

## CTOS Digital

### Ending with Good Strides

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CTOS's FY23 normalised net profit of RM104.0m met expectations but surprised with a 70% dividend payout. We raise our FY24F earnings by 6% as we become more convinced of the group's trajectory following its strong foothold in domestic and foreign credit assessment products. Maintain **OUTPERFORM** with a higher DCF-driven TP of RM2.00 (from RM1.85).

**FY23 within expectations.** CTOS's FY23 normalised profit of RM104.0m accounted for 104% of our full-year forecast and 99% of consensus full-year estimate, adjusting for tax provision writebacks. A final dividend of 1.7 sen was declared, amounting to a full-year payment of 3.32 sen. This was above our 2.61 sen expectation as the group sought to raise total payouts to 70%, above its minimum 60% policy.

**YoY,** FY23 revenue rose by 34% as all key services reported stronger contributions. Segment-wise, key customer accounts continued to lead (+59%) on the back of growing demand for digital credit reports. Operating margins fell slightly to 33.9% (-0.4ppt) possibly owing to poorer margin mix attributed to product cross selling. Excluding exceptional items, FY23 normalised net profits came in at RM104.0m (+17%).

**QoQ,** 4QFY23 saw a pick-up in overall revenue (+10%) due to larger volume of credit assessments conducted typically during the year-end. With its previous pioneer tax status appeal materialising, the group's tax credits for the period led to 4QFY23 net profit of RM54.9m (+178%).

**Outlook.** Meeting its FY23 normalised earnings target of RM100m-RM105m, CTOS stayed emboldened with its FY24 and FY25 guidance of RM125m-RM130m and RM150m-RM160m, respectively. The group will continue to reap its strong position in the credit scoring space with demand likely to accelerate with the adoption of more digital centric financial products being introduced to the market. Its regional associate footprint also appears to be gaining prominence, making good on past growth aspirations. With regards to dividends, the group surprised with a better payout of 70% as opposed to its 60% policy rate. We opine that this could translate to even better payout in the coming periods as the group may likely be willing to slow down on further expansion in favour of rewarding shareholders.

**Forecasts.** Post results, we raise our FY24F earnings by 6% to be more attuned to group's guidance, particularly backed by the higher volumes expected from its digital reports. Meanwhile, we introduce our FY25F numbers.

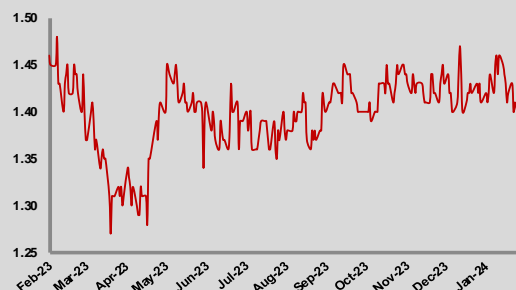
**Maintain OUTPERFORM with a higher DCF-driven TP of RM2.00 (from RM1.85).** Our revised TP came from us incorporating a higher earnings base in FY25F into our DCF on the back of a WACC of 6% and TG of 3.5%. We ascribe a 5% premium to our fair value in line with our 4-star ESG rating for the stock. We continue to like CTOS as we see merits in its: (i) leading presence in credit reporting (c.80% domestic market share), (ii) synergistic gains to progressively materialise, and (iii) scalable operations for future regional penetration. Although the group is typically forthcoming with its earnings guidances, there could still be room for surprises should its regional ventures perform better than expected.

**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 : RM1.41  
Target Price : RM2.00 ↑

### Share Price Performance



KLCI	1,512.98
YTD KLCI chg	4.0%
YTD stock price chg	0.0%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CTOS MK Equity
Market Cap (RM m)	3,257.1
Shares Outstanding	2,310.0
52-week range (H)	1.54
52-week range (L)	1.27
3-mth avg daily vol	3,201,983
Free Float	56%
Beta	1.0

### Major Shareholders

Jade Vine Sdn Bhd	18.4%
Employees Provident Fund	11.6%
abrdn PLC	6.7%

### Summary Earnings Table

FY Dec (RM m)	FY23A	FY24F	FY25F
<b>Revenue</b>	<b>261.4</b>	<b>339.9</b>	<b>392.3</b>
Operating Profit	88.7	90.1	104.0
Profit Before Tax	108.6	125.9	148.2
<b>Net Profit</b>	<b>118.4</b>	<b>125.6</b>	<b>147.8</b>
<b>Core Net Profit</b>	<b>104.0</b>	<b>125.6</b>	<b>147.8</b>
Consensus (NP)	-	122.7	146.0
Earnings Revision	-	+5.9%	NEW
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)	31.3	25.9	22.0
Price/BV (x)	5.5	5.2	4.8
Net Gearing (x)	0.2	0.2	0.0
Net Dvd. Yield (%)	2.4	2.7	3.2

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## Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
<b>Revenue</b>	<b>73.2</b>	<b>66.5</b>	<b>10.1%</b>	<b>52.7</b>	<b>38.7%</b>	<b>261.4</b>	<b>194.8</b>	<b>34.2%</b>
Operating profit	23.2	23.4	-0.9%	11.7	97.4%	88.7	66.7	33.0%
Net Interest Expense/(Income)	-1.6	-1.4	14.9%	-1.7	-9.0%	-6.1	-3.8	60.1%
Associates Contribution	8.6	8.4	1.7%	8.4	1.6%	26.0	22.5	15.4%
<b>Profit before tax</b>	<b>30.2</b>	<b>30.4</b>	<b>-0.9%</b>	<b>18.4</b>	<b>63.5%</b>	<b>108.6</b>	<b>85.4</b>	<b>27.1%</b>
Taxation	26.0	-6.1	-528.9%	-4.7	-653.2%	9.7	-14.0	-169.1%
Minority interest	0.1	0.0	143.6%	0.0	N.M.	0.1	0.0	N.M.
<b>Net Profit</b>	<b>56.3</b>	<b>24.4</b>	<b>130.8%</b>	<b>13.7</b>	<b>309.9%</b>	<b>118.4</b>	<b>71.4</b>	<b>65.7%</b>
<b>Core Net Profit</b>	<b>54.9</b>	<b>19.7</b>	<b>178.2%</b>	<b>22.5</b>	<b>144.3%</b>	<b>104.0</b>	<b>89.3</b>	<b>16.5%</b>
Dividend Per Share (sen)	1.706	0.640		0.360		3.329	1.870	
Operating Margin	31.7%	35.2%		22.2%		33.9%	34.3%	
Pretax Margin	41.2%	45.8%		35.0%		41.5%	43.8%	
Effective tax rate	-86.3%	20.0%		25.5%		-8.9%	16.3%	

Source: Company, Kenanga Research

## Revenue Breakdown

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
<b>By Service</b>								
Digital Reports	33.6	28.4	18.3%	18.7	79.6%	115.2	78.9	45.9%
Subscription & Monitoring Service	23.6	23.6	0.0%	22.5	4.9%	93.7	85.8	9.2%
Comprehensive Portfolio Review & Analytics	9.2	7.7	20.3%	6.1	50.1%	27.7	15.3	81.0%
Digital Solutions	6.8	6.8	-0.6%	5.4	24.4%	24.8	14.7	68.6%
<b>Total</b>	<b>73.2</b>	<b>66.5</b>	<b>10.1%</b>	<b>52.7</b>	<b>38.7%</b>	<b>261.4</b>	<b>194.8</b>	<b>34.2%</b>
<b>By Segment</b>								
Key Accounts	35.8	29.7	20.5%	21.3	67.8%	118.9	74.8	59.0%
Commercial	31.8	30.9	2.8%	27.3	16.5%	120.2	104.7	14.7%
Direct-to-Consumers	5.6	5.8	-4.3%	4.1	35.0%	22.4	15.3	46.4%
<b>Total</b>	<b>73.2</b>	<b>66.5</b>	<b>10.1%</b>	<b>52.7</b>	<b>38.7%</b>	<b>261.4</b>	<b>194.8</b>	<b>34.2%</b>

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.				
<b>NON-BANK FINANCIAL INSTITUTIONS</b>																	
AEON CREDIT SERVICE (M) BHD	OP	5.90	8.48	43.7%	3,013	N	02/2024	81.0	92.8	-1.0%	14.6%	7.3	6.4	1.1	15.5%	26.0	4.4%
BURSA MALAYSIA BHD	UP	7.50	6.45	-14.0%	6,070	Y	12/2024	31.2	32.1	2.3%	2.8%	24.0	23.3	7.6	31.9%	30.0	4.0%
CTOS DIGITAL BHD	OP	1.41	1.95	38.3%	3,257	Y	12/2023	5.4	6.4	20.8%	17.7%	25.9	22.0	5.2	20.5%	3.8	2.7%
LPI CAPITAL BERHAD	OP	12.38	14.70	18.7%	4,932	N	12/2023	76.7	84.3	12.9%	9.9%	16.1	14.7	2.2	13.6%	61.4	5.0%
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	OP	3.79	4.10	8.2%	3,173	Y	12/2023	43.5	47.0	-5.1%	8.0%	8.7	8.1	2.0	25.0%	17.4	4.6%
<b>SECTOR AGGREGATE</b>					<b>20,445</b>					<b>2.7%</b>	<b>10.2%</b>	<b>14.0</b>	<b>12.7</b>	<b>2.5</b>	<b>18.1%</b>		<b>4.1%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

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

☆ 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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