

## COMPANY UPDATE

### CTOS Digital (CTOS MK)

Hysteria Over Litigations Unwarranted

Following the recent unfavourable ruling in a legal dispute, CTOS' share price plunged as much as 27% on concerns that the group may no longer be able to formulate credit scores. Nevertheless, management reassured investors that this will not impede the group's daily operations, and they have solid grounds to win an appeal against the High Court's ruling. Upgrade to BUY following the recent share price action, with an unchanged target price of RM1.52.

#### WHAT'S NEW

- **High Court opines CTOS not legally empowered to formulate credit scores.** The High Court has ruled that CTOS Data Systems (CDS), a subsidiary of CTOS Digital (CTOS), compensate RM200,000 in general damages to the plaintiff, a businesswoman for an inaccurate credit rating. The judge also ruled that CDS had overstepped its statutory functions under the Credit Reporting Agencies Act 2010 (CRAA), and CDS has no provisions to formulate a credit score given the company is just a database of credit information for its subscribers.
- **Management optimistic on overturning High Court's ruling through appeal.** CTOS revealed that the group has lodged a Notice of Appeal to the Court of Appeal. According to management, they have a good chance of success in appealing, backed by solid grounds that it was the group's role to provide data analytics such as credit scoring for subscribers to make financial decision, under the purview of CRAA. More importantly, CTOS also pointed out its track record of not losing any defamation case in the past 12 similar suits.
- **Major shareholders instilling confidence.** We understand that private equity firm Creador, which is the largest shareholder of CTOS (with a 19.5% stake) via Jade Vines Sdn Bhd, has acquired more shares on Tuesday (12 March). Meanwhile, retirement fund Kumpulan Wang Persaraan (Diperbadankan) emerged as a substantial shareholder in CTOS amid heavy selling pressure on Tuesday (12 March), with its effective stake raised to 5.8%. Other substantial shareholders such as Abrdn and management have also been accumulating on weakness. More importantly, we also did not observe any selling from other substantial shareholders following the ruling, which implied that major shareholders remain confident on the company.

#### 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)	41.4	25.0	23.5	19.8	15.8
P/B (x)	5.8	5.0	4.2	3.9	3.5
EV/EBITDA (x)	49.1	40.5	30.9	25.0	20.4
Dividend yield (%)	1.5	2.6	2.6	3.0	3.8
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	-	-	125	150	184
UOBKH/Consensus (x)	-	-	1.01	1.00	1.02

Source: CTOS Digital Berhad, Bloomberg, UOB Kay Hian

## BUY

(Upgraded)

Share Price	RM1.28
Target Price	RM1.52
Upside	+18.8%

#### 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):	2,956.8
Market cap (US\$m):	631.0
3-mth avg daily t'over (US\$m):	2.9

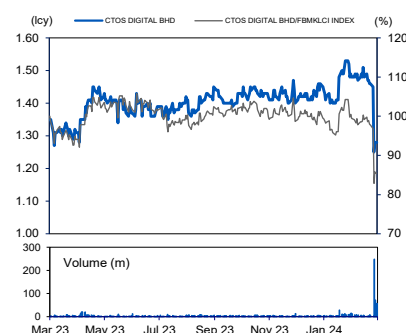
#### Price Performance (%)

52-week high/low		RM1.53/RM1.25		
1mth	3mth	6mth	1yr	YTD
(13.5)	(11.1)	(9.2)	(5.2)	(9.2)

#### Major Shareholders

	%
Jade Vine Sdn Bhd	19.54
Employees Provident Fund Board	11.35
Abrdn Malaysia Sdn Bhd	6.65
FY24 NAV/Share (RM)	0.31
FY24 Net Debt/Share (RM)	0.03

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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### STOCK IMPACT

- **CTOS adheres strictly to regulations.** While the Malaysian credit bureau industry is a highly regulated space with stringent regulatory landscape, CTOS comply with various regulations such as the CRA Act 2010. Being one of the seven registered credit rating agencies in Malaysia, CTOS has the right to access, correct and dispute the credit database held about them. CTOS is also audited annually by the Registrar of Credit Reporting Agencies (Registrar) under the Finance Ministry.
- **Daily operations not impeded by this incident.** Management reiterated that daily operations continue as usual, and affirmed adherence to the regulator's protocol to provide the various business analytic and credit assessment solutions that financial institutions require. There is also no court injunction to prevent CDS from conducting its credit reporting operations or including credit scores in its reports. As such, management sees no material losses anticipated as a result of this legal ruling, and no financial provisions are required.
- **Importance of CTOS' analytic solutions within the financial sector.** With over 30 years in operation, CTOS has developed long-standing relationships with a number of customers from different economic sectors. Its extensive database and rich ecosystem of digital services such as credit scoring are essential to the banking institutions as well as different businesses. These ensure customers' stickiness towards CTOS' credit assessment products, which re-affirm our view that CTOS' earnings will see minimal impact from the lawsuit, as major customers (particularly the key accounts) remain loyal.
- **CTOS still poised to chart commendable earnings growth in 2024-26...** We largely retain our view that the group is still on track to deliver commendable earnings growth of 7-25% in 2024-26. This will be largely driven by the group's better services penetration, customer base expansion as well as synergies achieved with associates. With the recent acquisitions of Prime Analytics and Finscore as well as strategic partnership with FICO, CTOS is able to penetrate and address the emerging digital lending space in the Philippines, Indonesia and Thailand, paving its way to becoming an established multinational platform with comprehensive data analytics and performance insights.
- **...with valuations falling into more palatable territories.** Following the negative newsflow, CTOS' share price corrected as much as 27% from RM1.45 to RM1.06, but has since recovered to RM1.28 (-12% from the news). That said, current valuations appear attractive at 23x 2024F and 20x 2025F PE respectively, which is a discount to the credit bureau industry's five-year mean of 28x.

### EARNINGS REVISION/RISK

- None.

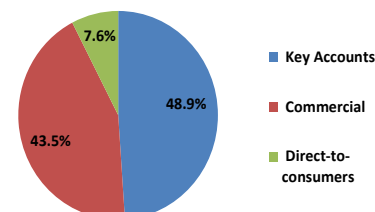
### VALUATION/RECOMMENDATION

- **Upgrade to BUY with unchanged 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, and risk-reward appears favourable at this juncture following the recent negative share price action.

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

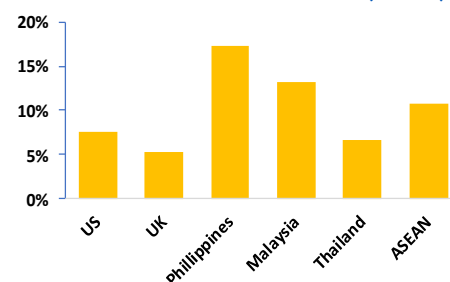
<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- No environmental issues which may materially impact biodiversity or climate change in any significant way.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>Social</b> <ul style="list-style-type: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



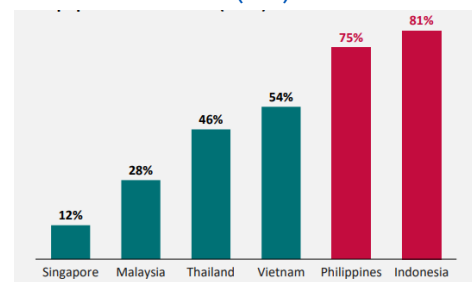
Source: CTOS, UOB Kay Hian

### 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

**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.

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