CTOS Digital Bhd

1HFY22 Within Expectations

By Clement Chua I clement.chua@kenanga.com.my

OUTPERFORM ↔

Price : RM1.31

Target Price : RM1.55 ↓

1HFY22 normalised PATAMI of RM39.5m (+27% YoY) and interim dividend of 0.59 sen declared are within expectations. We keep our OP call but review our terminal growth assumption on slightly less optimistic long-term outlook resulting in a lower DCF-TP of RM1.55 (from RM1.65, WACC: 6.2%, TG: 5%). We applied a 5% premium to our TP based on our 4-star ESG rating on the group for its position as a sustainability enabler as well as commendable board representation. We believe CTOS serves as a solid Shariah-compliant and ESG pick.

1HFY22 within expectations. 1HFY22 normalised PATAMI of RM39.5m made up 50% of both our and consensus expectations. An interim dividend of 0.59 sen (YTD: 0.91 sen) is also deemed to be within our expectation. We anticipate a full-year payment of 1.86 sen (based on a 55% payout ratio).

YoY, 1HFY22 revenue gained 18% to RM89.2m thanks to better contributions from all segments, mainly from Key Accounts (+32%) on higher adoption rates. Better economies of scale was achieved from the greater volume, lifting operating profits (+21%) and margins (36.4%, +1.1ppt). Stripping out exceptional items, including a tax writeback of RM4.2m from recently approved tax incentives, normalised earnings came in at RM39.5m (+27%).

QoQ, 2QFY22 revenue was sequentially stronger (+9%) also due to better all-round performance, possibly driven by a more robust economic environment. Similarly, we saw margin expansion from the larger-scaled operations which translated to a 2QFY22 normalised earnings of RM22.6m (+34%).

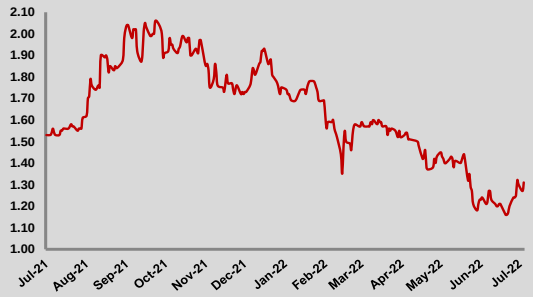
Outlook. With its acquisition pipeline looking intact and likely to materialise, CTOS appears to be solidifying its position as the leading credit assessment agency in the market. Its aspired majority stake in RAM Holdings is likely to reach upwards to 70% (from 39.1% after Creador's disposal) with interested parties possibly taking up CTOS's RM28.50/share (amounting up to RM88m) cash consideration. Recall that the group intends to fund these transactions with internally generated funds or borrowings. Post acquisition, the group aims to benefit from new propositions in bond ratings and credit scoring products targeted at key SME markets. Until then, the group will continue to seek new opportunities from JurisTech's scalable end-to-end digital lending solutions and exposure to the Thailand market via BOL.

Post results, we leave our FY22E/FY23E earnings unchanged.

Maintain OUTPERFORM but with a lower DCF-driven TP of RM1.55 (from RM1.65). Though we left our WACC assumptions (6.2%) unchanged, we opted to tone down our terminal growth to 5% (from 6%) as long-term growth projections could be hampered by unstable global macros. That said, we ascribe a 5% premium to our CTOS's fair value in line with our 4-star ESG rating for the stock. We view CTOS favourably in a sustainability standpoint as it offers ESG analytics and solutions through its stake in RAM Holdings, enabling better education, and encouraging adoption on top of its creditable management diversity as well as exemplary transparency. In addition to being Shariah-compliant, we view CTOS to be a strong ESG-centric pick.

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.

Share Price Performance



KLCI	1,463.69
YTD KLCI chg	-6.6%
YTD stock price chg	-27.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CTOS MK Equity
Market Cap (RM m)	3,026.1
Shares Outstanding	2,310.0
52-week range (H)	2.06
52-week range (L)	1.16
3-mth avg daily vol	3,105,668
Free Float	56%
Beta	N.A.

Major Shareholders

Inodes Limited	30.4%
Employees Provident Fund	6.1%
Chung Tze Wen	4.2%

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)		78.8	96.0
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 (x)	51.0	38.7	33.1
Price/BV (x)	10.3	5.3	5.0
Net Gearing (x)	-0.1	-0.1	-0.1
Net Dvd Yield (%)	1.1	1.4	1.7

Results Highlights

FYE Dec (RM m)	2Q FY22	1Q FY22	QoQ Chg	2Q FY21	YoY Chg	6M FY22	6M FY21	YoY Chg
Revenue	**46.5**	**42.7**	**9%**	**37.8**	**23%**	**89.2**	**75.8**	**18%**
EBIT	17.7	14.8	19%	14.3	23%	32.5	26.8	21%
Pretax Profit	22.7	16.6	37%	14.5	57%	39.4	25.0	57%
Tax	-0.3	-4.1	-94%	-2.5	-89%	-4.4	-4.9	-11%
MI	0.0	0.0	N.A.	0.0	N.A.	0.0	0.0	N.A.
PATAMI	**22.5**	**12.5**	**80%**	**12.0**	**87%**	**35.0**	**20.1**	**74%**
Core PATAMI	**22.6**	**16.9**	**34%**	**15.1**	**49%**	**39.5**	**31.2**	**27%**
Core EPS (sen)	**0.97**	**0.72**	**34%**	**0.65**	**49%**	**1.69**	**1.33**	**27%**
Net DPS (sen)	0.59	0.32		0.53		0.91	0.53	
EBIT margin	38.0%	34.7%		37.9%		36.4%	35.3%	
PBT margin	48.9%	38.9%		38.3%		44.1%	33.0%	
Tax rate	1.2%	24.9%		17.0%		11.2%	19.7%	

Source: Company, Kenanga Research

Revenue Breakdown

FYE Dec (RM m)	2Q FY22	1Q FY22	QoQ Chg	2Q FY21	YoY Chg	6M FY22	6M FY21	YoY Chg
Key accounts	17.8	15.4	15%	12.8	40%	33.3	25.3	32%
Commercial	24.8	23.9	4%	22.5	10%	48.7	45.4	7%
Direct-to-consumers	3.9	3.3	19%	2.6	48%	7.2	5.2	39%
Total	**46.5**	**42.7**	**9%**	**37.8**	**23%**	**89.2**	**75.8**	**18%**

Source: Company, Kenanga Research

This section is intentionally left blank

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	14.14	3,610.1	N	02/2023	6.4%	10.4%	31.8%	5.9%	9.9	7.5	7.1	1.6	1.4	20.4%	4.4%	17.20	OP
BURSA MALAYSIA BHD	6.40	5,179.5	Y	12/2022	-22.6%	0.2%	-32.6%	6.7%	14.6	21.6	20.3	6.3	6.2	28.9%	4.2%	6.30	MP
CTOS DIGITAL BHD	1.31	3,026.1	Y	12/2022	24.5%	15.2%	31.8%	16.7%	51.0	38.7	33.1	10.3	5.3	18.1%	1.4%	1.55	OP
LPI CAPITAL BHD	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	3.46	2,897.1	Y	12/2022	4.3%	4.3%	-16.0%	5.2%	7.0	8.4	8.0	1.6	1.4	18.0%	4.0%	3.90	OP
Simple Average					**1.8%**	**6.4%**	**-2.1%**	**12.4%**	**19.6**	**19.4**	**17.0**	**4.5**	**3.4**	**19.5%**	**3.7%**		

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Cybersecurity/Data Privacy	★	★	★	☆	
	Professionalism & Independence	★	★	★	★	
	Digital Transformation	★	★	★	★	
	Staff Welfare & Training	★	★	☆		
	OVERALL	★	★	★	★	

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

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.***

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my