(2.6)	(2.7)	(4.4)	(23.6)	(8.3)	(10.4)	(26.3)	
Interest income	0.2	0.2	0.2	22.3	42.2	0.5	0.6	16.2	
<b>Operating profit/EBIT</b>	<b>11.4</b>	<b>23.5</b>	<b>23.4</b>	<b>(0.7)</b>	<b>105.1</b>	<b>66.8</b>	<b>89.3</b>	<b>33.8</b>	
Finance cost	(1.9)	(1.6)	(1.8)	(15.8)	4.8	(4.3)	(6.7)	(54.9)	
Share of associates' profits	9.2	8.4	8.6	1.7	(6.8)	23.3	26.0	11.6	YoY: Lower contribution from JurisTech.
<b>Profit before tax</b>	<b>18.7</b>	<b>30.4</b>	<b>30.2</b>	<b>(0.9)</b>	<b>61.2</b>	<b>85.7</b>	<b>108.6</b>	<b>26.7</b>	
Tax expenses	(4.7)	(6.1)	26.0	528.9	653.2	(14.0)	9.7	169.1	Recognition tax credit of MYR27.8m on the over-provision of prior year and 9M23 taxes upon the approval of CDS tax incentives.
<b>ETR (%)</b>	<b>25.2</b>	<b>20.0</b>	<b>(86.3)</b>			<b>16.3</b>	<b>(8.9)</b>		
<b>PAT</b>	<b>14.0</b>	<b>24.3</b>	<b>56.2</b>	<b>130.8</b>	<b>301.2</b>	<b>71.7</b>	<b>118.2</b>	<b>64.9</b>	
Non-controlling interest	0.0	0.0	0.1			0.0	0.1		
<b>PATAMI</b>	<b>14.0</b>	<b>24.4</b>	<b>56.3</b>	<b>130.8</b>	<b>301.9</b>	<b>71.7</b>	<b>118.4</b>	<b>65.1</b>	
EI	7.1	4.8	(27.4)			13.6	(14.3)		Tax expenses adjustment, one-off acquisition costs, fair value gains, and unrealised FX gains/losses.
<b>Core PATAMI</b>	<b>21.1</b>	<b>29.2</b>	<b>28.8</b>	<b>(1.1)</b>	<b>36.7</b>	<b>85.4</b>	<b>104.1</b>	<b>22.0</b>	
<b>Key metrics</b>									
Gross profit margin	83.4	76.3	76.1			84.5	77.1		
EBITDA margin	25.5	39.1	35.4			38.2	37.9		
EBIT margin	21.6	35.4	32.0			34.3	34.2		
PBT margin	35.5	45.8	41.2			44.0	41.5		
Net margin	26.6	36.7	76.9			36.8	45.3		
Core net margin	40.0	43.9	39.4			43.8	39.8		

Source: Company data, RHB

## Valuation

Figure 2: DCF valuation (simplified)

DCF workings	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
Revenue	340.72	390.50	449.08	516.44	593.90	682.99	779.75	883.71	994.18	1,110.17
EBIT margin (%)	41.8%	44.1%	44.1%	44.1%	43.8%	43.6%	42.2%	40.7%	39.3%	37.9%
EBIT	142.32	172.14	197.96	227.66	260.32	297.66	328.68	359.86	390.62	420.32
Tax rate (%)	9.0%	9.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%
EBIT (1 - t)	129.51	156.65	150.45	173.02	197.84	226.22	249.79	273.49	296.87	319.44
Depreciation & amortisation	9.55	10.33	9.51	10.22	10.99	11.81	12.65	13.49	14.33	15.17
CAPEX	(8.06)	(9.31)	(10.01)	(10.76)	(11.57)	(12.43)	(13.31)	(14.20)	(15.09)	(15.97)
Working capital	(0.62)	(0.28)	(0.33)	(0.38)	(0.43)	(0.50)	(0.53)	(0.57)	(0.60)	(0.64)
<b>Free cash flow to firm</b>	<b>130.38</b>	<b>157.38</b>	<b>149.62</b>	<b>172.10</b>	<b>196.83</b>	<b>225.10</b>	<b>248.60</b>	<b>272.21</b>	<b>295.51</b>	<b>318.00</b>
Cost of capital	7.2%	7.2%	7.4%	7.4%	7.4%	7.4%	8.1%	8.1%	8.1%	8.1%
Cumulated discount factor	1.07	1.15	1.24	1.33	1.43	1.54	1.73	1.87	2.02	2.19
<b>PV of FCFF</b>	<b>121.65</b>	<b>137.01</b>	<b>120.71</b>	<b>129.26</b>	<b>137.62</b>	<b>146.52</b>	<b>143.71</b>	<b>145.52</b>	<b>146.08</b>	<b>145.36</b>

Valuation workings		Valuation inputs	2024-26F	2027-30F	≥2031F
PV of forecast FCFF	259	<b>WACC</b>	<b>7.18</b>	<b>7.42</b>	<b>8.14</b>
PV of new verticals FCFF	534	Cost of debt (1-t)	4.92	4.92	4.92
PV of transition FCFF	864	Cost of equity	7.58	7.86	8.14
PV of terminal value	2,326	Rf	4.00	4.00	4.00
<b>Cumulative PV of FCFF</b>	<b>3,983</b>	Rm	6.67	6.67	6.67
Net cash/(debt)	(131)	Beta	1.13	1.13	1.13
Minority interest	0.0	Risk adjustment	0.50	0.75	1.00
<b>Equity value</b>	<b>3,852</b>				
Associate stakes	783				
<b>Total equity value</b>	<b>4,635</b>				
ESG discount	<u>4%</u>				
<b>TP (MYR/share)</b>	<b>1.93</b>				

Source: Company data, RHB

## Emissions And ESG

### Trend analysis

The energy usage has been on a declining trend (-3%) in overall Scopes 1 and 2 since 2019, but increased 26% YoY in 2022 (vs 2021), as the transition from working-from-home to the office increased energy usage.

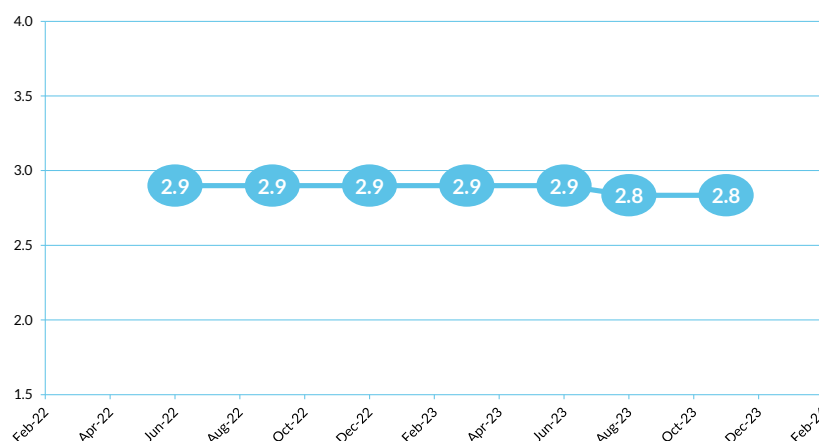
Emissions (tCO <sub>2</sub> e)	Dec-20	Dec-21	Dec-22
Scope 1	1	1	1
Scope 2	396	324	408
Scope 3	-	-	-
Total emissions	398	324	408

Source: Company data, RHB

## Latest ESG-Related Developments

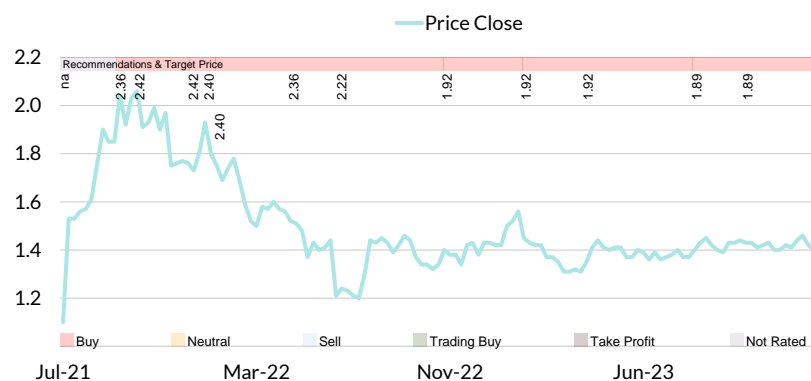
- CTOS is a constituent member for both the FTSE4Good Bursa Malaysia (FTSE4Good) Index and FTSE4Good Bursa Malaysia Shariah (F4GBMS) Index.
- This places it among companies with leading ESG practices and is in compliance with the best practice in terms of disclosures.
- CTOS remains committed to its sustainability journey and established a Sustainability Blueprint in 2022, which aims to help empower consumers and businesses to make sound credit decisions confidently as well as integrating sustainability into their strategies and decision-making processes.
- The company has also set an ambitious target to reduce emissions by 15% and achieve Net Zero by 2050.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-10-30	Buy	1.89	1.45
2023-08-28	Buy	1.89	1.38
2023-04-18	Buy	1.92	1.28
2023-02-02	Buy	1.92	1.46
2022-10-28	Buy	1.92	1.40
2022-06-22	Buy	2.22	1.23
2022-04-24	Buy	2.36	1.52
2022-01-24	Buy	2.40	1.74
2022-01-11	Buy	2.40	1.87
2021-12-22	Buy	2.42	1.72
2021-10-17	Buy	2.42	2.06
2021-10-03	Buy	2.36	1.92
2021-09-23	Buy	2.36	2.04

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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