

10 July 2024

CTOS Digital

Verdict Overturned

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CTOS's successful appeal on the verdict of its 11 Mar 2024 High Court case has dissipated overhanging business risk to the group. As the group is able to operate accordingly, we revert our call and DCF-valuation back to pre-court case inputs. Upgrade to **OUTPERFORM** (from **UNDERPERFORM**) with a TP of **RM2.00** (from **RM1.15**) with unchanged forecasts.

Yesterday, CTOS's appeal in the Court of Appeal has overturned the 11 Mar 2024 High Court case ruling which previously claimed that the group is not legally empowered to formulate credit scores and was not provisioned in the Credit Reporting Agencies Act 2010 (Act).

Much needed clarity and affirmation. During the appeal, it was also decided that:

- Credit Reporting Agencies do not owe a duty of care in Common Law; and
- Credit Reporting Agencies may formulate and publish credit scores as part of their business of credit reporting pursuant to the provisions of the Act.

We believe that the above could eliminate any existing doubt, and ambiguity that could be posed from interpreting the Act in future cases.

Forecast. Maintained as we had not changed our earnings assumptions attributed to the earlier High Court ruling.

Upgrade to OUTPERFORM (from UNDERPERFORM) and DCF-driven TP of RM2.00 (from RM1.15). Following the abovementioned favourable outcome, we revert back to our DCF inputs of WACC to 6.0% (from 7.0%) and TG to 3.5% (from 0.0%) as the risk premium overhanging to the stock evaporates. In addition, we also reattach our ESG rating of the stock to 4-star (from 3-star) and reinstate its 5% ESG premium.

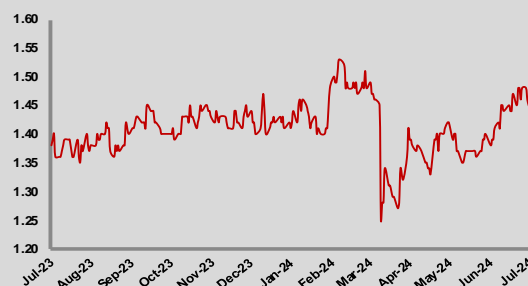
As its key business and operating risk normalises, we believe investors may return to appreciate its key merits, being a: (i) leading presence in credit reporting (c.80% domestic market share), (ii) synergistic gains to progressively materialise, and (iii) scalable operations for future regional penetration.

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 : **RM1.45**
Target Price : **RM2.00** ↑

Share Price Performance



KLCI	1,614.42
YTD KLCI chg	11.0%
YTD stock price chg	2.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CTOS MK Equity
Market Cap (RM m)	3,349.5
Shares Outstanding	2,310.0
52-week range (H)	1.53
52-week range (L)	1.25
3-mth avg. daily vol.	5,616,619
Free Float	75%
Beta	0.9

Major Shareholders

Jade Vine Sdn Bhd	19.6%
Abrdn PLC	12.9%
Employees Provident Fund	9.7%

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
Pretax Profit	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)	-	124.2	148.6
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	32.2	26.7	22.7
Price/BV (x)	5.6	5.3	5.0
Net Gearing (x)	0.2	0.2	0.0
Net Dvd. Yield (%)	2.3	2.6	3.1

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	FY21A	FY22A	FY23A	FY24F	FY25F	FY Dec	FY21A	FY22A	FY23A	FY24F	FY25F
Revenue	153.2	194.8	261.4	339.9	392.3	Growth (%)					
Operating Profit	51.0	66.7	88.7	90.1	104.0	Revenue	9.0	27.2	34.2	30.0	15.4
Pretax Profit	52.9	85.4	108.6	125.9	148.2	Operating Profit	19.1	30.9	33.0	1.5	15.4
Taxation	-9.3	-14.0	9.7	-0.3	-0.4	Pretax Profit	30.5	61.5	27.1	15.9	17.7
Net Profit	43.6	71.4	118.4	125.6	147.8	Net Profit	17.8	64.0	65.7	6.1	17.7
Core Net Profit	60.6	89.3	104.0	125.6	147.8	Core Net Profit	40.1	47.2	16.5	20.7	17.7
Balance Sheet						Profitability (%)					
FY Dec (RM m)	FY21A	FY22A	FY23A	FY24F	FY25F	Operating Margin	33.3	34.3	33.9	26.5	26.5
Fixed Assets	44.5	12.7	10.1	30.1	50.1	Pretax Margin	34.5	43.8	41.5	37.0	37.8
Intangible Assets	79.1	86.6	133.3	133.3	133.3	Net Margin	39.6	45.8	39.8	37.0	37.7
Oth. Fixed Assets	152.4	579.2	575.9	575.9	575.9	Effective Tax Rate	17.7	16.3	-8.9	0.2	0.3
Inventories	0.0	0.0	0.0	0.0	0.0	ROA	13.3	9.7	14.6	14.9	16.9
Receivables	30.6	39.3	71.5	68.0	78.5	ROE	14.6	13.9	20.0	19.9	21.9
Other CA	0.0	5.1	3.2	3.2	3.2	DuPont Analysis					
Cash	20.7	12.4	17.3	30.9	31.0	Net Margin (%)	39.6	45.8	39.8	37.0	37.7
Total Assets	327.3	735.2	811.3	841.4	872.0	Assets T/O (x)	0.5	0.3	0.3	0.4	0.4
Payables	18.4	31.4	56.6	40.8	47.1	Lev. Factor (x)	1.1	1.4	1.4	1.3	1.3
ST Borrowings	0.0	10.0	48.9	48.9	48.9	ROE (%)	20.3	17.4	17.5	19.9	21.9
LT Borrowings	0.0	139.5	100.7	90.6	0.0	Leverage					
Other ST Liability	0.0	39.5	11.8	0.0	0.0	Debt/Asset (x)	0.0	0.2	0.2	0.2	0.1
Other LT Liability	9.6	2.2	0.3	10.3	100.9	Debt/Equity (x)	0.0	0.3	0.3	0.2	0.1
Net Assets	299.3	512.7	593.1	650.8	675.1	Net (Cash)/Debt	-20.7	137.1	132.2	108.6	17.8
Share Capital	411.9	584.0	584.0	584.0	584.0	Net Debt/Equity (x)	-0.1	0.3	0.2	0.2	0.0
Reverse Acq. Reserve	-193.5	-193.5	-193.5	-193.5	-193.5	Valuations					
Retained Earnings	80.3	108.5	197.0	234.7	279.0	Core EPS (sen)	2.6	3.9	4.5	5.4	6.4
Others	0.6	13.7	5.7	5.7	5.7	DPS (sen)	1.4	1.9	3.3	3.8	4.5
Minority Interest	0.0	0.0	-0.1	-0.1	-0.1	BV/share (RM)	0.13	0.22	0.26	0.27	0.29
Total Equity	299.3	512.7	593.1	630.8	675.1	PER (x)	55.2	37.5	32.2	26.7	22.7
Cashflow Statement						Div. Yield (%)	1.0	1.3	2.3	2.6	3.1
FY Dec (RM m)	FY21A	FY22A	FY23A	FY24F	FY25F	P/BV (x)	11.2	6.5	5.6	5.3	5.0
Operating CF	35.1	68.7	112.0	114.2	144.5						
Investing CF	-36.9	-21.8	-53.0	-20.0	-20.0						
Financing CF	-37.6	-47.0	-54.0	-89.2	-104.3						
FCFF	2.5	50.1	98.7	95.4	125.4						

Source: 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	7.22	8.55	18.4%	3,686.6	N	02/2025	83.4	85.8	0.5%	2.8%	8.7	8.4	1.3	15.4%	32.0	4.4%
BURSA MALAYSIA BHD	UP	9.10	6.70	-26.4%	7,364.6	Y	12/2024	33.1	33.5	6.2%	1.0%	27.5	27.2	9.2	33.7%	31.0	3.4%
CTOS DIGITAL BHD	OP	1.45	2.00	37.9%	3,349.5	Y	12/2024	5.4	6.4	20.8%	17.7%	26.7	22.7	5.3	20.5%	3.8	2.6%
LPI CAPITAL BERHAD	OP	12.42	15.00	20.8%	4,947.9	N	12/2024	95.2	92.0	20.9%	-3.4%	13.0	13.5	2.2	16.9%	85.7	6.9%
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	OP	3.74	4.35	16.3%	3,131.5	Y	12/2024	43.2	45.3	13.4%	4.9%	8.7	8.3	1.4	17.2%	17.0	4.5%
SECTOR AGGREGATE					22,480					10.5%	2.7%	14.4	14.0	2.6	17.7%		4.4%

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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