

CTOS Digital Berhad (CTOS MK)

Briefing updates

Regulatory risks appear contained; U/G to BUY

We come away from CTOS' analyst briefing ystd feeling positive that its business continuity is not at risk following the KL High Court decision on 11 March to rule in favour of the plaintiff. Despite share price undergoing a steep 14% correction ystd, we believe regulatory risks to its business at this juncture are contained. As such, we upgrade CTOS to a BUY. We maintain our FY24-26E forecasts and TP of MYR2.10 (pegged to 1.9x PEG).

Business continuity uncertainties seem overdone

As part of the judgment summary, the High Court judge had stated that Credit Rating Agencies (CRAs) were not legally empowered to formulate credit scores. However, in its ruling, the court did not bar or injunct CTOS Data Systems from providing credit scores. We take comfort in mgmt's comments post-discussion with their legal counsel that despite the legality of CTOS' business continuity being called into question as part of the judge's comments, it may not be used as precedent in future litigation.

Licensed to provide credit scoring services

Mgmt reminded that they are licensed by regulators (CRAA, BNM) to provide credit-related services, including the provision of credit scores. They believe their SOP is fit and proper as it is subject to annual audits and regular re-evaluation processes by the regulators.

Defamation lawsuit to undergo due process at CoA

While we make no comment on the defamation suit that is undergoing due legal process at the Court of Appeal (first hearing is likely to take between 3-6 mths), it is our opinion that the answers provided by mgmt in relation to its business continuity were satisfactory. Defamation suits are not atypical in the CRA industry, with the company having received 12 favourable rulings in such cases since 2014. We also note the company has 5 ongoing lawsuits currently undergoing due legal process in the courts.

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	22.7	18.7	15.7
P/BV (x)	6.1	5.5	4.5	4.1	3.7
Net dividend yield (%)	1.3	2.4	2.6	3.2	3.8
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	25.5	20.9	16.8
Net gearing (%) (incl perps)	26.9	22.3	12.0	2.2	net cash
Consensus net profit	-	-	126	148	187
MIBG vs. Consensus (%)	-	-	1.1	4.1	(1.4)

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BUY

[Prior:HOLD]

Share Price MYR 1.25
12m Price Target MYR 2.10 (+69%)
Previous Price Target MYR 2.10

Company Description

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

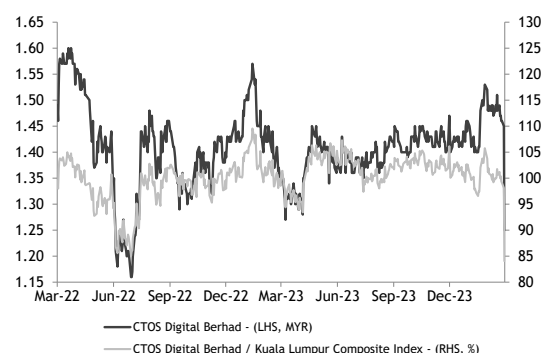
Statistics

52w high/low (MYR) 1.53/1.25
3m avg turnover (USDm) 1.5
Free float (%) 43.8
Issued shares (m) 2,310
Market capitalisation MYR2.9B
USD617M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(18)	(13)	(9)
Relative to index (%)	(20)	(19)	(15)

Source: FactSet

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	21.6	17.8	14.9
Core P/E (x)	44.4	27.5	22.7	18.7	15.7
P/BV (x)	6.1	5.5	4.5	4.1	3.7
P/NTA (x)	7.3	7.1	5.6	5.0	4.4
Net dividend yield (%)	1.3	2.4	2.6	3.2	3.8
FCF yield (%)	2.3	3.5	5.1	5.8	6.8
EV/EBITDA (x)	42.1	32.5	25.5	20.9	16.8
EV/EBIT (x)	47.1	36.3	26.8	21.8	17.9
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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Malaysia

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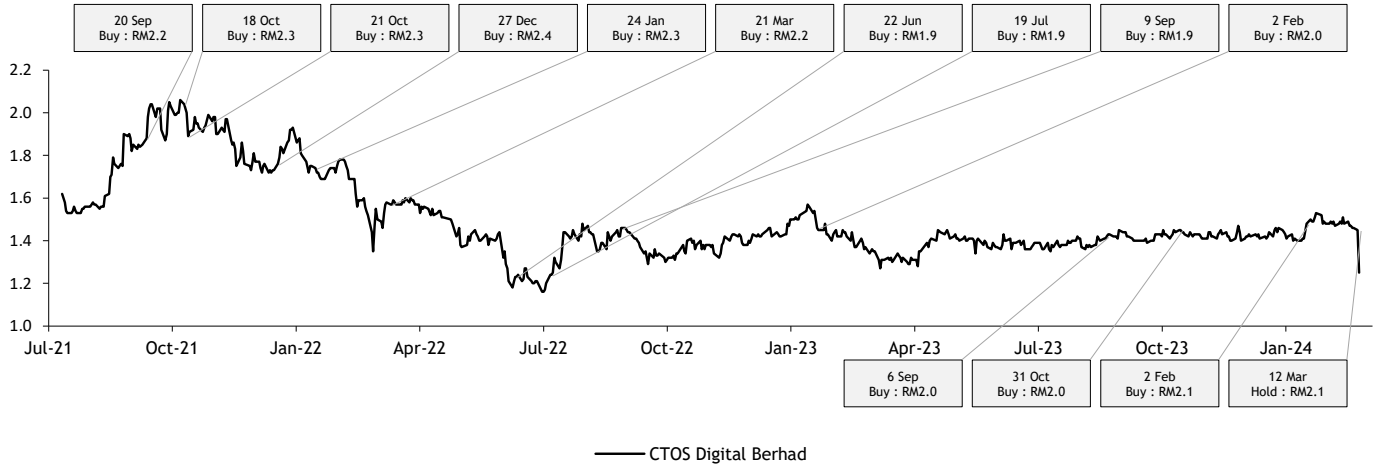
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