

CTOS Digital Berhad (CTOS MK)

4Q23: Cashing-in on overdue tax credits

Raising FY24-25E and rolling-forward valuation

Albeit buttressed by substantial tax writebacks, CTOS delivered another strong set of results on the back of solid core segment growth. Accounting for its growing international business, we raise FY24/25E earnings by 3%/7% and introduce FY26E. Rolling forward valuation, our 1.9x PEG-derived TP (from 2.0x previously; on updated regional mean PEG) is nudged higher to MYR2.10 (+7%). Maintain BUY.

Results within expectations

Excluding one-offs (MYR0.1m in unrealised FX losses), CTOS' 4Q23 core net profit came in at MYR56.3m (+131% QoQ, +246% YoY). This brought 12MFY23 core earnings to MYR118.6m (+61% YoY) - in-line with our expectations at 101% of FY23 forecast, but above the street's at 114%. A fourth interim DPS of 1.71sen was declared (12MFY23: 3.33sen), taking its FY23 payout ratio to 65% (vs. declared 60% DPR policy). The YoY/QoQ higher 4Q23 earnings and higher DPR was primarily attributable to tax writebacks from the extension of its Pioneer Status and an overprovision totalling c.MYR28m in FY22/9MFY23.

Continued double-digit YoY growth in core segments

CTOS' strong growth momentum continued in 4Q23 with all three core segments (Key Accounts/Commercial/D2C - respectively accounting for 43%/46%/9% of group turnover) seeing double-digit YoY turnover growth. The newly-formed International segment (c.2% of turnover) also saw maiden turnover contribution of MYR5.9m from the two foreign alternative credit scoring firms it acquired in 3Q/4Q23. Although GP margins held firm QoQ/YoY at c.76%, EBITDA margins contracted 3.6ppts QoQ from higher admin costs and consolidation of its international ops post-acquisition.

Has the final hurdle been cleared?

With uncertainty over the delay in extension of its Pioneer Status incentive cleared, we now expect CTOS' share price overhang to dissipate moving forward. We continue to like CTOS, premised on its role as a niche service provider with a solid underlying business model and dominant market share in a rapidly growing industry.

| FYE Dec (MYR m) | FY22A | FY23A | FY24E | FY25E | FY26E |
|------------------------------|-------|-------|-------|-------|----------|
| Revenue | 195 | 261 | 294 | 344 | 410 |
| EBITDA | 77 | 100 | 111 | 132 | 160 |
| Core net profit | 74 | 119 | 127 | 154 | 184 |
| Core EPS (sen) | 3.2 | 5.1 | 5.5 | 6.7 | 8.0 |
| Core EPS growth (%) | 41.4 | 60.5 | 7.1 | 21.3 | 19.7 |
| Net DPS (sen) | 1.9 | 3.3 | 3.3 | 4.0 | 4.8 |
| Core P/E (x) | 44.4 | 27.5 | 25.6 | 21.1 | 17.7 |
| P/BV (x) | 6.1 | 5.5 | 5.1 | 4.6 | 4.2 |
| Net dividend yield (%) | 1.3 | 2.4 | 2.3 | 2.8 | 3.4 |
| ROAE (%) | 17.5 | 21.4 | 20.5 | 22.8 | 24.8 |
| ROAA (%) | 13.5 | 15.4 | 15.3 | 17.8 | 20.2 |
| EV/EBITDA (x) | 42.1 | 32.5 | 28.7 | 23.6 | 19.0 |
| Net gearing (%) (incl perps) | 26.9 | 22.3 | 12.0 | 2.2 | net cash |
| Consensus net profit | - | - | 123 | 148 | na |
| MIBG vs. Consensus (%) | - | - | 3.4 | 4.1 | na |

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BUY

| | |
|-----------------------|-----------------|
| Share Price | MYR 1.41 |
| 12m Price Target | MYR 2.10 (+50%) |
| Previous Price Target | MYR 1.97 |

Company Description

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

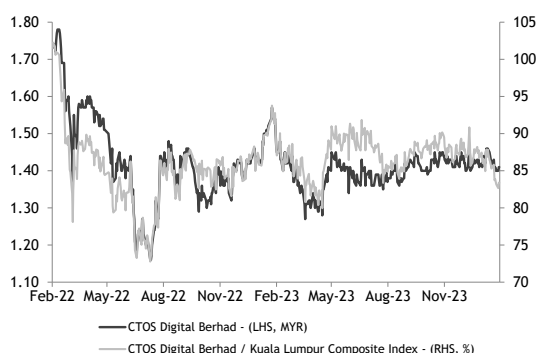
Statistics

| | |
|------------------------|--------------------|
| 52w high/low (MYR) | 1.48/1.27 |
| 3m avg turnover (USDm) | 0.9 |
| Free float (%) | 44.6 |
| Issued shares (m) | 2,310 |
| Market capitalisation | MYR3.3B USD689M |

Major shareholders:

| | |
|----------------------|-------|
| Inodes Ltd | 14.7% |
| EPF | 11.6% |
| Wasatch Advisors Inc | 5.3% |

Price Performance



| | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%) | 0 | (2) | (8) |
| Relative to index (%) | (4) | (7) | (10) |

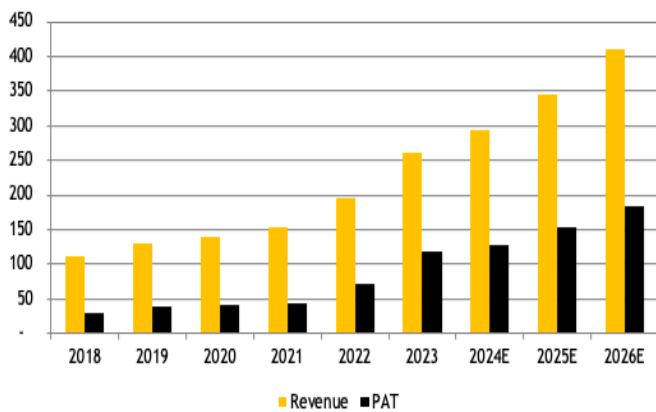
Source: FactSet

Fig 1: CTOS' 4Q23 Results Summary

| FYE Dec (MYR m) | Quarterly results | | | | | Cumulative | | |
|-----------------------------|-------------------|-------------|------------------|-------------|------------------|--------------|--------------|----------------|
| | 4Q23 | 3Q23 | %QoQ | 4Q22 | %YoY | 12M23 | 12M22 | %YoY |
| Turnover | 73.2 | 66.5 | 10.1 | 52.7 | 38.7 | 261.4 | 194.8 | 34.2 |
| EBITDA | 26.0 | 26.0 | (0.1) | 16.5 | 57.8 | 99.5 | 77.4 | 28.5 |
| Depreciation & amortisation | (2.7) | (2.6) | 4.4 | (2.2) | 23.6 | (10.4) | (8.3) | 26.3 |
| EBIT | 23.3 | 23.4 | (0.6) | 14.3 | 63.1 | 89.1 | 69.2 | 28.8 |
| Interest expense | (1.8) | (1.6) | 15.8 | (1.9) | (4.8) | (6.7) | (4.3) | 54.9 |
| Interest income | 0.2 | 0.2 | 22.3 | 0.2 | 42.2 | 0.6 | 0.5 | 16.2 |
| Associates | 8.6 | 8.4 | 1.7 | 8.4 | 1.6 | 26.0 | 22.5 | 15.4 |
| Exceptional items | (0.1) | (0.0) | >100.0 | (2.5) | (96.4) | (0.4) | (2.5) | (85.2) |
| Pre-tax profits | 30.2 | 30.4 | (0.9) | 18.4 | 63.5 | 108.6 | 85.4 | 27.1 |
| Tax | 26.0 | (6.1) | (>100.0) | (4.7) | (>100.0) | 9.7 | (14.0) | (>100.0) |
| Net profit | 56.2 | 24.3 | >100.0 | 13.7 | >100.0 | 118.2 | 71.4 | 65.5 |
| Core net profit | 56.3 | 24.4 | >100.0 | 16.3 | >100.0 | 118.6 | 73.9 | 60.5 |
| | 4Q23 | 3Q23 | +/- ppt | 4Q22 | %YoY | 12M23 | 12M22 | +/- ppt |
| EBITDA margin (%) | 35.5 | 39.1 | (3.6) | 31.2 | 4.3 | 38.1 | 39.8 | (1.7) |
| Core NP margin (%) | 76.9 | 36.7 | 40.3 | 30.8 | 46.1 | 45.4 | 37.9 | 7.4 |
| Tax rate (%) | (86.3) | 20.0 | (106.3) | 25.5 | (111.9) | (8.9) | 16.3 | (25.2) |
| Segmental breakdown | 4Q23 | 3Q23 | %QoQ | 4Q22 | %YoY | (6.7) | (4.3) | %YoY |
| Key Accounts | 35.8 | 29.7 | 20.5 | 21.3 | 67.8 | 118.9 | 74.8 | 59.0 |
| Commercial | 31.8 | 30.9 | 2.8 | 23.9 | 32.8 | 114.3 | 104.7 | 9.1 |
| D2C | 5.6 | 5.8 | (4.3) | 4.1 | 35.0 | 22.4 | 15.3 | 46.4 |
| International | 5.9 | - | NM | - | NM | 5.9 | 0.0 | >100.00 |
| Total revenue | 73.2 | 66.5 | 10.1 | 52.7 | 38.7 | 261.4 | 194.8 | 34.2 |

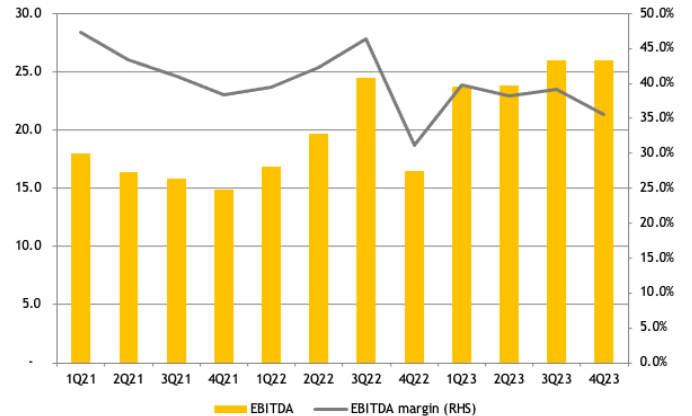
Source: Company, Maybank IBG Research

Fig 2: Group revenue and PAT trend (MYRm)



Source: Company, Maybank IBG Research

Fig 3: EBITDA (MYRm) and EBITDA margin trend



Source: Company, Maybank IBG Research

Fig 4: TP derivation using PEG multiple methodology

| | |
|--|-------------|
| FY24E EPS (sen) | 5.5 |
| Earnings 2Y CAGR 24-26E (%) | 20.5 |
| PEG ratio (x) - pegged to the regional peer median of 1.9x | 1.9 |
| Implied PER at FY24E (x) | 38.1 |
| Value per share (MYR) | 2.10 |

Source: Maybank IBG Research

Risk Statement

There are several risk factors to our earnings estimates, target price and rating for CTOS Digital. These include weaker-than-expected synergistic value that it could derive from its associate companies, weaker-than-expected demand for credit lending solutions, event of security breaches that could impede its business continuity and reputation, as well as higher interest rate environment that could elevate its borrowing cost.

| FYE 31 Dec | FY22A | FY23A | FY24E | FY25E | FY26E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Key Metrics | | | | | |
| P/E (reported) (x) | 44.9 | 26.1 | 24.4 | 20.1 | 16.8 |
| Core P/E (x) | 44.4 | 27.5 | 25.6 | 21.1 | 17.7 |
| P/BV (x) | 6.1 | 5.5 | 5.1 | 4.6 | 4.2 |
| P/NTA (x) | 7.3 | 7.1 | 6.3 | 5.6 | 4.9 |
| Net dividend yield (%) | 1.3 | 2.4 | 2.3 | 2.8 | 3.4 |
| FCF yield (%) | 2.3 | 3.5 | 4.5 | 5.2 | 6.0 |
| EV/EBITDA (x) | 42.1 | 32.5 | 28.7 | 23.6 | 19.0 |
| EV/EBIT (x) | 47.1 | 36.3 | 30.1 | 24.6 | 20.2 |
| INCOME STATEMENT (MYR m) | | | | | |
| Revenue | 194.8 | 261.4 | 294.0 | 344.3 | 409.7 |
| EBITDA | 77.4 | 99.5 | 110.9 | 132.2 | 160.2 |
| Depreciation | (7.0) | (6.6) | (1.3) | (1.4) | (5.3) |
| Amortisation | (1.2) | (3.8) | (4.0) | (4.2) | (4.4) |
| EBIT | 69.2 | 89.1 | 105.6 | 126.6 | 150.5 |
| Net interest income / (exp) | (3.8) | (6.1) | (7.2) | (4.6) | (1.6) |
| Associates & JV | 22.5 | 26.0 | 36.8 | 41.9 | 47.4 |
| Exceptionals | (2.5) | (0.4) | 0.0 | 0.0 | 0.0 |
| Other pretax income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 85.4 | 108.6 | 135.1 | 163.9 | 196.2 |
| Income tax | (14.0) | 9.7 | (8.1) | (9.8) | (11.8) |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported net profit | 71.4 | 118.2 | 127.0 | 154.1 | 184.4 |
| Core net profit | 73.9 | 118.6 | 127.0 | 154.1 | 184.4 |
| BALANCE SHEET (MYR m) | | | | | |
| Cash & Short Term Investments | 12.4 | 17.3 | 44.1 | 77.3 | 115.4 |
| Accounts receivable | 40.1 | 71.5 | 80.4 | 94.1 | 112.0 |
| Inventory | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Property, Plant & Equip (net) | 15.8 | 10.1 | 11.4 | 12.5 | 14.2 |
| Intangible assets | 81.8 | 133.3 | 129.3 | 125.1 | 120.7 |
| Investment in Associates & JVs | 571.0 | 574.2 | 574.2 | 574.2 | 574.2 |
| Other assets | 9.6 | 4.9 | 4.9 | 4.9 | 4.9 |
| Total assets | 730.8 | 811.3 | 844.3 | 888.1 | 941.4 |
| ST interest bearing debt | 10.0 | 48.9 | 48.9 | 48.9 | 48.9 |
| Accounts payable | 31.8 | 56.6 | 67.2 | 77.8 | 91.5 |
| LT interest bearing debt | 139.5 | 100.7 | 72.2 | 43.8 | 9.8 |
| Other liabilities | 40.0 | 12.0 | 12.0 | 12.0 | 12.0 |
| Total Liabilities | 221.2 | 218.2 | 200.4 | 182.5 | 162.2 |
| Shareholders Equity | 509.5 | 593.2 | 644.0 | 705.7 | 779.3 |
| Minority Interest | 0.0 | (0.1) | (0.1) | (0.1) | (0.1) |
| Total shareholder equity | 509.5 | 593.1 | 643.9 | 705.6 | 779.2 |
| Total liabilities and equity | 730.8 | 811.3 | 844.3 | 888.1 | 941.4 |
| CASH FLOW (MYR m) | | | | | |
| Pretax profit | 85.4 | 108.6 | 135.1 | 163.9 | 196.2 |
| Depreciation & amortisation | 8.3 | 10.4 | 5.3 | 5.6 | 9.7 |
| Adj net interest (income)/exp | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in working capital | 5.0 | 13.2 | (5.5) | (11.2) | (13.0) |
| Cash taxes paid | (5.4) | (5.5) | (8.1) | (9.8) | (11.8) |
| Other operating cash flow | (11.4) | (14.6) | 15.3 | 14.4 | 13.4 |
| Cash flow from operations | 81.8 | 112.0 | 142.1 | 163.0 | 194.5 |
| Capex | (8.6) | (2.6) | (2.6) | (2.6) | (7.0) |
| Free cash flow | 73.3 | 109.5 | 139.6 | 160.5 | 187.5 |
| Dividends paid | (42.3) | (45.8) | (76.2) | (92.4) | (110.9) |
| Equity raised / (purchased) | 173.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in Debt | 150.6 | (0.5) | (28.5) | (28.5) | (34.0) |
| Other invest/financing cash flow | (361.8) | (58.2) | (8.1) | (6.4) | (4.5) |
| Effect of exch rate changes | 0.0 | (0.1) | 0.0 | 0.0 | 0.0 |
| Net cash flow | (6.4) | 5.0 | 26.8 | 33.2 | 38.1 |

| FYE 31 Dec | FY22A | FY23A | FY24E | FY25E | FY26E |
|--|-------|-------|-------|-------|----------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | 27.2 | 34.2 | 12.5 | 17.1 | 19.0 |
| EBITDA growth | 18.7 | 28.5 | 11.4 | 19.3 | 21.2 |
| EBIT growth | 22.2 | 28.8 | 18.5 | 19.9 | 18.9 |
| Pretax growth | 62.7 | 27.1 | 24.5 | 21.3 | 19.7 |
| Reported net profit growth | 63.5 | 65.5 | 7.4 | 21.3 | 19.7 |
| Core net profit growth | 48.5 | 60.5 | 7.1 | 21.3 | 19.7 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 39.8 | 38.1 | 37.7 | 38.4 | 39.1 |
| EBIT margin | 35.5 | 34.1 | 35.9 | 36.8 | 36.7 |
| Pretax profit margin | 43.8 | 41.5 | 46.0 | 47.6 | 47.9 |
| Payout ratio | 57.7 | 62.0 | 57.2 | 57.1 | 57.3 |
| DuPont analysis | | | | | |
| Net profit margin (%) | 36.7 | 45.2 | 43.2 | 44.8 | 45.0 |
| Revenue/Assets (x) | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 |
| Assets/Equity (x) | 1.4 | 1.4 | 1.3 | 1.3 | 1.2 |
| ROAE (%) | 17.5 | 21.4 | 20.5 | 22.8 | 24.8 |
| ROAA (%) | 13.5 | 15.4 | 15.3 | 17.8 | 20.2 |
| Liquidity & Efficiency | | | | | |
| Cash conversion cycle | nm | nm | nm | nm | nm |
| Days receivable outstanding | 60.3 | 76.8 | 93.0 | 91.2 | 90.5 |
| Days inventory outstanding | nm | nm | nm | nm | nm |
| Days payables outstanding | nm | nm | nm | nm | nm |
| Dividend cover (x) | 1.7 | 1.6 | 1.7 | 1.8 | 1.7 |
| Current ratio (x) | 0.7 | 0.8 | 1.0 | 1.3 | 1.5 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 3.3 | 3.7 | 4.2 | 4.9 | 5.8 |
| Net gearing (%) (incl perps) | 26.9 | 22.3 | 12.0 | 2.2 | net cash |
| Net gearing (%) (excl. perps) | 26.9 | 22.3 | 12.0 | 2.2 | net cash |
| Net interest cover (x) | 18.1 | 14.5 | 14.7 | 27.6 | 91.4 |
| Debt/EBITDA (x) | 1.9 | 1.5 | 1.1 | 0.7 | 0.4 |
| Capex/revenue (%) | 4.4 | 1.0 | 0.9 | 0.7 | 1.7 |
| Net debt/ (net cash) | 137.1 | 132.2 | 77.0 | 15.3 | (56.8) |

Source: Company; Maybank IBG Research

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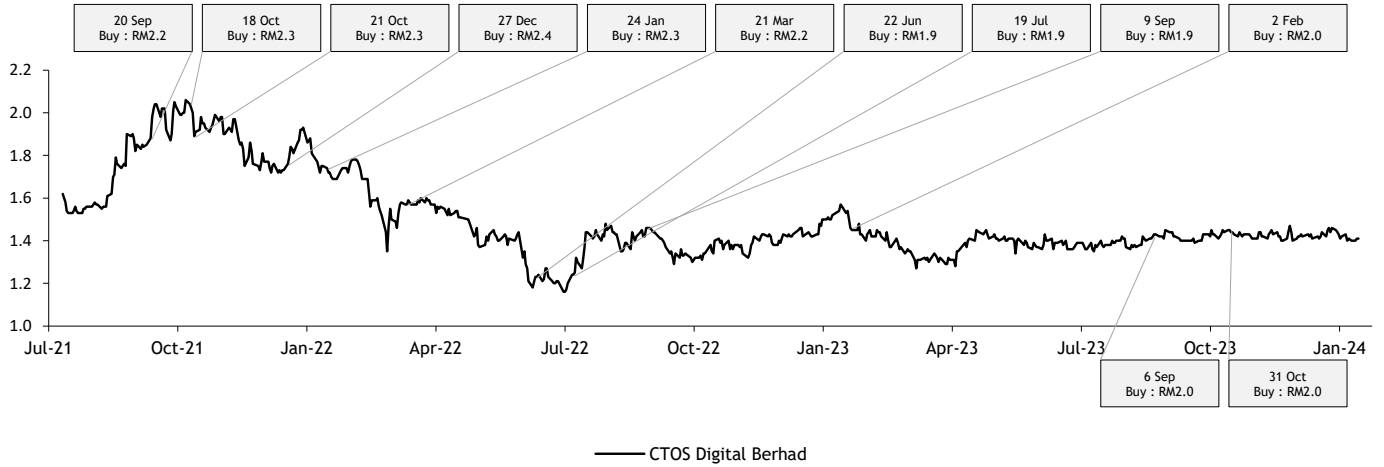
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