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Company Update

CTOS Digital

Acquisition spree

By Rakuten Trade Research Team

CTOS has proposed to acquire a 49% stake in JurisTech and an additional 2.25% stake in BOL, both funded via a private placement. We deem the 23x FY21E PER valuation for JurisTech as fair, as its complementary services bring synergistic benefits to CTOS. Together, both deals would lift FY22E CNP by 7%, but the private placement, which would result in an enlarged share base, would dilute EPS by 6%. Thus, we raised FY22E EPS by only ~1%. BUY with fully-diluted TP of RM2.00 on 55x FY22E PER. Although the earnings accretion is diluted by the placement, we are positive on the deals, especially on the JurisTech acquisition, as it allows CTOS to provide an end-to-end digital lending service.

Last Friday, CTOS proposed to: (i) purchase 49% equity stake in Juris Technologies (JurisTech) for RM205.8m, (ii) acquire an additional 2.25% of BOL (post-acquisition stake of 24.9%) for no more than RM34.9m, and (iii) funding is via a private placement. While we didn't expect any more deals in 2021, the acquisition of JurisTech was no surprise, as management was seeking for synergistic acquisitions that would enable CTOS to expand its digital solutions offerings.

JurisTech (incorporated in 2003) provides an end-to-end credit management platform that allows its clients (mainly banks and financial institutions) to digitally acquire customers, evaluate borrowers, approve loans and recover debt. Firstly, these complement CTOS' existing services of providing credit information and analysis to customers. Secondly, by combining JurisTech's software and CTOS' expansive database, the duo can jointly develop new digital lending solutions that include credit data, software and analytics services. Such services are popular given: (i) banks' increased digital transformation and enhancement requirements (e.g. e-KYC), and (ii) growing demand for data analytics solutions.

We assume the deals will be fully funded by a private placement of 136.5m new shares. At a 5-day VWAP of RM1.7630, CTOS could raise RM240.7m, with RM205.8m for JurisTech and RM34.9m for BOL. This would expand CTOS' share base by 6.2%.

BUY

Price: **RM1.73**
Target price: **RM2.00**

Share Price Performance



KLCI	1,516.45
YTD KLCI chg	-6.8%
YTD stock price chg	N/A

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CTOS MK EQUITY
Market Cap (RM m)	3,806.0
Shares Outstanding	2,200.0
52-week range (H)	2.10
52-week range (L)	1.50
3-mth avg daily vol:	14,277,580
Free Float	51%
Beta	N/A

Major Shareholders

Inodes	40.0%
Chung Tze Keong	4.5%
Chung Tze Wen	4.5%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Revenue	140.5	163.1	190.7
EBIT	42.8	59.1	72.6
PBT	40.3	68.6	96.3
PATAMI	39.2	64.0	84.7
Core NP	39.2	64.0	84.7
Consensus (NP)	N/A	55.5	75.5
Earnings Revision	N/A	N/A	7%
Core EPS (sen)	1.7	2.7	3.6
Core EPS growth (%)	0.5	63.4	32.3
NDPS (sen)	N/A	1.6	2.2
BV/Share (RM)	0.05	0.13	0.25
Core PER	103.2	63.1	47.7
Price/BV (x)	36.5	12.9	6.9
		Net	Net
Net Gearing (x)	0.9	Cash	Cash
Net Dvd. Yield (%)	N.A.	1.0	1.3

Source: Kenanga Research



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COMPANY	Definition
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

Scoring model:

The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

All buy calls are based on the research team's judgement. Investing is risky and trading is at your own risk. We advise investors to:

- read and understand the contents of the disclosure document or any relevant agreement or contract before investing;
- understand the risks involved in relation to the product or service;
- compare and consider the fees, charges and costs involved; and
- make your own risk assessment and seek professional advice, where necessary.

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Published:



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