

# CTOS Digital Berhad (CTOS MK)

## Decent 2Q22, with strong growth momentum ahead

### Maintain BUY

1H22 core earnings of MYR35m (+48% YoY) was in-line with ours and consensus' estimates at 40%/45% of FY22E forecasts, as we expect further tax write backs in 2H22. Core businesses remained solid, as reflected in the 23% YoY revenue growth, while associate profits were also higher following its recent acquisitions. We remain upbeat on CTOS' outlook as demand for credit lending solutions continues to grow. Maintain BUY with an unchanged TP of RM1.92, based on 2.0x PEG multiple. At 35.0x FY22E PE, the stock is trading at below +1SD to its 1-year average.

### In-line with expectations

Core net profit in 2Q22 grew by 87% YoY on the back of higher revenue (+23% YoY), higher associate profits, as well as lower effective tax rate (1.2%) due to a tax write back of RM4.2m. 1H22 earnings was up 48% to RM35m and made up 40%/45% of our/consensus FY22E estimates. We deem the results to be in-line, considering there could be further tax write backs in 2H22 upon the extension of the pioneer tax status.

### Strong growth across most segments

The strong revenue growth of 23% YoY in 2Q22 was driven by Key Account, international Commercial and D2C segments. CTOS saw a noticeable increase in its digital reports, portfolio review and analytics, as well as new digital solutions, which reflected growing take up rate on its value-added services. Revenue from domestic Commercial segment growth remained modest at just 7% YoY due to slower recovery. Associate profits were higher mainly due to additional contribution from JurisTech.

### Upbeat on the outlook

We expect strong earnings momentum ahead, on the back of expanding clientele base and improving ARPU on higher VAS subscription. Through its recent acquisition spree, strong execution to tap business synergies is a key factor to further unlock potential growth ahead. Elsewhere, the proliferation of digital moneylenders and tightening regulation amongst BNPL providers are added catalysts for the group. Key risks are 1) rising borrowing cost that may negate earnings accretion from its recent acquisitions, 2) weaker-than-expected business synergies from its acquisitions, and 3) pricing competition within the D2C segment.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	140	153	176	201	227
EBITDA	54	65	77	89	103
Core net profit	43	50	86	102	117
Core EPS (sen)	1.9	2.3	3.7	4.4	5.1
Core EPS growth (%)	8.4	16.0	65.9	17.6	15.1
Net DPS (sen)	0.0	1.2	2.0	2.4	2.8
Core P/E (x)	na	80.2	35.0	29.8	25.9
P/BV (x)	na	12.9	5.5	5.3	4.9
Net dividend yield (%)	na	0.7	1.5	1.8	2.1
ROAE (%)	73.2	20.8	20.8	18.7	19.7
ROAA (%)	31.0	15.6	16.6	13.5	13.8
EV/EBITDA (x)	58.2	60.9	37.6	33.5	28.6
Net gearing (%) (incl perps)	91.6	net cash	2.1	18.1	8.0
Consensus net profit	-	-	77	94	111
MKE vs. Consensus (%)	-	-	12.3	8.2	5.4

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# BUY

Share Price	MYR 1.31
12m Price Target	MYR 1.92 (+48%)
Previous Price Target	MYR 1.92

### Company Description

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

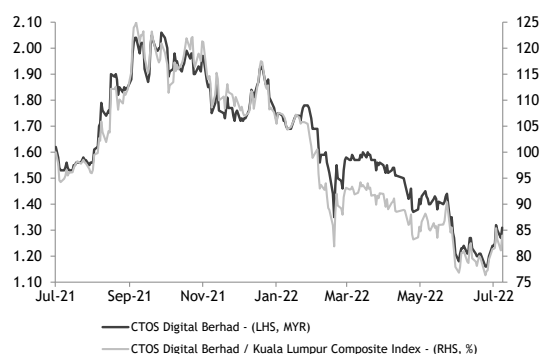
### Statistics

52w high/low (MYR)	2.06/1.16
3m avg turnover (USDm)	0.9
Free float (%)	54.8
Issued shares (m)	2,310
Market capitalisation	MYR3.0B USD679M

### Major shareholders:

Inodes	30.3%
Chung Tze Keong	4.5%
Chung Tze Wen	4.5%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	6	(15)	(14)
Relative to index (%)	3	(8)	(12)

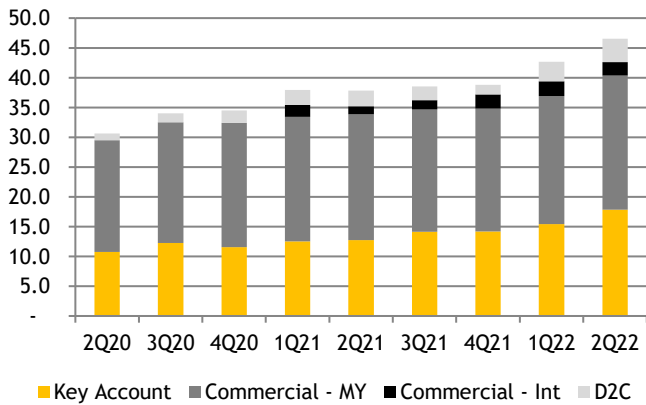
Source: FactSet

Fig 1: CTOS Digital: Results Summary

FYE Dec (MYR m)	Quarterly results					Cumulative		
	2Q22	1Q22	%QoQ	2Q21	%YoY	1H22	1H21	%YoY
Turnover	46.5	42.7	9	37.8	23	89.2	75.8	18
EBITDA	19.7	16.8	17	16.4	20	36.5	34.4	6
Depreciation & amortisation	(2.0)	(2.0)	1	(2.3)	(13)	(4.0)	(4.6)	(13)
EBIT	17.7	14.8	19	14.1	25	32.5	29.8	9
Interest expense	(0.8)	(0.7)	13	(1.6)	(52)	(1.5)	(5.2)	(72)
Interest income	0.1	0.1	35	0.0	169	0.2	0.1	135
Associates	5.7	2.4	138	1.8	224	8.1	3.4	138
Exceptional items	0.0	(0.0)	nm	(0.0)	nm	(0.0)	(3.6)	nm
Pre-tax profits	22.7	16.6	37	14.3	59	39.4	24.5	61
Tax	(0.3)	(4.1)	(94)	(2.5)	(89)	(4.4)	(4.9)	(11)
Minority interest	0.0	0.0	nm	0.2	nm	0.0	0.6	nm
Net profit	22.5	12.5	80	12.0	87	35.0	20.1	74
Core net profit	22.5	12.5	80	12.0	87	35.0	23.7	48
	2Q22	1Q22	+/- ppt	2Q21	%YoY	1H22	1H21	+/- ppt
EBITDA margin (%)	42.2	39.4	2.8	43.4	(1.1)	40.9	45.3	(4.5)
Core NP margin (%)	48.3	29.3	19.0	31.8	16.5	39.2	31.3	7.9
Tax rate (%)	1.2	24.9	(23.7)	17.2	(16.0)	11.2	20.1	(9.0)
<b>Segmental breakdown</b>								
Key Accounts	17.8	15.4	15	12.8	40	33.3	25.3	32
Commercial - MY	22.5	21.5	5	21.1	7	44.0	42.0	5
Commercial - Int	2.3	2.5	(9)	1.3	69	4.8	3.3	43
D2C	3.9	3.3	19	2.6	48	7.2	5.2	39
<b>Total revenue</b>	<b>46.5</b>	<b>42.7</b>	<b>9</b>	<b>37.8</b>	<b>23</b>	<b>89.2</b>	<b>75.8</b>	<b>18</b>

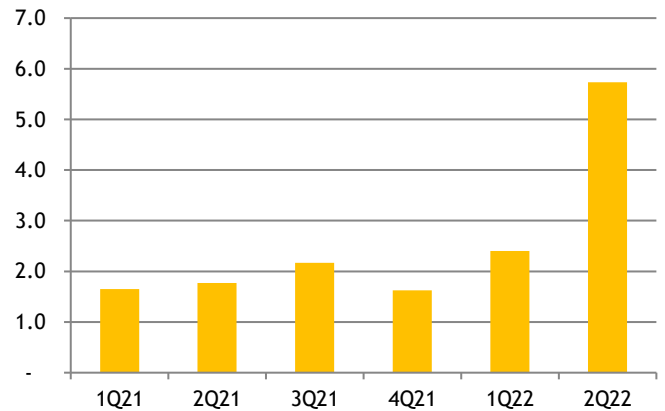
Source: Company, Maybank IBG Research

Fig 2: Revenue breakdown by business segment (MYRm)



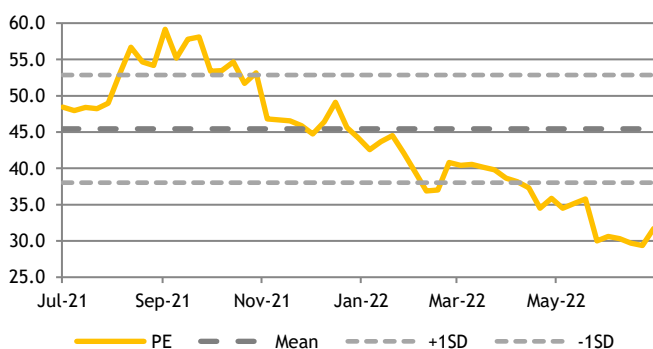
Source: Company

Fig 3: Associate profits (MYRm)



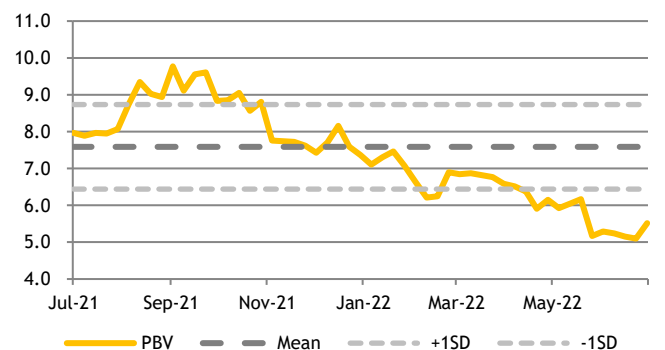
Source: Company

Fig 4: PER chart



Source: Bloomberg, Maybank IBG Research

Fig 5: PBV chart



Source: Bloomberg, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	na	91.4	33.3	28.3	24.6
Core P/E (x)	na	80.2	35.0	29.8	25.9
P/BV (x)	na	12.9	5.5	5.3	4.9
P/NTA (x)	na	17.4	6.5	6.2	5.6
Net dividend yield (%)	na	0.7	1.5	1.8	2.1
FCF yield (%)	na	1.5	3.1	3.8	4.5
EV/EBITDA (x)	58.2	60.9	37.6	33.5	28.6
EV/EBIT (x)	67.9	70.2	41.1	35.9	30.4
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	140.5	153.2	175.5	200.6	226.6
EBITDA	53.9	65.1	76.9	89.2	102.6
Depreciation	(7.3)	(7.7)	(5.4)	(4.9)	(4.6)
Amortisation	(0.4)	(0.9)	(1.0)	(1.2)	(1.6)
EBIT	46.2	56.5	70.4	83.0	96.5
Net interest income / (exp)	(4.0)	(5.3)	(2.4)	(5.3)	(7.0)
Associates & JV	1.8	7.2	19.4	30.4	35.0
Exceptionals	(2.3)	(6.1)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	41.7	52.3	87.4	108.2	124.5
Income tax	(2.4)	(9.3)	(1.0)	(6.5)	(7.5)
Minorities	1.2	0.6	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	40.5	43.6	86.5	101.7	117.0
Core net profit	42.8	49.6	86.5	101.7	117.0
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	26.4	17.1	98.7	94.7	147.7
Accounts receivable	28.2	25.2	28.8	32.9	37.2
Inventory	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	16.9	14.7	13.3	12.4	11.8
Intangible assets	49.6	79.2	78.2	77.0	75.4
Investment in Associates & JVs	150.8	172.9	413.4	552.4	552.4
Other assets	4.1	51.5	51.5	51.5	51.5
<b>Total assets</b>	<b>276.0</b>	<b>360.6</b>	<b>683.9</b>	<b>820.9</b>	<b>876.0</b>
ST interest bearing debt	132.3	0.0	109.5	197.5	197.5
Accounts payable	17.1	21.9	21.6	24.4	27.2
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	11.0	31.0	31.0	31.0	31.0
<b>Total Liabilities</b>	<b>160.3</b>	<b>52.8</b>	<b>162.1</b>	<b>252.9</b>	<b>255.6</b>
Shareholders Equity	110.8	307.7	521.8	568.0	620.4
Minority Interest	5.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>115.7</b>	<b>307.7</b>	<b>521.8</b>	<b>568.0</b>	<b>620.4</b>
<b>Total liabilities and equity</b>	<b>276.0</b>	<b>360.6</b>	<b>683.9</b>	<b>820.9</b>	<b>876.0</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	41.7	52.3	87.4	108.2	124.5
Depreciation & amortisation	7.7	8.6	6.4	6.1	6.2
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(1.2)	(1.0)	(4.0)	(5.4)	(5.1)
Cash taxes paid	(2.1)	(3.3)	(1.0)	(6.5)	(7.5)
Other operating cash flow	3.5	5.5	3.4	11.7	14.5
Cash flow from operations	49.6	62.2	92.2	114.1	132.5
Capex	(4.7)	(2.0)	(4.0)	(4.0)	(4.0)
Free cash flow	44.9	60.2	88.2	110.1	128.5
Dividends paid	(10.5)	(41.0)	(46.2)	(55.4)	(64.7)
Equity raised / (purchased)	0.0	220.0	173.8	0.0	0.0
Change in Debt	107.4	(138.6)	109.5	88.0	0.0
Other invest/financing cash flow	(122.1)	(108.5)	(243.8)	(146.7)	(10.9)
Effect of exch rate changes	(0.2)	0.2	0.0	0.0	0.0
Net cash flow	19.4	(7.8)	81.6	(4.0)	53.0

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	8.8	9.0	14.6	14.3	13.0
EBITDA growth	11.2	20.8	18.1	16.0	15.1
EBIT growth	9.5	22.3	24.7	17.9	16.2
Pretax growth	1.0	25.6	67.0	23.7	15.1
Reported net profit growth	3.9	7.5	98.5	17.6	15.1
Core net profit growth	8.4	16.0	74.2	17.6	15.1
<b>Profitability ratios (%)</b>					
EBITDA margin	38.4	42.5	43.8	44.4	45.3
EBIT margin	32.9	36.9	40.1	41.4	42.6
Pretax profit margin	29.7	34.2	49.8	53.9	54.9
Payout ratio	0.0	59.7	50.9	51.9	52.6
<b>DuPont analysis</b>					
Net profit margin (%)	28.8	28.4	49.3	50.7	51.6
Revenue/Assets (x)	0.5	0.4	0.3	0.2	0.3
Assets/Equity (x)	2.5	1.2	1.3	1.4	1.4
ROAE (%)	73.2	20.8	20.8	18.7	19.7
ROAA (%)	31.0	15.6	16.6	13.5	13.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	36.2	62.7	55.4	55.4	55.7
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	nm	1.7	2.0	1.9	1.9
Current ratio (x)	0.3	1.8	1.0	0.6	0.9
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.7	6.8	4.2	3.2	3.4
Net gearing (%) (incl perps)	91.6	net cash	2.1	18.1	8.0
Net gearing (%) (excl. perps)	91.6	net cash	2.1	18.1	8.0
Net interest cover (x)	11.5	10.7	29.2	15.8	13.8
Debt/EBITDA (x)	2.5	0.0	1.4	2.2	1.9
Capex/revenue (%)	3.4	1.3	2.3	2.0	1.8
Net debt/ (net cash)	105.9	(17.1)	10.8	102.8	49.8

Source: Company; Maybank IBG Research

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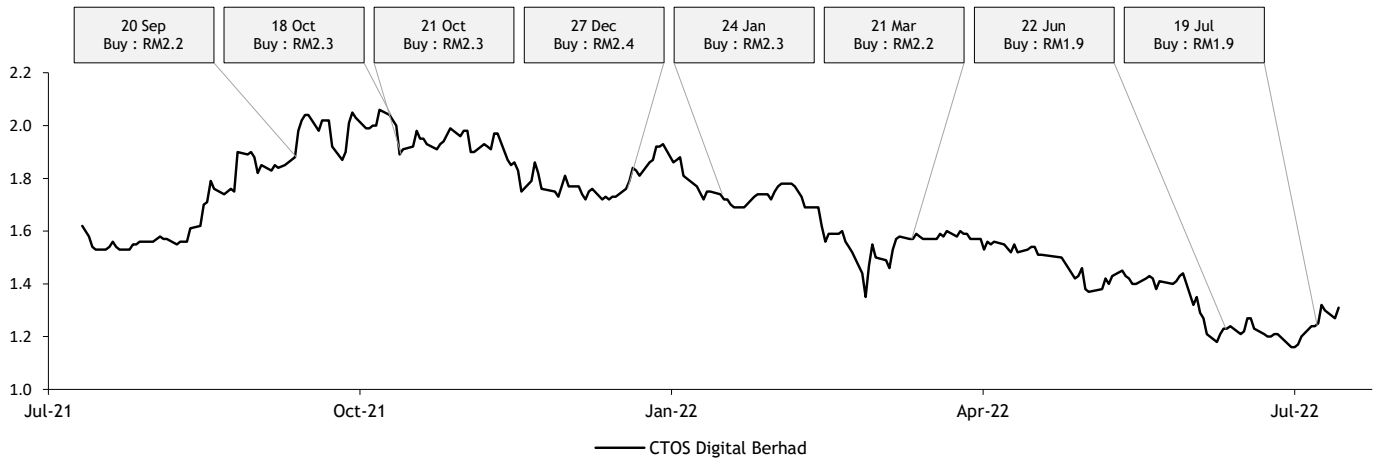
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Historical recommendations and target price: CTOS Digital Berhad (CTOS MK)



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