

HLIB Research

PP 9484/12/2012 (031413)

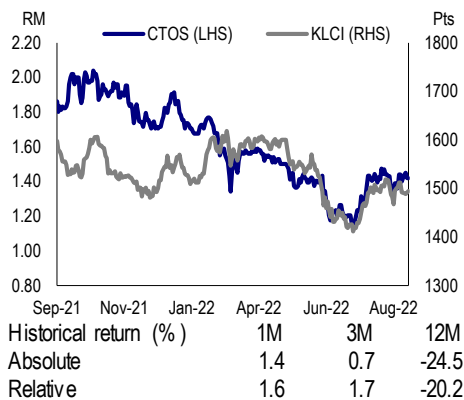
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BUY (Maintain)

Target Price: RM1.70
Previously: RM1.70
Current Price: RM1.42

Capital upside	19.7%
Dividend yield	1.3%
Expected total return	21.0%

Sector coverage: Technology

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

Share price

Stock information

Bloomberg ticker	CTOS MK
Bursa code	5301
Issued shares (m)	2,310
Market capitalisation (RM m)	3,280
3-mth average volume ('000)	3,207
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

Major shareholders

Inodes Limited	30.4%
Employees Provident Fund	6.4%
Chung Tze Keong	4.2%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI - core (RM m)	54.5	73.1	87.1
EPS - core (sen)	2.4	3.2	3.8
P/E (x)	60.2	44.9	37.7

CTOS Digital

Increasing its stake in RAM

CTOS proposed to buy the 15.7% and 0.8% RAM stakes belonging to Dragonline Solutions and Deutsche Bank for cash consideration of RM44.6m and RM2.3m respectively. Overall, no surprises and we are positive on the deal since it is attractively priced and accretive in nature. Moreover, RAM fits nicely into CTOS' broader business plan (see report dated 22 Jun-22, titled 'Eyeing a bigger stake in RAM'). Our forecasts were kept unchanged, pending deal completion. We still like CTOS for its market leadership, strong economic moat, and highly scalable business model. Thus, we view the YTD price pullback as a good opportunity to accumulate the stock. Retain BUY rating and FCFF-TP of RM1.70, based on an implied 45x FY23 P/E.

NEWSBREAK

CTOS is proposing to buy the 15.7% and 0.8% RAM stakes belonging to Dragonline Solutions and Deutsche Bank for cash of RM44.6m and RM2.3m respectively. These translate to RM28.50/share. The transaction is expected to complete by end Sep-22. Currently, CTOS has 39.1% stake and after the proposed acquisition, it would rise to 55.6%.

HLIB's VIEW

In line with guidance. No surprises as this was in line to what was communicated to the investment fraternity earlier where any additional interest in RAM will be bought at a price tag of not more than RM28.50/share.

The deal is attractive, in our opinion, seeing that RAM is priced at 20.4x P/E, a 19% discount to other listed global credit rating agencies average of 25.1x. Besides, it is an accretive acquisition (looking at CTOS' higher valuation of 44.9x) despite financed by loans (assuming a 4% cost of debt).

That said, we understand RAM has the capacity to dish out special dividends since it could monetize investment properties worth RM67m and has cash equivalent coffers of RM131m (a combined value of RM19.80/share). If it materializes, it will help CTOS to offset some of its acquisition cost.

To note, we have not consolidated RAM's profit into our financial model yet. Based on a 55.6% stake along with a 4% debt cost, we estimate RAM could add 4-5% to CTOS' FY23 earnings.

Forecast. Unchanged, pending completion of the deal.

Maintain BUY and FCFF-TP of RM1.70, based on an implied 45x FY23 P/E with the assumptions of 7.9% WACC and 5.0% TG. This is above global peers' average (GPA) of 22x 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. Moreover, we like CTOS for its leadership position, strong economic moat, and highly scalable business model. Hence, we view that the YTD share price pullback as a good opportunity to accumulate the stock.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Cash & ST funds	26.4	17.1	7.9	12.0	20.5
Receivables	28.2	26.6	30.2	35.2	39.2
Associates	150.8	172.9	422.8	437.8	453.5
PPE	16.9	14.7	17.4	20.0	23.2
Intangible assets	49.6	79.2	78.4	77.6	76.8
Others	4.1	50.1	81.9	84.4	87.0
Assets	276.0	360.6	638.6	667.0	700.2
Payables	24.2	30.2	37.4	43.5	48.4
Debts	132.3	-	60.0	45.0	30.0
Other liabilities	3.8	22.6	27.1	27.5	27.8
Liabilities	160.3	52.8	124.5	116.0	106.2
Shareholder's equity	110.8	307.7	514.1	551.0	594.0
Minority interest	5.0	-	-	-	-
Equity	115.7	307.7	514.1	551.0	594.0

Cash Flow Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	40.3	51.9	77.3	92.2	107.8
D&A	7.5	8.6	8.0	10.1	11.2
Working capital	0.7	2.6	7.8	1.5	1.2
Taxation	(2.1)	(3.3)	(4.3)	(5.1)	(5.9)
Others	2.9	2.2	(14.6)	(18.0)	(19.3)
CFO	49.4	62.0	74.3	80.7	95.0
Capex	(4.7)	(2.0)	(12.5)	(14.5)	(16.1)
Others	(99.1)	(98.7)	(262.9)	4.1	4.3
CFI	(103.8)	(100.7)	(275.3)	(10.4)	(11.8)
Shares issued	-	220.0	173.8	-	-
Changes in debts	107.4	(138.6)	60.0	(15.0)	(15.0)
Dividends	(10.5)	(41.0)	(40.5)	(50.2)	(58.9)
Others	(22.8)	(9.6)	(1.5)	(1.1)	(0.8)
CFF	74.1	30.7	191.8	(66.3)	(74.7)
Net cash flow	19.7	(8.0)	(9.2)	4.1	8.5
Others	0.6	(1.3)	-	-	-
Beginning cash	6.1	26.4	17.1	7.9	12.0
Ending cash	26.4	17.1	7.9	12.0	20.5

Income Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Revenue	133.2	153.2	177.9	207.1	230.5
EBITDA	54.7	65.6	70.8	84.3	99.7
EBIT	47.3	57.0	62.7	74.2	88.5
Finance cost	(4.0)	(5.3)	(1.1)	(0.7)	(0.4)
Associates & JV	1.8	7.2	15.7	18.7	19.6
Others	(2.3)	(6.1)	-	-	-
Profit before tax	42.8	52.9	77.3	92.2	107.8
Tax	(2.3)	(9.3)	(4.3)	(5.1)	(5.9)
Net profit	40.5	43.6	73.1	87.1	101.9
Minority interest	(1.3)	(0.6)	-	-	-
PATAMI	39.2	43.0	73.1	87.1	101.9
Exceptionals	(2.3)	(11.5)	-	-	-
Core PATAMI	41.5	54.5	73.1	87.1	101.9
HLIB/ Consensus			93%	90%	89%

Valuation & Financial Ratios

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Core EPS (sen)	1.8	2.4	3.2	3.8	4.4
P/E (x)	79.1	60.2	44.9	37.7	32.2
BVPS (sen)	4.8	13.3	22.3	23.9	25.7
P/B (x)	29.6	10.7	6.4	6.0	5.5
DPS (sen)	24.8	1.2	1.9	2.3	2.6
Dividend yield (%)	0.8	0.8	1.3	1.6	1.9
Payout ratio (%)	63.2	61.4	60.0	60.0	60.0
Revenue growth	3.2%	15.0%	16.2%	16.4%	11.3%
EBITDA growth	9.2%	19.9%	7.8%	19.1%	18.3%
EBIT growth	7.9%	20.7%	10.0%	18.3%	19.3%
PBT growth	3.8%	23.6%	46.2%	19.2%	17.0%
Core PATAMI growth	0.8%	31.3%	34.2%	19.2%	17.0%
EBITDA margin	41.1%	42.9%	39.8%	40.7%	43.3%
EBIT margin	35.5%	37.2%	35.3%	35.8%	38.4%
PBT margin	32.1%	34.5%	43.5%	44.5%	46.8%
Core PATAMI margin	31.1%	35.6%	41.1%	42.1%	44.2%
ROE	37.4%	17.7%	14.2%	15.8%	17.1%
ROA	15.0%	15.1%	11.4%	13.1%	14.5%
Net gearing	95.7%	N.Cash	4.3%	0.5%	N.Cash

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Stock rating guide

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

Sector rating guide

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

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.