

08 May 2024

CTOS Digital

Court Ruling Overshadows Earnings

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CTOS's 1QFY24 results met expectations. Operationally, it appears to be business as usual with the appeal hearing date of an unfavourable court ruling recently fixed for Jul 2024. We remain cautious with CTOS's ongoing predicament. We maintain our forecasts, TP of RM1.15 and UNDERPERFORM call.

CTOS's 1QFY24 net profit of RM20.8m only made up 16% each of both our full-year forecast and the full-year consensus full-year estimate. However, we deem the results within expectations as we expect a stronger 2H due to seasonal factors, coupled with a better project flow expected during the later part of the year.

YoY, its 1QFY24 revenue increased by 20% mainly thanks to higher demand for digital reports (+38%), with other services appearing flattish. On the flipside, its operating profit only improved by 6% as operating margins (31.5%, -4.3ppt) were underpinned by lower product mix and generally higher upkeep with new projects in tow. That said, its net profit jumped 27% due to the low base a year ago on a lumpy tax.

QoQ, its 1QFY24 top line declined slightly (-2%) on easing demand from key accounts customers post the heightened year-end needs. Its 1QFY24 net profit plunged by 62% on lumpy project expenses.

Outlook. The group emphasised on its ability to meet its earnings target of RM125m-RM130m on the back of back-loaded earnings amidst several on-going projects which could materialise in subsequent periods. Under its belt are enhanced e-KYC digital solutions as well as subscription-based features which may also register chunky revenue recognitions while supporting a higher recurring fee business model. With regards to its recent court ruling, the group shared that it has fixed the hearing date of its appeal on 9 July 2024, of which it is confident to succeed. In between, the group has yet to experience the emergence of new litigation cases aside from the five on-going ones.

Forecasts. Maintained.

Valuations. We maintain our DCF-driven TP of RM1.15 based on our inputs of WACC: 7% and TG: 0%. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

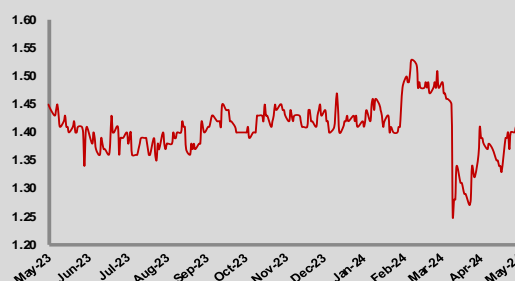
Investment case. While there could be merit to the group's legitimacy in offering key credit scoring solutions, we believe the elephant in the room still stands, i.e. the court's interpretation that poses a challenge to CTOS's business model. So far, it does not appear that an injunction of any sort will be sought by any party against its products. Nonetheless, we believe the onus is on CTOS to show that the court decision will have no impact on its day-to-day operations and financial performance. Maintain **UNDERPERFORM**.

Risks to our call include: (i) a higher court is to overturn the High Court's interpretation that CTOS's credit scoring product is beyond the authority granted by CRAA, (ii) better-than-expected demand for credit-related services, (iii) stronger-than-expected associate contributions, and (iv) further value-accretive acquisitions.

UNDERPERFORM ↔

Price : RM1.40
Target Price : RM1.15 ↔

Share Price Performance



KLCI 1,605.68
YTD KLCI chg 10.4%
YTD stock price chg -0.7%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker CTOS MK Equity
Market Cap (RM m) 3,234.0
Shares Outstanding 2,310.0
52-week range (H) 1.53
52-week range (L) 1.25
3-mth avg. daily vol. 13,316,140
Free Float 45%
Beta 1.1

Major Shareholders

Jade Vine Sdn Bhd 19.6%
Employees Provident Fund 13.2%
abrdn PLC 9.8%

Summary Earnings Table

| FY Dec (RM m) | FY23A | FY24F | FY25F |
|------------------------|--------------|--------------|--------------|
| Revenue | 261.4 | 339.9 | 392.3 |
| Operating Profit | 88.7 | 90.1 | 104.0 |
| Profit Before Tax | 108.6 | 125.9 | 148.2 |
| Net Profit | 118.4 | 125.6 | 147.8 |
| Core Net Profit | 104.0 | 125.6 | 147.8 |
| Consensus (NP) | - | 124.3 | 149.4 |
| Earnings Revision | - | - | - |
| Core EPS (sen) | 4.5 | 5.4 | 6.4 |
| Core EPS Growth (%) | 16.5 | 20.7 | 17.7 |
| NDPS (sen) | 3.32 | 3.81 | 4.48 |
| BV/Share (RM) | 0.26 | 0.27 | 0.29 |
| Core PER (x) | 31.1 | 25.8 | 21.9 |
| Price/BV (x) | 5.5 | 5.1 | 4.8 |
| Net Gearing (x) | 0.2 | 0.2 | - |
| Net Dvd. Yield (%) | 2.4 | 2.7 | 3.2 |

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Results Highlights

| | 1Q | 4Q | QoQ | 1Q | YoY | 3M | 3M | YoY |
|-------------------------------|-------------|-------------|---------------|-------------|--------------|-------------|-------------|--------------|
| FYE Dec (RM m) | FY24 | FY23 | Chg | FY23 | Chg | FY24 | FY23 | Chg |
| Revenue | 71.6 | 73.2 | -2.1% | 59.6 | 20.1% | 71.6 | 59.6 | 20.1% |
| Operating profit | 22.5 | 23.2 | -2.8% | 21.3 | 5.5% | 22.5 | 21.3 | 5.5% |
| Net Interest Expense/(Income) | -2.1 | -1.6 | 29.4% | -1.6 | 26.4% | -2.1 | -1.6 | 26.4% |
| Associates Contribution | 1.8 | 8.6 | -79.0% | 2.2 | -18.7% | 1.8 | 2.2 | -18.7% |
| Profit before tax | 22.3 | 30.2 | -26.2% | 21.9 | 1.5% | 22.3 | 21.9 | 1.5% |
| Taxation | -1.6 | 26.0 | -106.2% | -5.4 | -70.1% | -1.6 | -5.4 | -70.1% |
| Minority interest | 0.2 | 0.1 | 71.6% | 0.0 | N.M. | 0.2 | 0.0 | N.M. |
| Net Profit | 20.8 | 56.3 | -63.0% | 16.6 | 25.6% | 20.8 | 16.6 | 25.6% |
| Core Net Profit | 20.8 | 57.8 | -64.0% | 20.8 | 0.2% | 20.8 | 20.8 | 0.2% |
| Dividend Per Share (sen) | 0.640 | 1.706 | | 0.433 | | 0.640 | 0.433 | |
| Operating Margin | 31.5% | 31.7% | | 35.8% | | 31.5% | 35.8% | |
| Pretax Margin | 31.1% | 41.2% | | 36.8% | | 31.1% | 36.8% | |
| Effective tax rate | 7.2% | -86.3% | | 24.4% | | 7.2% | 24.4% | |

Source: Company, Kenanga Research

Revenue Breakdown

| | 1Q | 4Q | QoQ | 1Q | YoY | 3M | 3M | YoY |
|--|-------------|-------------|--------------|-------------|--------------|-------------|-------------|--------------|
| FYE Dec (RM m) | FY24 | FY23 | Chg | FY23 | Chg | FY24 | FY23 | Chg |
| By Service | | | | | | | | |
| Digital Reports | 36.9 | 33.6 | 9.9% | 26.8 | 37.5% | 36.9 | 26.8 | 37.5% |
| Subscription & Monitoring Service | 23.6 | 23.6 | 0.2% | 23.1 | 2.1% | 23.6 | 23.1 | 2.1% |
| Comprehensive Portfolio Review & Analytics | 6.4 | 9.2 | -30.5% | 6.4 | 0.2% | 6.4 | 6.4 | 0.2% |
| Digital Solutions | 4.6 | 6.8 | -31.6% | 3.2 | 44.0% | 4.6 | 3.2 | 44.0% |
| Total | 71.6 | 73.2 | -2.1% | 59.6 | 20.1% | 71.6 | 59.6 | 20.1% |
| By Segment | | | | | | | | |
| Key Accounts | 35.0 | 35.8 | -2.2% | 25.7 | 36.2% | 35.0 | 25.7 | 36.2% |
| Commercial | 30.4 | 31.8 | -4.4% | 28.5 | 6.7% | 30.4 | 28.5 | 6.7% |
| Direct-to-Consumers | 6.2 | 5.6 | 10.7% | 5.4 | 14.5% | 6.2 | 5.4 | 14.5% |
| Total | 71.6 | 73.2 | -2.1% | 59.6 | 20.1% | 71.6 | 59.6 | 20.1% |

Source: Company, Kenanga Research

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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 | 7.21 | 8.55 | 18.6% | 3,682 | N | 02/2025 | 83.4 | 85.8 | 0.5% | 2.8% | 8.6 | 8.4 | 1.3 | 15.4% | 32.0 | 4.4% |
| BURSA MALAYSIA BHD | UP | 7.77 | 6.70 | -13.8% | 6,288 | Y | 12/2024 | 33.1 | 33.5 | 6.2% | 1.0% | 23.5 | 23.2 | 7.8 | 33.7% | 31.0 | 4.0% |
| CTOS DIGITAL BHD | UP | 1.40 | 1.15 | -17.9% | 3,234 | Y | 12/2024 | 5.4 | 6.4 | 20.8% | 17.7% | 25.7 | 21.9 | 5.1 | 20.5% | 3.8 | 2.7% |
| LPI CAPITAL BERHAD | OP | 12.08 | 15.00 | 24.2% | 4,812 | N | 12/2024 | 95.2 | 92.0 | 20.9% | -3.4% | 12.7 | 13.1 | 2.1 | 16.9% | 85.7 | 7.1% |
| SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD | MP | 3.56 | 3.85 | 8.1% | 2,981 | Y | 12/2024 | 43.2 | 45.3 | 13.4% | 4.9% | 8.2 | 7.9 | 1.4 | 17.2% | 17.0 | 4.8% |
| SECTOR AGGREGATE | | | | | 20,997 | | | | | 10.5% | 2.7% | 13.5 | 13.1 | 2.4 | 17.7% | | 4.6% |

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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