

CTOS Digital Berhad (CTOS MK)

Concerns overblown

Emphasis on 'precautionary measure'

That BNM's temporary suspension of CRAs' access to CCRIS is merely precautionary in response to possible cyber-attacks is a relief and we think that the restoration of access will likely be much faster than anticipated, with minimal impact to earnings. We maintain BUY with 2.17 TP (based on FY22 PEG target of 2.6x, in-line with global peer basket median).

Concerns over cyber-attacks, not data leakages

From our discussion with management, BNM's move to temporarily suspend Credit Reporting Agencies' (CRAs) access to CCRIS stems from concerns that the CRAs themselves may be the next targets of cyber-attacks after the recent reported data leakages from Government departments, and NOT because of concerns of their involvement in reported data leakages or that their systems have been compromised. CTOS has never had data leakages in the past and assures that its data security systems are as robust as that of the banking system.

Timeline likely much shorter than anticipated

Aside from its own comprehensive review, CTOS has also engaged an independent security firm to review its security processes, infrastructure and protocol, to be submitted to BNM over the course of a day or two. Approval to resume usage of CCRIS is thus expected to be much faster than our previous hypothetical assumption of one month, and could in fact be as short as a couple of days, in our view, subject to BNM approval. CCRIS data is used mainly in its own CTOS Reports, as well as in its eKYC product and scrubbing services. Our previous hypothetical scenario showed that even if revenue from the sale of reports was disrupted for a month, the impact to FY21 earnings would be a minimal 5%. The impact would thus be much less for a shorter duration.

Business update and outlook

Operationally, CTOS is seeing strong recovery post-lockdown across all its business segments. Marketing efforts have stepped up in the consumer segment with the offering of free access to SecureID for a limited period while on the SME front, there will be a significant upgrade to its Credit Manager product. As for the new business segments that it targets i.e. Property, Auto and Insurance, CTOS plans to roll out its very first Motor Vehicle Report soon and is getting closer to working with the insurance industry as well. It has done an upgrade to the Tenant Screening Report and this will be released soon. There is no news yet on its Pioneer Tax status, but management maintains its expected Oct/Nov timeline for a reply, for now.

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	75.4	57.4	47.8
P/BV (x)	na	na	13.3	12.2	11.0
Net dividend yield (%)	na	na	0.8	1.0	1.3
ROAA (%)	71.6	21.6	15.9	19.3	21.2
EV/EBITDA (x)	85.7	80.3	65.1	49.0	41.7
Net gearing (%) (incl perps)	nm	net cash	net cash	net cash	net cash
Consensus net profit	-	-	50	73	89
MKE vs. Consensus (%)	-	-	9.3	(1.8)	(3.7)

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BUY

Share Price	MYR 1.87
12m Price Target	MYR 2.17 (+16%)
Previous Price Target	MYR 2.17

Company Description

CTOS Digital is a credit rating agency, principally involved in the business of credit reporting, digital related services, and investment holding.

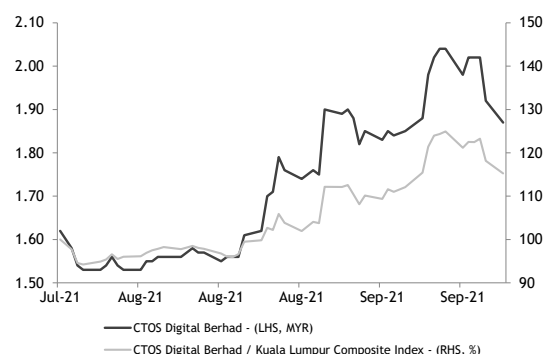
Statistics

52w high/low (MYR)	na/na
3m avg turnover (USDm)	14.4
Free float (%)	50.9
Issued shares (m)	2,200
Market capitalisation	MYR4.1B USD986M

Major shareholders:

Inodes Ltd.	40.0%
CHUNG TZE KEONG	4.5%
CHUNG TZE WEN	4.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	na	na
Relative to index (%)	3	na	na

Source: FactSet

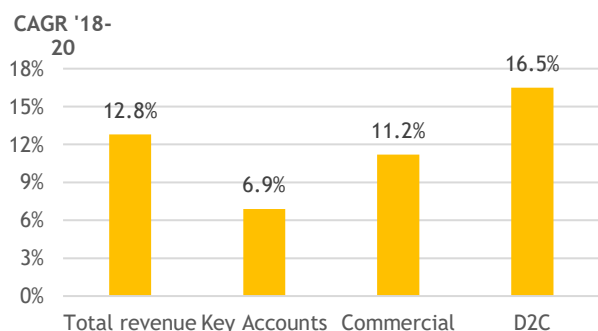
Abbreviations

BNM: Central Bank of Malaysia
 CRA: Credit Reporting Agency
 CCRIS: Central Credit Reference Information System
 PEG: PER-to-Earnings Growth
 MDEC: Malaysia Digital Economy Corporation
 D2C: Direct-to-consumer

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

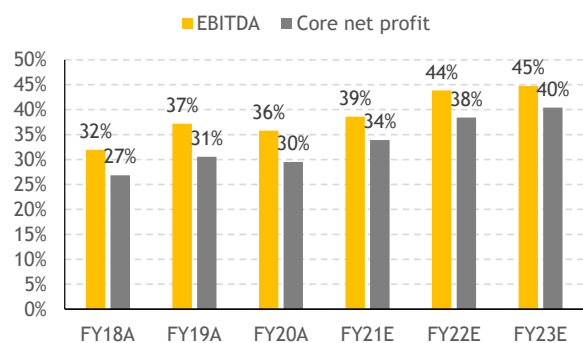


Source: Company

Financial Metrics

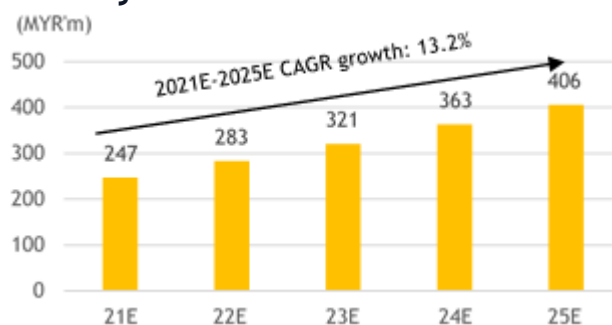
- We project a 3-year (FY20-FY23E) core net profit CAGR of 28%, driven primarily by growth across all customer segments and average revenue per customer (i.e. from new offerings, new verticals, more value-added products).
- Our forecasts have imputed annual customer/account growth of +5-10% YoY.
- We 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

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.

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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FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	na	na	75.4	57.4	47.8
Core P/E (x)	na	na	75.4	57.4	47.8
P/BV (x)	na	na	13.3	12.2	11.0
P/NTA (x)	na	na	17.8	15.9	14.0
Net dividend yield (%)	na	na	0.8	1.0	1.3
FCF yield (%)	na	na	1.2	1.8	2.1
EV/EBITDA (x)	85.7	80.3	65.1	49.0	41.7
EV/EBIT (x)	98.7	94.8	74.4	55.8	45.9
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	37.2	35.9	38.6	43.8	44.8
EBIT margin	32.3	30.4	33.8	38.5	40.7
Pretax profit margin	31.9	28.7	34.9	39.5	41.6
Payout ratio	55.7	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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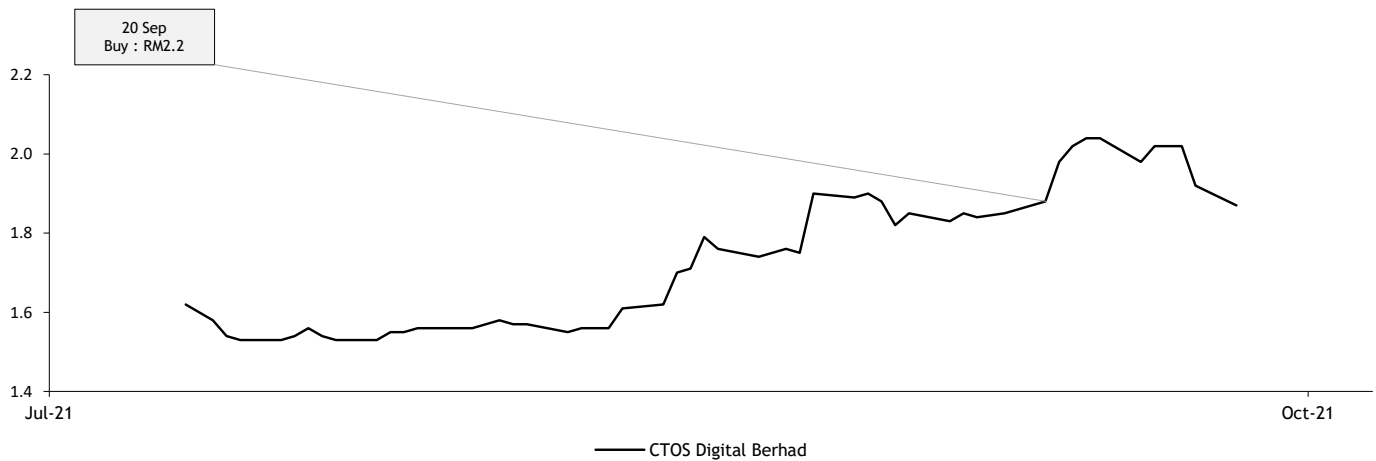
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