

## COMPANY RESULTS

### CTOS Digital (CTOS MK)

4Q23: Largely In line; Awaiting Better Catalysts

**CTOS' 4Q23 core net profit of RM28.3m is largely in line, fuelled by a yoy improvement in its Malaysia operations as momentum ramps up across all three business segments, coupled with stronger associate contributions. While we expect CTOS to continue charting earnings growth driven by better services penetration, customer base expansion and synergies with associates, we retain our view that these have been fairly priced into its current share price and valuation. Maintain HOLD. Target: RM1.52.**

#### 4Q23 RESULTS

Year to 31 Dec (RMm)	4Q23	qoq % chg	yoy % chg	2023	yoy % chg
Revenue	73.2	10.1	38.7	261.4	34.2
Key Accounts	35.8	20.5	67.8	118.9	59.0
Commercial	31.8	2.8	16.5	120.2	14.7
Direct-to-business	5.6	(4.3)	35.0	22.4	46.4
International B2B	0.0	n.a.	n.a.	0.0	n.a.
Gross Profit	55.7	9.8	26.9	201.7	22.6
EBITDA	25.9	9.7	85.7	99.2	32.3
PBT	30.2	(0.9)	63.5	108.6	27.1
Tax Expense	26.0	(528.9)	(653.2)	9.7	(169.1)
Net Profit	56.2	130.8	309.2	118.2	65.5
Core Net Profit	28.3	(3.2)	37.2	103.8	22.0
Margins (%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg	(%)
EBITDA	35.4	(0.1)	9.0	37.9	(0.6)
PBT	41.2	(4.6)	6.3	41.5	(2.3)
Core net profit	38.7	(5.3)	(0.4)	39.7	(4.0)

Source: CTOS Digital Berhad, UOB Kay Hian

## RESULTS

- **Within expectations.** CTOS Digital's (CTOS) 4Q23 core net profit came in at RM28.3m (+37.2% yoy, -3.2% qoq), excluding RM27.9m in exceptional items which comprise unrealised forex and tax write-back upon approval of MSC Malaysia's Status Services Incentive. 2023 net profit accounted for 98% and 99% of our and consensus' full-year estimates respectively.
- **Declares fourth interim dividend of 1.706 sen.** Meanwhile, the group has announced a fourth interim dividend of 1.706 sen, bringing 2023 dividend to 3.32sen. This represents a payout ratio of 74% and is in line with the group's minimum dividend policy of 60%.

## KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	195	261	287	344	412
EBITDA	62	75	98	122	149
Operating profit	67	89	110	132	158
Net profit (rep./act.)	71	118	126	150	187
Net profit (adj.)	71	118	126	150	187
EPS (sen)	3.1	5.1	5.5	6.5	8.1
PE (x)	45.6	27.5	25.8	21.8	17.4
P/B (x)	6.4	5.5	4.6	4.2	3.9
EV/EBITDA (x)	53.9	44.5	34.0	27.4	22.4
Dividend yield (%)	1.3	2.4	2.3	2.8	3.5
Net margin (%)	36.7	45.3	43.9	43.5	45.5
Net debt/(cash) to equity (%)	25.3	14.3	11.0	3.0	(5.6)
Interest cover (x)	16.2	12.2	n.a.	n.a.	n.a.
ROE (%)	17.5	21.5	19.3	20.3	23.4
Consensus net profit	-	-	122	146	167
UOBKH/Consensus (x)	-	-	1.03	1.03	1.12

Source: CTOS Digital Berhad, Bloomberg, UOB Kay Hian

## HOLD

(Maintained)

Share Price	RM1.41
Target Price	RM1.52
Upside	+7.8%

## COMPANY DESCRIPTION

CTOS is mainly involved in the business of credit reporting, digital software-related services, software development, outsourcing and training services, and investment holding. It also facilitates credit extension and commercialises credit risk management

## STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	CTOS MK
Shares issued (m):	2,310.0
Market cap (RMm):	3,257.1
Market cap (US\$m):	688.2
3-mth avg daily t'over (US\$m):	1.0

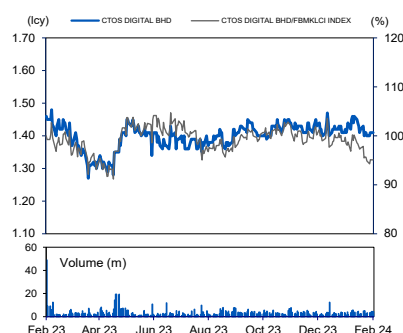
## Price Performance (%)

52-week high/low		RM1.48/RM1.27		
1mth	3mth	6mth	1yr	YTD
0.0	(2.8)	0.7	(8.4)	0.0

## Major Shareholders

Jade Vine Sdn Bhd	18.4
Employees Provident Fund Board	11.6
WASATCH Advisors	5.8
FY24 NAV/Share (RM)	0.31
FY24 Net Debt/Share (RM)	0.03

## PRICE CHART



Source: Bloomberg

## ANALYST(S)

**Jack Goh**  
+603 2147 1983  
jackgoh@uobkayhian.com

- **Revenue improved qoq, but core net profit declined on higher operating expenses.** In 4Q23, CTOS recorded commendable revenue of RM66.5m (+38.7% yoy, +10.1% qoq), fuelled by strong growth in both Malaysian and international operations. The top-line growth mainly reflects increased demand for CTOS' Data Systems reports and comprehensive portfolio review and analytics services within the key accounts and commercial customers' segments. However, bottom line profit contracted by 3.2% qoq due to higher operating expenses, largely in staff costs and IT-related expenses. This is despite stronger contribution from share of associates (+1.7% qoq).

### STOCK IMPACT

- **Extension of the group's pioneer status and tax incentives until Nov 26.** CTOS' subsidiary, CTOS Data Systems, was awarded pioneer status incentives under the PIA 1986 for MSC Malaysia Qualifying Activities. While its pioneer status expired in Jun 21, CTOS had earlier secured an extension with another relief period of five years until Nov 26 after rounds of applications and approval. In 4Q23, CTOS wrote back RM27.8m in tax credit pertaining to overprovision of prior years.
- **Recent three acquisitions and partnership synergistic...** With the recent acquisitions and partnership, CTOS is paving the way to become an established multinational platform with comprehensive data analytics and performance insights. The acquisition of Prime Analytics and Finscore as well as strategic partnership with FICO will enhance CTOS' ability to penetrate and address the emerging digital lending space in the Philippines, Indonesia and Thailand, and also strengthen its core business with strong synergies that will be realised moving forward.
- **...and bridges the gap for ASEAN's underserved and unbanked population.** Within the ASEAN region, Indonesia and the Philippines are among countries that have the lowest household debt vs GDP per capita ratio at <20% of GDP. This is as opposed to Malaysia and Thailand which stand at >75%. Meanwhile, the Indonesia and Philippines markets are also largely underbanked, with unbanked population at 81% and 75% respectively, which makes it difficult for lenders to evaluate consumers' new loans applications using traditional methods. As such, we believe that the recent acquisition of Prime Analytics and Finscore will be able to help CTOS further penetrate into these underserved countries and provide analytics for lenders to limit the potentially high credit risk within these underserved market segments.
- **Credit growth sustained, boding well for CTOS' product demand.** Malaysia's loans growth edged upwards to 4.9% in Nov 23 (Oct: 4.2%), on the back of business loans recovery. With loans growth recovery accelerating amid an imminent global rate cut cycle, we anticipate a meaningful expansion in marketplace and credit demand in 1H24, which will in turn result in pent-up activations and potential income pulls to CTOS for its various business analytic and credit assessment solutions.

### EARNINGS REVISION/RISK

- **No changes.**

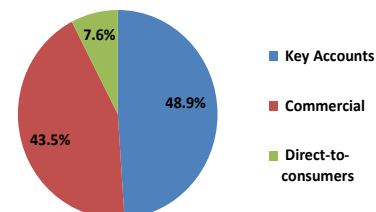
### VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of RM1.52.** Our target price implies 28x 2024F PE (industry's five-year mean). We still reckon that CTOS is well-positioned to be the direct proxy to growing demand for Malaysia's credit reporting industry, but current risk-reward appears neutral at this juncture.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

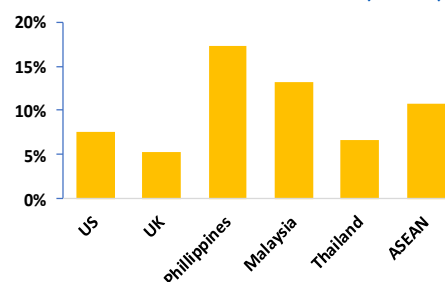
<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- No environmental issues which may materially impact biodiversity or climate change in any significant way.</li> </ul> </li> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- Conducted over 200 financial education roadshows for Malaysia's consumers</li> </ul> </li> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- Comprehended and applied Malaysian Code on Corporate Governance (MCCG)</li> </ul> </li> </ul>
---

### REVENUE BY SEGMENT (4Q23)



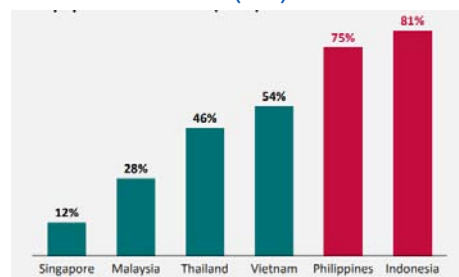
Source: CTOS, UOB Kay Hian

### CREDIT REPORTING INDUSTRY CAGR (2023-25)



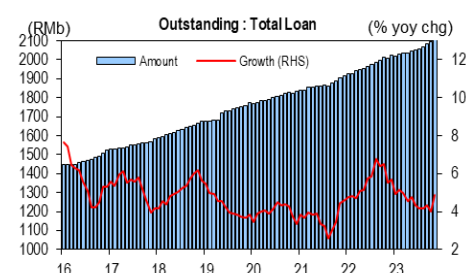
Source: IDC Malaysia, CTOS, UOB Kay Hian

### UNBANKED AND UNDERBANKED AS % OF POPULATION IN ASEAN (2022)



Source: CTOS, Bain & Company, Temasek, Google

### MALAYSIA TOTAL LOANS GROWTH



Source: BNM, UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Net turnover	261	287	344	412
EBITDA	75	98	122	149
Deprec. & amort.	(14)	(12)	(10)	(9)
EBIT	89	110	132	158
Associate contributions	26	23	26	39
Net interest income/(expense)	(6)	0	0	0
Pre-tax profit	109	133	157	197
Tax	10	(7)	(8)	(10)
Minorities	0	0	0	0
Net profit	118	126	150	187
Net profit (adj.)	118	126	150	187

**CASH FLOW**

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	112	126	150	187
Pre-tax profit	109	133	157	197
Tax	10	(7)	(8)	(10)
Deprec. & amort.	10	12	10	9
Associates	(26)	(23)	(26)	(39)
Working capital changes	(16)	(23)	(8)	(9)
Non-cash items	25	34	23	40
Investing	(53)	(5)	(5)	(5)
Capex (growth)	(57)	(5)	(5)	(5)
Investments	(30)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	34	0	0	0
Financing	(54)	(76)	(90)	(112)
Dividend payments	(46)	(76)	(90)	(112)
Proceeds from borrowings	28	0	0	0
Loan repayment	(28)	0	0	0
Others/interest paid	(8)	0	0	0
Net cash inflow (outflow)	5	46	55	70
Beginning cash & cash equivalent	11	16	62	117
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	16	62	117	187

**BALANCE SHEET**

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed assets	12	61	54	49
Other LT assets	708	709	710	711
ST debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	16	62	117	187
Other current assets	76	83	99	118
Total assets	811	915	980	1,065
Other current liabilities	68	55	64	75
LT debt	101	139	139	140
Other LT liabilities	0	0	0	0
Shareholders' equity	593	710	767	839
Total liabilities & equity	811	915	980	1,065

**KEY METRICS**

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	28.6	34.2	35.4	36.2
Pre-tax margin	41.5	46.2	45.8	47.9
Net margin	45.3	43.9	43.5	45.5
ROA	15.4	14.6	15.8	18.3
ROE	21.5	19.3	20.3	23.4
Growth				
Turnover	34.2	9.8	19.7	19.8
EBITDA	21.1	31.1	23.8	22.5
Pre-tax profit	27.1	22.2	18.7	25.3
Net profit	65.7	6.5	18.7	25.3
Net profit (adj.)	65.7	6.5	18.7	25.3
EPS	65.7	6.5	18.7	25.3
Leverage				
Debt to total capital	14.5	16.4	15.4	14.3
Debt to equity	17.0	19.6	18.2	16.8
Net debt/(cash) to equity	14.3	11.0	3.0	(5.6)
Interest cover (x)	12.2	n.a.	n.a.	n.a.

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

## IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2024, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W