

**HLIB Research**

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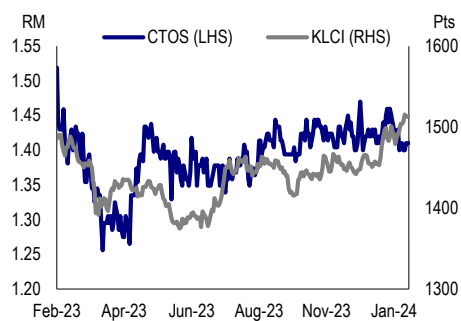
**BUY** (Maintain)

**Target Price:** **RM1.75**
**Previously:** **RM1.75**
**Current Price:** **RM1.41**

Capital upside	24.1%
Dividend yield	2.4%
Expected total return	26.5%

**Sector coverage:** Technology

**Company description:** CTOS Digital offers credit reporting, software development, and digital software related services.

**Share price**


Historical return (%)	1M	3M	12M
Absolute	0.0	-2.1	-8.4
Relative	-3.9	-7.1	-10.1

**Stock information**

Bloomberg ticker	CTOS MK
Bursa code	5301
Issued shares (m)	2,310
Market capitalisation (RM m)	3,257
3-mth average volume ('000)	3,187
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★★

**Major shareholders**

Jade Vine Sdn Bhd	18.4%
Employees Provident Fund	11.6%
Wasatch Advisors	5.8%

**Earnings summary**

FYE (Dec)	FY23	FY24f	FY25f
PATMI - core (RM m)	104.0	120.4	137.2
EPS - core (sen)	4.5	5.2	5.9
P/E (x)	31.3	27.1	23.7

# CTOS Digital

## Ending within expectations

CTOS' 4Q23 core bottom-line spiked 36% YoY, driven by stronger revenue (all business segments showed growth) and positive operating leverage. Overall, results were within estimates and thus, profit forecasts were kept. However, we raised our DPR assumption to 65% from 60% as CTOS is looking to revise up its dividend policy. Rain or shine, we still believe that CTOS will grow at a fast rate in 2024 given its resilient revenue streams while the newly on-boarded clients should begin to contribute more meaningfully as well. We continue to like CTOS for its market leadership, strong economic moat, and highly scalable business model. Retain BUY and FCFF-TP of RM1.75, based on an implied 34x FY24 P/E.

**Met expectations.** After stripping away acquisition costs and income tax adjustments, CTOS registered 4Q23 core profit of RM29m (-3% QoQ, +36% YoY), bringing FY23 sum to RM104m (+22%). This was in line with estimates, forming 99-100% of our and consensus full-year forecasts.

**Dividend.** 4<sup>th</sup> DPS of 1.71sen was declared (4Q22: 0.36sen), which brings FY23 DPS to 3.33sen (vs FY22: 1.88sen). Ex-date: 27<sup>th</sup> Feb.

**QoQ.** Core earnings fell 3% on the back of higher opex (+19%) as staff and IT-related costs increased. That said, top-line expansion of 10% helped to cushion some of the damage. Segmentally, we saw revenue for Key accounts and Commercial rose 21% and 3% respectively but Direct-to-consumer experienced a 4% downtick (dragged by tepid showing by strategic partners)

**YoY.** The 36% jump in core profit was lifted by strong revenue (+39% as all business divisions showed growth; Key accounts +68%, Commercial +17%, Direct-to-consumer +35%). Furthermore, positive operating leverage helped to boost overall performance as opex expanded at a slower clip of 10%.

**YTD.** Robust revenue growth (+34%) and higher associate income (+12%) trickled to a good core bottom-line performance of +22% expansion.

**Outlook.** Rain or shine, we still believe CTOS will continue to expand at a fast rate in 2024 given its defensive business model that has resilient revenue streams. Besides, newly onboarded customers should begin to ramp up adoption of CTOS' products and services. Moreover, the expansion into new verticals will help to boost revenue growth in the short and medium term. For longer-term prospects, it is also bright, in our view, observing that the industry is underpenetrated where ASEAN credit reporting revenue per capita is 38-56x smaller vs developed nations (US, UK). Separately, CTOS is now looking to raise its dividend policy higher from >60%

**Forecast.** Profit estimates unchanged since 4Q23 results were in line but we raised our DPR assumption to 65% from 60%. Notably, management revised lower its FY24 normalized bottom-line guidance to RM125-130m from RM127-135m but kept FY25 at RM150-160m.

**Maintain BUY call and FCFF-TP of RM1.75,** based on an implied 34x FY24 P/E with assumptions of 8.3% WACC and 5.0% TG. This is above global peers' average (GPA) of 23x and their 5-year mean of 28x. The premium is fair given its bright outlook and more robust profit growth profile (4ppt higher vs GPA), backed by the underpenetrated ASEAN market. Overall, we still like CTOS for its leadership position, strong economic moat, and highly scalable business model.

## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Dec	FY21	FY22	FY23	FY24f	FY25f
Cash & ST funds	17.1	12.4	17.3	20.8	25.5
Receivables	26.6	39.3	71.5	79.9	89.7
Associates	172.9	574.6	574.2	614.1	635.3
PPE	14.7	12.7	10.1	19.1	23.3
Intangible assets	79.2	86.6	133.3	123.3	122.0
Others	50.1	9.6	4.9	12.9	15.5
<b>Assets</b>	<b>360.6</b>	<b>735.2</b>	<b>811.3</b>	<b>870.2</b>	<b>911.5</b>
Payables	30.2	40.8	65.1	58.6	65.8
Debts	-	149.5	149.5	192.5	175.5
Other liabilities	22.6	32.3	3.6	3.6	3.9
<b>Liabilities</b>	<b>52.8</b>	<b>222.5</b>	<b>218.2</b>	<b>254.7</b>	<b>245.3</b>
Shareholder's equity	307.7	512.7	593.2	615.5	666.3
Minority interest	-	-	(0.1)	(0.1)	(0.1)
<b>Equity</b>	<b>307.7</b>	<b>512.7</b>	<b>593.1</b>	<b>615.4</b>	<b>666.2</b>

### Cash Flow Statement

FYE Dec	FY21	FY22	FY23	FY24f	FY25f
Profit before taxation	51.9	85.7	108.6	127.4	145.2
D&A	8.6	8.5	10.4	7.3	8.2
Working capital	2.6	0.2	(15.9)	(17.2)	(2.7)
Taxation	(3.3)	(5.4)	(5.5)	(7.0)	(8.0)
Others	2.2	(17.6)	(20.2)	(17.9)	(20.4)
<b>CFO</b>	<b>62.0</b>	<b>71.3</b>	<b>77.4</b>	<b>92.5</b>	<b>122.3</b>
Capex	(2.0)	(5.3)	(2.6)	(11.8)	(13.3)
Others	(98.7)	(343.6)	(15.8)	(10.5)	9.7
<b>CFI</b>	<b>(100.7)</b>	<b>(348.9)</b>	<b>(18.4)</b>	<b>(22.3)</b>	<b>(3.6)</b>
Shares issued	220.0	173.8	-	-	-
Changes in debts	(138.6)	150.6	(0.5)	43.0	(17.0)
Dividends	(41.0)	(42.3)	(45.8)	(98.1)	(86.5)
Others	(9.6)	(11.0)	(7.7)	(11.6)	(10.5)
<b>CFF</b>	<b>30.7</b>	<b>271.2</b>	<b>(54.0)</b>	<b>(66.6)</b>	<b>(114.0)</b>
<b>Net cash flow</b>	<b>(8.0)</b>	<b>(6.4)</b>	<b>5.1</b>	<b>3.5</b>	<b>4.7</b>
Others	(1.3)	1.7	(0.1)	-	-
<b>Beginning cash</b>	<b>26.4</b>	<b>17.1</b>	<b>12.4</b>	<b>17.3</b>	<b>20.8</b>
<b>Ending cash</b>	<b>17.1</b>	<b>12.4</b>	<b>17.3</b>	<b>20.8</b>	<b>25.5</b>

### Income Statement

FYE Dec	FY21	FY22	FY23	FY24f	FY25f
<b>Revenue</b>	<b>153.2</b>	<b>194.8</b>	<b>261.4</b>	<b>295.8</b>	<b>332.4</b>
<b>EBITDA</b>	<b>65.6</b>	<b>79.6</b>	<b>96.0</b>	<b>116.7</b>	<b>133.0</b>
<b>EBIT</b>	<b>57.0</b>	<b>71.1</b>	<b>89.0</b>	<b>109.4</b>	<b>124.8</b>
Finance cost	(5.3)	(3.8)	(6.1)	(10.9)	(9.9)
Associates & JV	7.2	22.5	26.0	28.9	30.3
Others	(6.1)	(4.4)	(0.3)	-	-
<b>Profit before tax</b>	<b>52.9</b>	<b>85.4</b>	<b>108.6</b>	<b>127.4</b>	<b>145.2</b>
Tax	(9.3)	(14.0)	9.7	(7.0)	(8.0)
<b>Net profit</b>	<b>43.6</b>	<b>71.4</b>	<b>118.2</b>	<b>120.4</b>	<b>137.2</b>
Minority interest	(0.6)	-	0.1	-	-
<b>PATAMI</b>	<b>43.0</b>	<b>71.4</b>	<b>118.4</b>	<b>120.4</b>	<b>137.2</b>
Exceptionals	(11.5)	(13.6)	14.4	-	-
<b>Core PATAMI</b>	<b>54.5</b>	<b>85.1</b>	<b>104.0</b>	<b>120.4</b>	<b>137.2</b>
HLIB/ Consensus				98%	94%

### Valuation & Financial Ratios

FYE Dec	FY21	FY22	FY23	FY24f	FY25f
Core EPS (sen)	2.4	3.7	4.5	5.2	5.9
P/E (x)	59.8	38.3	31.3	27.1	23.7
BVPS (sen)	13.3	22.2	25.7	26.6	28.8
P/B (x)	10.6	6.4	5.5	5.3	4.9
DPS (sen)	1.2	1.9	3.3	3.4	3.9
Dividend yield (%)	0.8	1.3	2.4	2.4	2.7
Payout ratio (%)	61.4	60.6	65.0	65.0	65.0
Revenue growth	15.0%	27.2%	34.2%	13.1%	12.4%
EBITDA growth	19.9%	21.3%	20.6%	21.6%	14.0%
EBIT growth	20.7%	24.7%	25.2%	22.9%	14.1%
PBT growth	23.6%	61.5%	27.1%	17.3%	14.0%
Core PATAMI growth	31.3%	56.2%	22.2%	15.7%	14.0%
EBITDA margin	42.9%	40.9%	36.7%	39.5%	40.0%
EBIT margin	37.2%	36.5%	34.0%	37.0%	37.5%
PBT margin	34.5%	43.8%	41.5%	43.1%	43.7%
Core PATAMI margin	35.6%	43.7%	39.8%	40.7%	41.3%
ROE	17.7%	16.6%	17.5%	19.6%	20.6%
ROA	15.1%	11.6%	12.8%	13.8%	15.1%
Net gearing	N.Cash	25.7%	22.1%	27.7%	22.4%

**Figure #1** Quarterly results comparison

FYE Dec (RM m)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	12MFY22	12MFY23	YoY (%)
<b>Revenue</b>	<b>52.7</b>	<b>66.5</b>	<b>73.2</b>	<b>10.1%</b>	<b>38.7%</b>	<b>194.8</b>	<b>261.4</b>	<b>34.2%</b>
Cost of Sales	-8.7	-15.7	-17.5	10.9%	99.6%	-30.2	-59.8	98.2%
<b>Gross Profit</b>	<b>44.0</b>	<b>50.7</b>	<b>55.7</b>	<b>9.8%</b>	<b>26.6%</b>	<b>164.6</b>	<b>201.7</b>	<b>22.5%</b>
Opex	-29.4	-27.2	-32.5	19.2%	10.4%	-94.0	-112.7	19.9%
<b>EBIT</b>	<b>14.6</b>	<b>23.5</b>	<b>23.2</b>	<b>-1.1%</b>	<b>59.2%</b>	<b>70.6</b>	<b>89.0</b>	<b>26.0%</b>
Net Finance Income / (Costs)	-1.7	-1.4	-1.6	14.9%	-9.0%	-3.8	-6.1	60.1%
Share in Associates	9.2	8.4	8.6	1.7%	-6.8%	23.3	26.0	11.6%
Others	-3.3	-0.1	-0.1	-37.0%	-97.8%	-4.4	-0.3	-93.6%
<b>Pre-tax profit</b>	<b>18.7</b>	<b>30.4</b>	<b>30.2</b>	<b>-0.9%</b>	<b>61.2%</b>	<b>85.7</b>	<b>108.6</b>	<b>26.7%</b>
Tax & minority interest	-4.7	-6.0	26.1	<i>n.m.</i>	<i>n.m.</i>	-14.0	9.8	<i>n.m.</i>
<b>Net Profit</b>	<b>14.0</b>	<b>24.4</b>	<b>56.3</b>	<b><i>n.m.</i></b>	<b><i>n.m.</i></b>	<b>71.7</b>	<b>118.4</b>	<b>65.1%</b>
<b>Core Profit</b>	<b>20.9</b>	<b>29.3</b>	<b>28.5</b>	<b>-2.7%</b>	<b>36.3%</b>	<b>85.4</b>	<b>104.0</b>	<b>21.8%</b>
<b>Margins (%)</b>				<b>+/- ppt</b>	<b>+/- ppt</b>			<b>+/- ppt</b>
GP	83.4	76.3	76.1	-0.2	-7.3	84.5	77.1	-7.4
EBIT	27.7	35.3	31.8	-3.6	4.1	36.3	34.0	-2.2
PBT	35.5	45.8	41.2	-4.6	5.7	44.0	41.5	-2.5
Net Profit	26.6	36.7	76.9	40.2	50.4	36.8	45.3	8.5
Core Profit	39.6	44.0	38.9	-5.1	-0.7	43.8	39.8	-4.0
<b>EPS (sen)</b>	<b>0.9</b>	<b>1.3</b>	<b>1.2</b>	<b>-2.7%</b>	<b>36.3%</b>	<b>3.7</b>	<b>4.5</b>	<b>21.8%</b>
<b>DPS (sen)</b>	<b>0.4</b>	<b>0.6</b>	<b>1.7</b>	<b><i>n.m.</i></b>	<b><i>n.m.</i></b>	<b>1.9</b>	<b>3.3</b>	<b>77.5%</b>
<b>Book value/share (sen)</b>	<b>22.1</b>	<b>23.5</b>	<b>25.7</b>	<b>9.3%</b>	<b>16.4%</b>	<b>22.1</b>	<b>25.7</b>	<b>16.4%</b>

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- Robust YoY showing across all business segments led to higher revenue. QoQ performance was capped by tepid Direct-to-customer segment.
- GP margin down YoY due to resumption of fee payment for CCRIS report extractions.
- QoQ opex rose no thanks to higher staff & IT-related costs.
- Higher net finance cost YoY because of borrowings to fund the purchase of RAM, Juristech, and BOL.

**Figure #2** Revenue breakdown

FYE Dec (RM m)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	12MFY22	12MFY23	YoY (%)
Key accounts	21.3	29.7	35.8	20.5%	67.8%	74.8	118.9	59.0%
Commercial	27.3	30.9	31.8	2.8%	16.5%	104.7	120.2	14.7%
Direct to Consumer	4.1	5.8	5.6	-4.3%	35.0%	15.3	22.4	46.4%
<b>Total</b>	<b>52.7</b>	<b>66.5</b>	<b>73.2</b>	<b>10.1%</b>	<b>38.7%</b>	<b>194.8</b>	<b>261.4</b>	<b>34.2%</b>
<b>Revenue mix (%)</b>				<b>+/- ppt</b>	<b>+/- ppt</b>			<b>+/- ppt</b>
Key accounts	40.4	44.7	48.9	4.2	8.5	38.4	45.5	7.1
Commercial	51.8	46.6	43.5	-3.1	-8.3	53.8	46.0	-7.8
Direct to Consumer	7.8	8.8	7.6	-1.1	-0.2	7.8	8.6	0.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	<b>0.0</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

### Sector rating guide

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.

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