

18 April 2023

CTOS Digital

Demand Continually Strong

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1QFY23 normalised net profit of RM20.8m (+23% YoY) and 0.433 sen dividend were within expectations, with stronger subsequent quarters expected. CTOS has continued to report stronger top line performance driven by rising demand for its increasingly important services which could translate to better economies of scale, and underpin its earnings prospects. Further updates are subject to today's briefing. Maintain **OUTPERFORM** with a DCF-driven TP of RM1.80.

1QFY23 broadly met expectations, as normalised net profit of RM20.8m made up 20% of our full-year forecast and 21% of consensus full-year estimate. Earnings contributions are expected to skew in subsequent quarters when more activities from key accounts are expected to pick up. An interim dividend of 0.433 sen was declared (c.60% pay-out) and is deemed to be within our anticipated full-year payment of 2.66 sen (also at c.60% pay-out).

YoY, 1QFY23 revenue surged by 40% thanks to stronger demand in all key services. Segment-wise, key customer accounts demonstrated the highest overall growth (+67%) followed by commercial accounts (+19%) as more digital reports were churned. Operating margins continued to expand (35.8%, +1.1 pts) as the higher volumes likely generated better economies of scale. Stripping out exceptional items, 1QFY23 normalised net earnings came in at RM20.8m (+23%).

On a quarterly basis, it is noted that the period under review marked the highest ever reported revenue for the group.

Outlook. The group is expected to continue reaping benefits from growing demand for data and analytics which are expedited by the increasing digitalisation of business operations. Its main key accounts sectors include financial institutions, telecommunication service providers and possibly insurers which are increasing digitalisation of their operations at almost all fronts. Meanwhile, the relevance of credit reporting is expected to rise, especially with their clientele doubling efforts to mitigate asset quality risks, and to improve the health of their books. On the flipside, the group aims to increase ARPUs by cross-selling as opposed to raising prices which we believe could also help to develop greater customer stickiness.

Forecasts. Post results, we leave our FY23F/FY24F earnings unchanged for now, pending possible material updates from today's briefing.

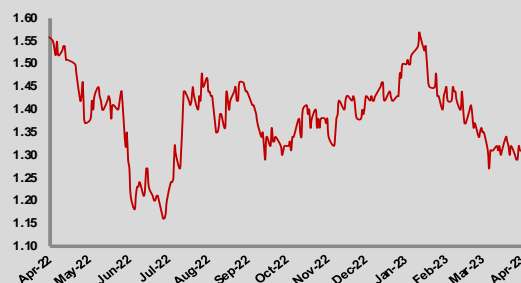
Maintain OUTPERFORM and DCF-driven TP of RM1.80. Our DCF is based on an unchanged WACC of 6.2% and TG of 4%. We ascribed a 5% premium to our fair value in line with our 4-star ESG rating for the stock. We continue to like CTOS as we see merits in its: (i) leading presence in credit reporting (c.77% domestic market share), (ii) synergistic gains to progressively materialise, and (iii) scalable operations for future regional penetration.

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 : RM1.31
Target Price : RM1.80 ↔

Share Price Performance



KLCI	1,434.90
YTD KLCI chg	-4.1%
YTD stock price chg	-7.7%

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)	1.57
52-week range (L)	1.16
3-mth avg daily vol	4,225,938
Free Float	61%
Beta	1.1

Major Shareholders

Inodes Limited	14.7%
Employees Provident Fund	11.6%
abrdn PLC	5.4%

Summary Earnings Table

FY Dec (RM m)	FY22A	FY23F	FY24F
Revenue	194.8	245.2	293.0
Operating Profit	66.7	96.9	114.3
Profit Before Tax	85.4	128.1	153.3
Net Profit	71.4	101.5	122.0
Core Net Profit	89.3	101.5	122.0
Consensus (NP)	-	104.9	122.8
Earnings Revision	-	-	-
Core EPS (sen)	3.9	4.4	5.3
Core EPS growth (%)	47.2	13.7	20.2
NDPS (sen)	1.87	2.66	3.19
BV/Share (RM)	0.25	0.27	0.29
Core PER (x)	33.6	29.6	24.6
Price/BV (x)	5.3	4.9	4.6
Net Gearing (x)	-0.1	-0.1	-0.2
Net Dvd. Yield (%)	1.4	2.0	2.4

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Results Highlights

	1Q FY23	4Q FY22	QoQ Chg	1Q FY22	YoY Chg	3M FY23	3M FY22	YoY Chg
FYE Dec (RM m)								
Revenue	59.6	52.7	13.0%	42.7	39.6%	59.6	42.7	39.6%
Operating profit	21.3	11.7	81.9%	14.8	44.2%	21.3	14.8	44.2%
Profit before tax	21.9	18.4	19.0%	16.6	32.1%	21.9	16.6	32.1%
Taxation	-5.4	-4.7	14.0%	-4.1	29.8%	-5.4	-4.1	29.8%
Minority interest	0.0	0.0	N.M	0.0	N.M	0.0	0.0	N.M
Net Profit	16.6	13.7	20.7%	12.5	32.9%	16.6	12.5	32.9%
Core Net Profit	20.8	22.5	-7.6%	16.9	22.9%	20.8	16.9	22.9%
Dividend Per Share (sen)	0.433	0.360		0.320		0.433	0.320	
Operating Margin	35.8%	22.2%		34.7%		35.8%	34.7%	
Pretax Margin	36.8%	35.0%		38.9%		36.8%	38.9%	
Effective tax rate	24.4%	25.5%		24.9%		24.4%	24.9%	

Source: Company, Kenanga Research

Revenue Breakdown

	1Q FY23	4Q FY22	QoQ Chg	1Q FY22	YoY Chg	3M FY23	3M FY22	YoY Chg
FYE Dec (RM m)								
By Service								
Digital Reports	26.8	18.7	43.6%	16.6	62.0%	26.8	16.6	62.0%
Subscription & Monitoring Service	23.1	22.5	3.0%	20.4	13.4%	23.1	20.4	13.4%
Comprehensive Portfolio Review & Analytics	6.4	6.1	4.2%	3.5	83.5%	6.4	3.5	83.5%
Digital Solutions	3.2	5.4	-40.8%	2.2	44.4%	3.2	2.2	44.4%
Total	59.6	52.7	13.0%	42.7	39.6%	59.6	42.7	39.6%
By Segment								
Key Accounts	25.7	21.3	20.6%	15.4	66.5%	25.7	15.4	66.5%
Commercial	28.5	27.3	4.4%	23.9	19.0%	28.5	23.9	19.0%
- Domestic	25.0	23.9	4.2%	21.5	16.3%	25.0	21.5	16.3%
- International	3.5	3.4	5.6%	2.5	41.8%	3.5	2.5	41.8%
Direct-to-Consumers	5.4	4.1	30.5%	3.3	63.9%	5.4	3.3	63.9%
Total	59.6	52.7	13.0%	42.7	39.6%	59.6	42.7	39.6%

Source: Company, Kenanga Research

Group FY23-25 Targets

	Internal Management Target		
	FY2023	FY2024	FY2025
Revenue (YoY Growth)	RM250-270m (28-39%)	RM300-320m (15-23%)	RM360-380m (16-23%)
EBITDA (YoY Growth)	RM120-130m (23-33%)	RM140-150m (12-20%)	RM170-180m (17-24%)
Normalized PATAMI (YoY Growth)	RM100-105m (18-24%)	RM125-130m (22-27%)	RM145-150m (14-18%)

Source: Company

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
NON-BANK FINANCIAL INSTITUTIONS																	
AEON CREDIT SERVICE (M) BHD	OP	12.12	16.15	33.3%	3,094.3	N	02/2024	161.9	185.5	-1.0%	14.6%	7.5	6.5	1.1	15.5%	52.0	4.3%
BURSA MALAYSIA BHD	MP	6.45	6.25	-3.1%	5,220.0	Y	12/2023	28.0	31.2	0.2%	11.4%	23.0	20.6	6.6	28.7%	27.0	4.2%
CTOS DIGITAL BHD	OP	1.31	1.80	37.4%	3,026.1	Y	12/2023	4.4	5.3	14.1%	20.2%	29.5	24.5	4.8	17.0%	2.7	2.1%
LPI CAPITAL BERHAD	OP	12.08	14.50	20.0%	4,812.5	N	12/2023	84.8	85.8	22.1%	1.2%	14.2	14.1	2.1	15.2%	72.0	6.0%
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	OP	3.34	4.15	24.3%	2,796.6	Y	12/2023	43.2	45.3	13.4%	4.9%	7.7	7.4	1.3	17.2%	17.0	5.1%
SECTOR AGGREGATE					18,949.5					8.5%	8.9%	13.1	12.1	2.2	15.3%		4.3%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workforce Safety & Wellbeing	★	★	★	★	
	Corporate Governance	★	★	★		
	Anti-corruption Policy	★	★	★		
	Emissions Management	★	★	★	★	
SPECIFIC	Cybersecurity/Data Privacy	★	★	★	☆	
	Digitalisation & Innovation	★	★	★	★	
	Financial Inclusion	★	★	★	★	
	Ethical Practices	★	★	★		
	Legal & Regulatory Compliance	★	★	★		
	Customer Experience	★	★	★	★	
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.**

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