

22 June 2022

CTOS Digital Bhd

Seeking A Greater Stake in RAM

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We lower our TP to RM1.65 (from RM2.00) based on more reserved DCF-assumptions (WACC: 6.2%, TG: 6.0%), reflective of the rising risk-free rate as well as the increased volatility in CTOS. Still, we maintain OUTPERFORM on the stock, as the notion for increasing its stake in RAM Holdings (RAM) is overall beneficial and will only improves the group's long-term propositions.

CTOS hosted a sharing session to brief on its intention to commence a general offer to increase its stake in RAM from 19.2% to 55%-60%. We are positive on the overall development as it is earnings accretive which would open new opportunities for the group in the bond rating space as well as including value-enhancing offerings to clients. **Key takeaways are as follows:**

- **Acquisition cost of RM100m-RM122m.** RAM's current implied blended valuation stands at RM280m-RM300m which translates to c.18x PER (close to the group's previous acquisitions' valuation). Depending if the group would ultimately end up with a final stake of 55% or 60%, funds required would amount to between RM100m and RM122m. For now, Creador (via Oscar Matrix) is interested to disposing its entire 19.9% stake in RAM and would agree to transact at a discounted price (up to 10%).
- **No capital fund raising on the table.** The group expressed to fund the entire exercise via internally generated funds and borrowings. Hence, no share dilution should be expected. Currently, the group is in a net cash position, and a full undertaking via debt will place the group at a net gearing level of 0.3x in FY21.
- **Absorption as a subsidiary to uplift earnings.** The group projects RAM to be able to at least sustain an earnings performance of RM13m-RM15m. This calls for the group to increase their FY23E earnings guidance to RM95m-RM100m (from RM90m-RM94m) before incorporating any synergies from the acquisition. We reckon that any new offerings would take time to hit the market given the need to integrate and align new propositions as bond ratings and credit scoring products are starkly different. Key targets to the group would still be SMEs.

Post update, we make no changes to our FY22E/FY23E assumptions as the acquisition is still subject to shareholders' approval.

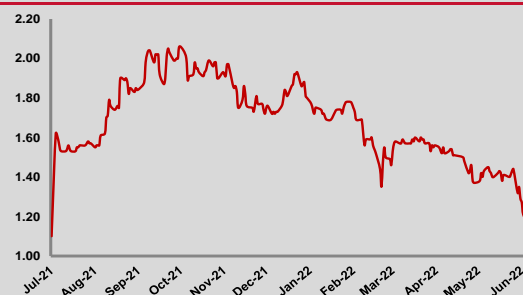
Maintain OUTPERFORM but with a lower DCF-driven TP of RM1.65 (from RM2.00). Our DCF assumptions comprise WACC of 6.2% with a terminal growth of 6.0%, which we believe is justified given CTOS' high growth propositions. Our lower DCF-TP is largely due to recalibration of risk-free rate as well as fluctuations in beta, which has been mostly unfavourable for the stock in lieu of the recent sell-down, brought about by recessionary and cyclical concerns. That said, although the stock is not a prominent dividend yielder, we do not discount more vibrant prospects as the group moves away from acquisitions and might seek to reward shareholders.

Risks to our call include: (i) lower-than-expected demand for credit-related services, (ii) incurrence of unexpected costs, and (iii) loss of pioneer status.

OUTPERFORM ↔

Price : RM1.21
Target Price : RM1.65 ↓

Share Price Performance



KLCI 1,457.88
YTD KLCI chg -7.0%
YTD stock price chg -33.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CTOS MK Equity
Market Cap (RM m)	2,795.1
Shares Outstanding	2,310.0
52-week range (H)	2.06
52-week range (L)	1.10
3-mth avg daily vol	3,002,516
Free Float	55%
Beta	N.A.

Major Shareholders

Inodes Limited	30.3%
Employees Provident Fund	6.1%
Chung Tze Wen	4.3%

Summary Earnings Table

FY Dec (RM m)	2021A	2022E	2023E
Revenue	153.2	190.7	219.7
EBIT	51.0	77.1	89.2
PBT	52.9	101.2	117.7
PATAMI	43.0	79.2	92.4
Core NP	60.1	79.2	92.4
Consensus (NP)		80.7	97.4
Earnings Revision		0%	0%
Core EPS (sen)	2.6	3.4	4.0
Core EPS growth (%)	32.0	31.8	16.7
NDPS (sen)	1.40	1.86	2.17
BV/Share (RM)	0.13	0.25	0.26
Core PER	47.1	35.7	30.6
Price/BV (x)	9.5	4.9	4.6
Net Gearing (x)	-0.1	-0.1	-0.1
Net Dvd Yield (%)	1.2	1.5	1.8



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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019 A	2020 A	2021 A	2022 E	2023 E	FY Dec	2019 A	2020 A	2021 A	2022 E	2023 E
Revenue	129.1	140.5	153.2	190.7	219.7	Growth (%)					
EBIT	41.7	42.8	51.0	77.1	89.2	Revenue	16.9	8.8	9.0	24.5	15.2
PBT	41.2	40.3	52.9	101.2	117.7	EBIT	30.7	2.6	19.1	51.3	15.6
Taxation	-2.2	-2.4	-9.3	-22.0	-25.3	PBT	29.7	-2.2	31.2	91.2	16.3
PATAMI	39.0	39.2	43.0	79.2	92.4	PATAMI	31.5	0.5	9.7	84.2	16.7
Core PATAMI	39.0	45.5	60.1	79.2	92.4	Core PATAMI	31.5	16.6	32.0	31.8	16.7
Balance Sheet						Profitability (%)					
FY Dec (RM m)	2019 A	2020 A	2021 A	2022 E	2023 E	EBIT Margin	32.3	30.4	33.3	40.5	40.6
Fixed Assets	16.9	16.9	44.5	56.4	66.2	PBT Margin	31.9	28.7	34.5	53.1	53.6
Intangible Assets	37.9	49.6	79.1	79.1	79.1	PATAMI Margin	30.2	32.4	39.2	41.5	42.0
Oth. Fixed Assets	59.8	154.9	152.4	393.1	393.1	Effective Tax Rate	5.4	5.8	17.7	21.7	21.5
Inventories	0.0	0.0	0.0	0.0	0.0	ROA	27.4	14.2	13.2	13.0	14.2
Receivables	21.4	28.2	30.6	38.1	43.9	ROE	49.4	33.9	14.4	13.8	15.0
Other CA	0.0	0.0	0.0	0.0	0.0	DuPont Analysis					
Cash	6.1	26.4	19.7	40.4	69.9	Net Margin (%)	30.2	32.4	39.2	41.5	42.0
Total Assets	142.2	276.0	326.3	607.1	652.2	Assets T/O (x)	0.9	0.5	0.5	0.3	0.3
Payables	13.6	17.1	18.4	22.9	26.4	Lev. Factor (x)	1.8	2.4	1.1	1.1	1.1
ST Borrowings	18.2	132.3	0.0	0.0	0.0	ROE (%)	49.4	39.3	20.1	13.8	15.0
Other ST Liability	20.1	10.0	0.0	0.0	0.0	Leverage					
Other LT Liability	11.4	0.8	9.6	9.6	9.6	Debt/Asset (x)	0.1	0.5	0.0	0.0	0.0
Net Assets	78.9	115.7	298.3	574.7	616.2	Debt/Equity (x)	0.2	1.1	0.0	0.0	0.0
Share Capital	198.0	198.0	411.9	652.6	652.6	Net (Cash)/Debt	12.1	105.9	-19.7	-40.4	-69.9
Reverse Acq.	-	-	-	-	-	Net Debt/Equity (x)	0.2	0.9	-0.1	-0.1	-0.1
Reserve	193.5	193.5	193.5	193.5	193.5	Valuations					
Retained Earnings	71.5	106.0	79.3	115.0	156.5	Core EPS (sen)	1.7	1.9	2.6	3.4	4.0
Others	2.9	0.3	0.6	0.6	0.6	DPS (sen)	N.A.	N.A.	1.4	1.9	2.2
Minority Interest	0.0	5.0	0.0	0.0	0.0	BV/share (RM)	0.03	0.05	0.13	0.25	0.26
Total Equity	78.9	115.7	298.3	574.7	616.2	PER (x)	72.5	62.2	47.1	35.7	30.6
Cashflow Statement						Div. Yield (%)	N.A.	N.A.	1.2	1.5	1.8
FY Dec (RM m)	2019 A	2020 A	2021 A	2022 E	2023 E	P/BV (x)	35.8	25.5	9.5	4.9	4.6
Operating CF	48.8	49.6	50.5	85.4	100.4						
Investing CF	-58.9	104.0	-36.9	-21.8	-20.0						
Financing CF	5.5	74.1	-38.4	-43.5	-50.8						
FCFF	-9.0	-50.5	18.2	63.6	80.4						

Source: Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
NON-BANK FINANCIAL INSTITUTIONS																		
AEON CREDIT SERVICE M BHD	13.32	3,400.7	N	02/2023	10.0%	7.0%	18.2%	15.1%	9.6	8.1	7.0	1.7	1.5	19.9%	3.8%	16.45	OP	
CTOS DIGITAL BHD	6.37	5,155.2	Y	12/2022	-11.7%	-2.6%	-22.8%	3.6%	14.5	18.8	18.1	6.3	6.1	33.1%	4.9%	7.05	MP	
BURSA MALAYSIA BHD	1.21	2,795.1	Y	12/2022	24.5%	15.2%	31.8%	16.7%	47.1	35.7	30.6	9.5	4.9	18.1%	1.5%	1.65	OP	
LPI CAPITAL BERHAD	13.50	5,378.2	N	12/2022	-3.7%	1.7%	-25.5%	27.4%	15.6	20.9	16.4	2.5	2.5	11.9%	4.4%	14.10	MP	
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	3.33	2,788.2	Y	12/2022	4.3%	4.3%	-16.0%	5.2%	6.8	8.1	7.7	1.5	1.4	18.0%	4.2%	3.90	OP	
Simple Average					4.7%	5.1%	-2.9%	13.6%	18.7	18.3	16.0	4.3	3.3	20.2%	3.8%			

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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