

CTOS Digital

Initial Public Offering

NON-RATED

Fair value	RM 1.30
IPO Price	RM 1.10

IPO Calendar

Opening date	30/6/2021
Closing date	6/7/2021
Balloting of applications	8/7/2021
Allotment date	16/7/2021
Listing date	19/7/2021

Listing details

Shariah Compliant	YES
Market Capitalisation (RM'm)	2420.0
Enlarged share capital (m)	2200.0
New IPO Shares (m)	200.0
Malaysian Public	44.0
Eligible Persons	120.0
Institutional Offering	36.0
Offer-for-sale	900.0
Oversubscription rate (retail)	27.6

Major Shareholders Post-IPO (%)

Inodes Limited	40.0
Chung Tze Kong	4.5
Cung Tze Wen	4.5

Utilisation of Proceeds

	RM'm	%
Repayment of bank borrowings	155.2	70.5
Acquisition to be identified	58.7	26.7
Listing expenses	6.1	2.8
Total	220.0	100.0

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Undisputed Market Leader

CTOS Digital Berhad (CTOS) is involved in the business of credit reporting, digital software related services, software development, outsourcing and training services and investment holding, while its associates are principally involved in the business of credit reporting, information services, development of local and global financial information systems, online and offline business information services provider, consulting services, debt collection and database management. CTOS' solutions and services are widely used by the country's banking and financial institutions, insurance and telecommunication companies, large corporations, SMEs as well as consumers for self-check.

Main Competitive Strengths

- Market leader in Malaysia
- Extensive database and digital solution offerings
- Large credit database on individuals and businesses in Malaysia
- Diversified customer base with long-term relationships
- Strong financial profile
- Experienced management team and strategic major shareholder

Growth Drivers

- Further development and extension of its ecosystem of end-to-end credit management solutions
- Broaden and deepen data sources
- Expand into new verticals including automotive, real estate and insurance sectors
- Selectively pursuing acquisitions and investments in companies

Valuation

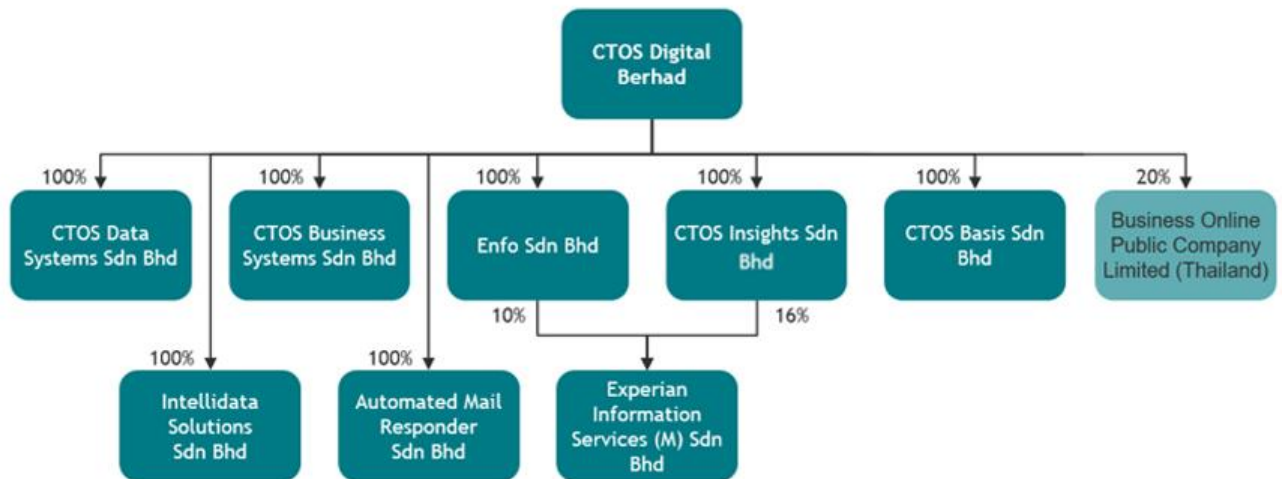
At an IPO price of RM1.10 per share, the group is priced at a historical EV/EBIDTA of 38.7x, higher than its comparable peers in developed markets (19.9x) while slightly higher to its peers in emerging markets (35.9x). After deliberating CTOS' market leader position, strong balance sheet, superior PATAMI margin & revenue growth and regional expansion plan, we apply a 40x EV/EBIDTA multiple - above all its listed peers which we think its justifiable to arrive at a target price of **RM1.30**. The target price translates to an upside of 18.3%, excluding dividends.

Table 1: Financial highlights & earnings forecasts

CY Dec (RM'm)	CY18	CY19	CY20	CY21(F)	CY22(F)
Revenue	110.5	129.1	140.5	162.0	189.7
EBITDA	35.2	49.0	54.3	61.1	72.6
EBITDA Margin (%)	31.9	37.9	38.6	37.7	38.3
PATAMI	29.7	30.0	39.2	45.7	63.1
PATAMI Margin (%)	26.8	23.2	27.9	28.2	33.3
EPS (sen)	1.3	1.4	1.8	2.1	2.9
Earnings Growth (%)	NA	1.2	30.6	16.5	38.1
PER (x)	81.6	80.6	61.7	53.0	38.4
EV/EBITDA (x)	68.8	49.8	46.6	38.7	32.5
DPS (sen)	NA	NA	NA	1.2	1.7
Dividend Yield (%)	NA	NA	NA	1.1	1.6
ROE (%)	53.0	52.2	34.9	15.7	21.2
Net Gearing Ratio	0.0	0.3	0.9	NET CASH	NET CASH
Price/Book Ratio (x)	40.3	30.7	21.8	7.9	7.7

Source: Company, Inter-Pacific Research

Illustration 1: Post-IPO shareholding structure



Source: Company

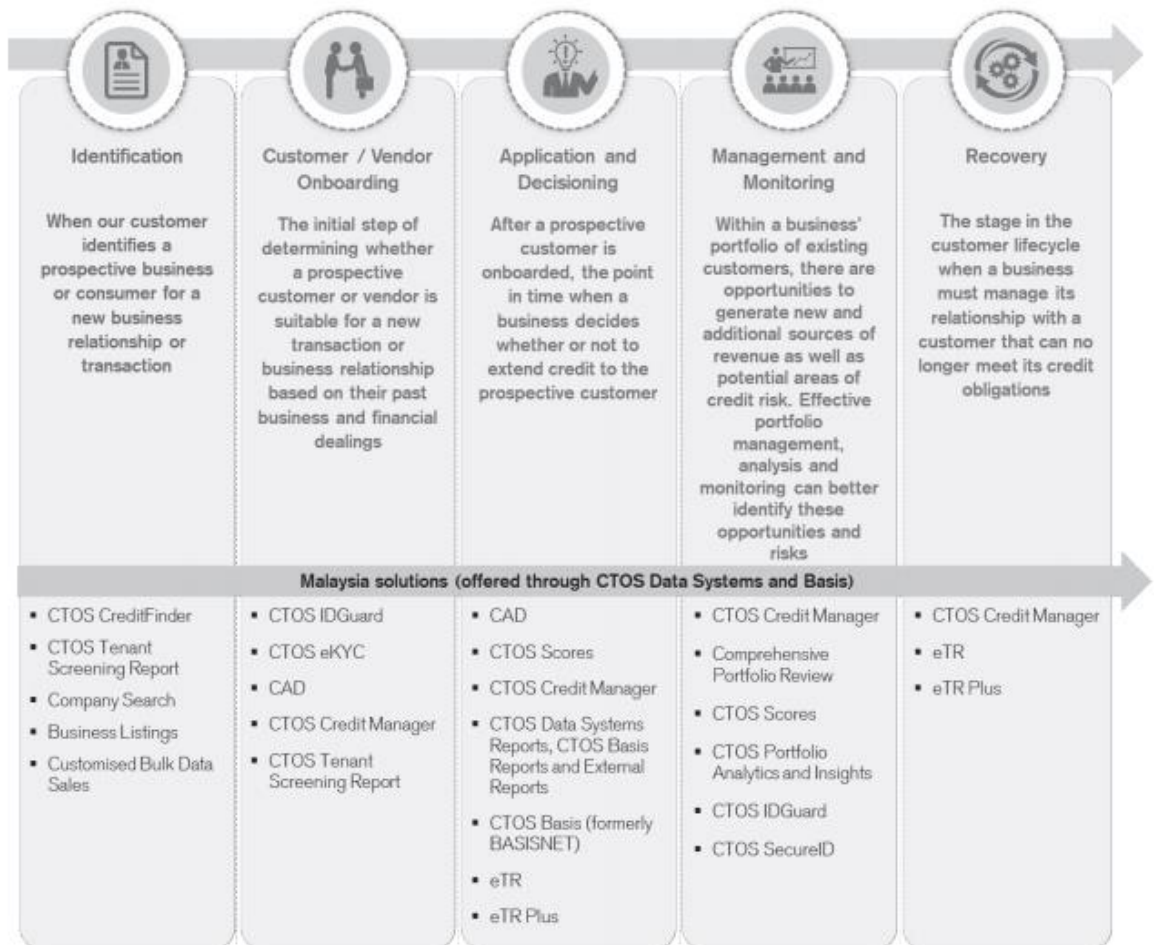
Utilisation of proceeds

Out of the RM220m raised, 70,5% or RM155.2m of the proceeds will be used to repay bank borrowings, 26,7% or RM58.7m will be set aside for acquisition in Malaysia or Asia Pacific region, and the remaining 2.8% or RM6.1m will be used for listing expenses.

BUSINESS OVERVIEW

CTOS is a leading credit reporting agency with presence in Malaysia and Thailand. The company has a commanding market share in Malaysia of 71.2% in CY20 in terms of revenue and has a 20.0% equity interest in Business Online Public Company Limited (BOL), a public listed company incorporated in Thailand that it acquired in 2020. CTOS’ proprietary data & credit management ecosystems provide credit information, analytics digital solution for credit decision, risk management, credit monitoring and credit recovery used by various businesses at each stage of the customer’s credit lifecycle. CTOS solutions are used by banks, telecommunication firms, MNCs, large corporation, SMEs, legal firms, and statutory bodies.

Illustration 2: Products and services at different lifecycle



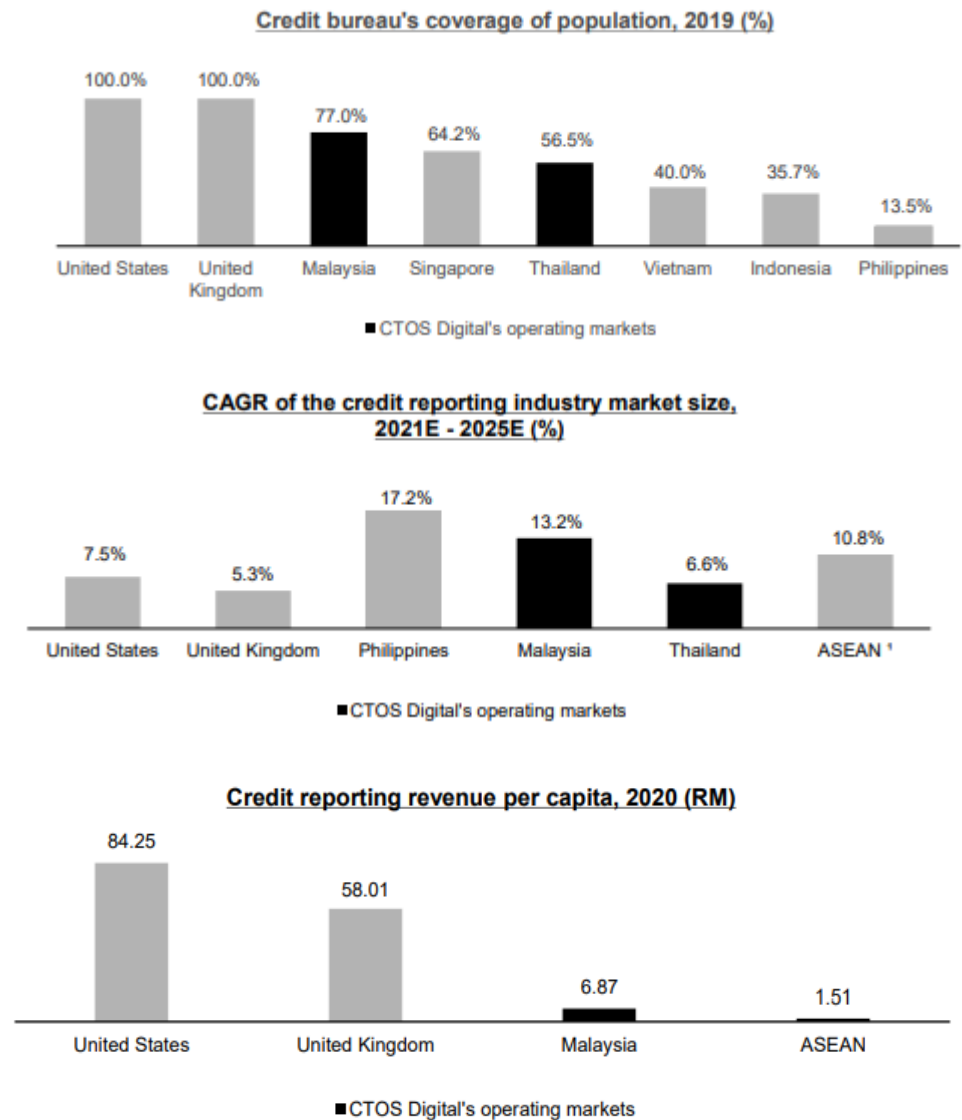
Source: Prospectus

In Thailand, BOL's principal activities are a service provider and developer of local and global financial information system and an online and offline business information service provider as well as a provider of consulting services, debt collection service and database management. BOL was acquired in October 2020 for RM91.9m, the investment is valued at RM203m as of 14 July 2021.

CTOS acquired the entire equity interest of two investment holding companies, namely Enfo and CTOS Insights in July 2019, which resulted in it owning a 26.0% equity interest in Experian Information Services (M) Sdn Bhd for RM56.2m. The company is a Malaysian credit rating agency that is majority-owned by a company associated with Experian plc, a multinational information services company.

Industry outlook

Illustration 3: IMR's credit reporting overview



Source: Prospectus

Malaysia's credit reporting industry is expected to grow at a CAGR of 13.2% from 2021 to 2025. The forecast growth in Malaysia is expected to be largely driven by the populations' increasing financial literacy, the growing SME sector, increasing demand for credit by businesses and consumers as well as the introduction of digital banking via traditional financial institutions or new entrants of fintech companies hailing from a variety of industries. These factors will elevate the current level of the credit bureaus' population coverage, credit reporting industry market size and credit reporting revenue per capita. In

our view, Malaysia's credit reporting industry will experience rapid growth, supported by greenfield opportunities and the increasing importance of credit reporting solutions.

FUTURE PLANS

Further development and extension of its ecosystem of end-to-end credit management solutions – In the near term, CTOS will 1) launch new products; 2) develop and extend its ecosystem of end-to-end credit management which includes investing in new database, enhance digital solutions that provide deeper analytic insights, faster decision making & increasing accuracy and work closely with customers on digital transformation of their credit management system.

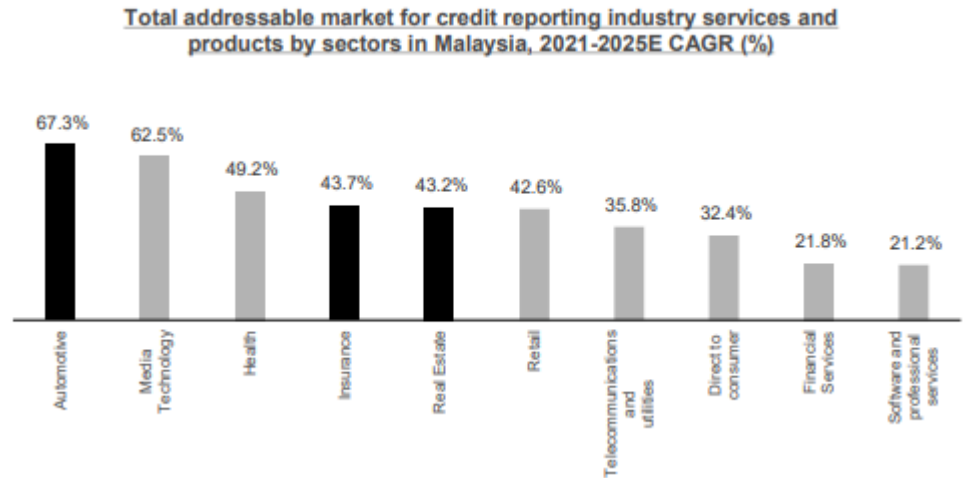
Over the medium-to-longer term, the company will 3) increase investment in artificial intelligence and machine learning that can improve digital solutions' predictability of potential payment defaulters, based on historical data points.

Broaden and deepen data sources – CTOS accumulates a large credit database of individuals and businesses in Malaysia and Internationally through public and proprietary sources. To increase database network and the quality of information, CTOS will leverage on its strong long-term relationship with its key customer to further enhance digital solutions. This will improve revenue growth and increase the barrier of entry.

Expand into new verticals including automotive, real estate and insurance sectors – CTOS plans to tap into these new sectors. Collectively, the total addressable market of the automotive, real estate, and insurance sectors is forecast to grow from RM25.1m in 2021 to RM128.9m by 2025, implying a 50.6% CAGR during this period, according to the IMR Report.

For example, to cater for the real estate sector, CTOS' Tenant Screening Report allows landlords or agents to screen prospective tenants in a hassle-free manner, through a series of ID verification, KYC screening, financial checks, income estimation and historical legal cases or bankruptcies. CTOS also have several digital solutions that are in the pipeline related to motor vehicle checks and collections, which the company plans to roll out in the next 2 years.

Illustration 4: IMR forecast for the total addressable opportunities



Source: Prospectus

Selectively pursue acquisitions and investments in companies – The IPO proceeds of RM58.7m will fund any potential acquisition target in the Asia Pacific region.

Investment merits

Market leader in Malaysia – According the IMR report, CTOS commands 71.2% of Malaysia credit reporting industry’s revenue, followed by Experian with an estimated market share of 17.5%.

Extensive database and digital solution offerings – CTOS cements its market leader position with its end-to-end credit management solutions. These digital solutions support various core functions of the customers’ businesses and have become an integral part of its customers’ business processes. Its market leader position and extensive ecosystem thickens the barrier of entry.

Large credit database on individuals and businesses in Malaysia – CTOS has accumulated over 30 years of data in the industry since 1990. The database contained approximately 15m consumers’ profiles and approximately 8m companies and business profiles. The Malaysian database is sourced from domestic governmental organisations and other publicly available information such as public court listings, publications and gazettes.

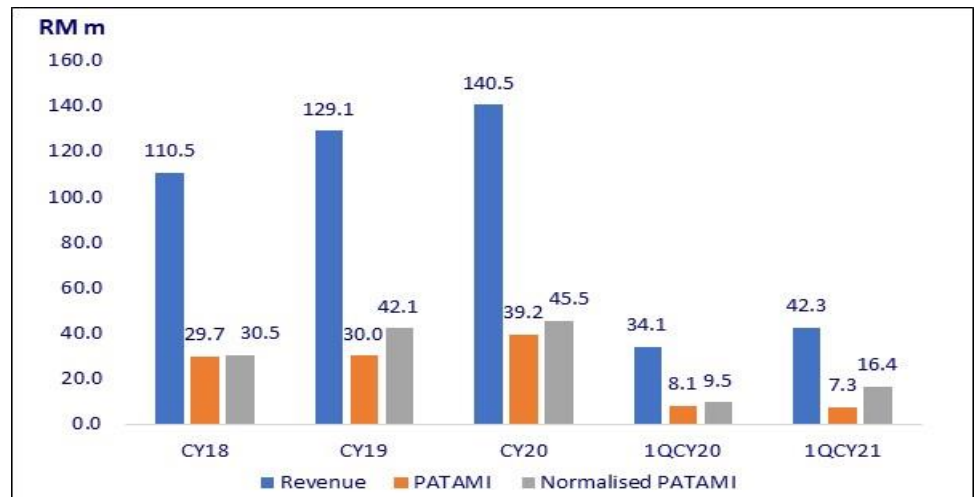
Diversified Customer Base with long-term relationships – With over 30 years in operation, CTOS has developed long-standing relationships with a number of its customers, including banking, telecommunications and other corporate customers who uses its digital solutions. CTOS' revenue streams are highly diversified and the group is not dependent on any of its major customers.

Strong financial profile – CTOS recorded a revenue CAGR of 12.8% from CY18 - CY20. Furthermore, the company have achieved a formidable CY20 GP margin and EBITDA margin of 86% and 37% respectively, while ROE has maintained at a consistent level of above 39.0% from the CY18 - 20. The strong financial metrics are attributed to the strong revenue growth, efficient operations and highly scalable proprietary data and credit management ecosystems.

Experienced Management Team & Strategic Major Shareholder – CTOS' management team has a deep wealth of experience in the credit reporting and related industries globally. The Group Chief Executive Officer, Dennis Colin Martin, has more than 20 years of experience in the credit reporting industry, including leading roles at Experian Asia Pacific Holdings Pte Ltd and Dun & Bradstreet (New Zealand) Limited. The company's major shareholder, Inodes Limited, which is backed by the Creador Group, has played a crucial role in propelling its growth and expansion. CTOS has grown its commercial base, increasing its share of wallet in its Key Accounts customers, penetrated new verticals and new capabilities with the BOL acquisition.

FINANCIAL OVERVIEW

Illustration 5: Revenue and PAT



Source: Prospectus

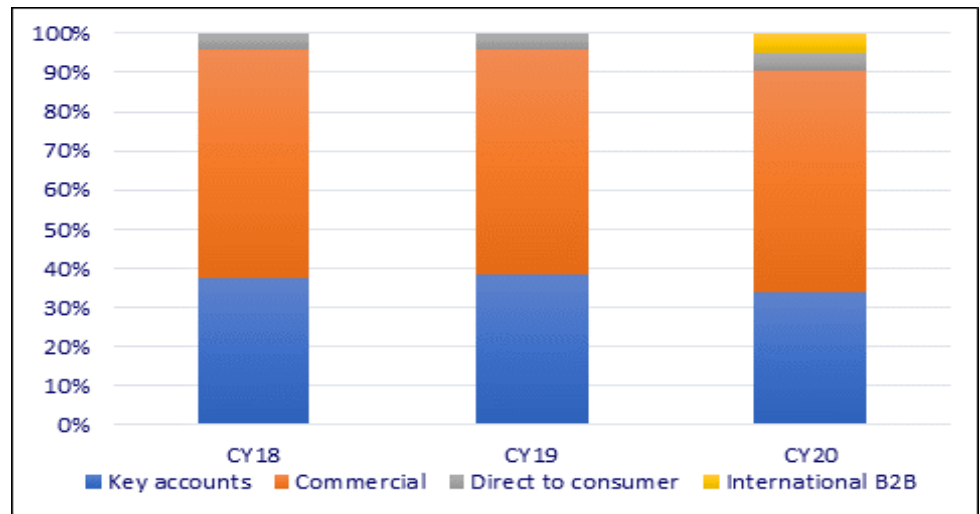
Core PATAMI excludes: 1) losses from CIBI, 2) costs related to acquisitions of Experian, CIBI, Basis, and BOL, 3) unrealised foreign exchange gains/losses on USD borrowings, and 4) incremental income tax expense in 1QCY21.

Topline growth and profitability – CTOS’ CY18-20 revenue and PATAMI grew at a CAGR of 8.3% and 9.7% respectively, to RM140.5m and RM39.2m, uplifted by revenue growth across its key accounts, commercial and direct-to-consumer segments, customer adoption on its new services and higher share of profit contributions from associates (Experian). Gross profit and EBITDA margins have also been stable and strong at averages level of 85% and 36% respectively.

Covid implications – CY20 revenue grew at a slower pace of 8.8% Y-o-Y as compared to CY19 revenue growth of 16.9% Y-o-Y, due to lower revenue from the key accounts because of reduced fees charged after BNM allowed free access to its CCRIS database which is expected to continue until end CY21. The fall in revenue was partially buffered by the CIBI acquisition.

CIBI restructuring – The 51% equity interest in CIBI will be excluded post IPO. CIBI recorded a loss of RM2.5m in CY20 due to Covid-19 complications and it requires further investments in terms of capital and time to better position itself to capture growth opportunities in the Philippines. CIBI accounted for 5%/10% of CTOS’ CY20/1QCY21 revenue and recorded a loss of RM2.5m due to Covid-19. The management decided to prioritise its core business in Malaysia and cut off distraction from CIBI.

Illustration 6: Revenue by customer segment



Source: Prospectus

Key Accounts customers comprises the company highest revenue-generating customers as well as other selected customers, such as those with complex requirements or well recognised brands. CTOS' Key Accounts customers are all located in Malaysia and include commercial banks, other established financial institutions, telecommunication companies, insurance companies, fintech companies such as peer-to-peer (P2P) lenders and e-commerce platforms, as well as business organisations.

Earnings forecast – We forecast CTOS' PATAMI to grow at 11.7%/27.7% Y-o-Y to RM45.7m/RM63.1m in CY21/CY22 respectively with earnings growth backed by resilient topline expansion.

Gearing – As at CY20, total borrowings stood at RM132m, translating to a net gearing of ratio of 0.9x. Post listing, it would fall back to net cash position with no borrowings.

Tax rate – The group's statutory tax rate in the range of 5.4% to 6.7% because of pioneer status tax incentives and MSC Malaysia status. The group will submit application for renewal of pioneer tax incentives in 3QCY21 which will see an extension period of 5 years until Nov 2026.

Dividend policy – CTOS targets a payout ratio of 60% of its PATAMI. Based on this, we project forward yield in CY21/CY22 at 1.1%/1.6% respectively.

RISKS

Cybersecurity incidents – In the event of a successful cyber-attack, it may result in outside parties obtaining access to confidential information, manipulation, destruction or dissemination of data, and the disruption, sabotage or degradation of the group’s systems. Cybersecurity incidents could disrupt its operations, could subject the group to substantial regulatory and legal proceedings and potential liability and fines, resulting in a material loss of business.

Ability to maintain its pioneer status – CTOS’ subsidiary, CTOS Data Systems hold a pioneer status incentive as a MSC Malaysia Qualifying Activities. The absence of these tax incentives would affect CTOS’ PATAMI margin.

Changes of access to external data sources and providers – If access of CTOS’ external data sources is reduced, or if the data becomes more expensive to obtain, the company’s ability to provide digital solutions could be negatively impacted which would adversely affect its reputation, businesses, financial condition, and results of its operations.

Ability to maintain the integrity of its databases – If the databases quality and integrity declines or if the integrity of its databases are compromised, CTOS may face customer or third-party claims and the public may lose confidence in its digital solutions.

Table 2: Key Financials

CY Dec	CY18	CY19	CY20	CY21(F)	CY22(F)
Income statement (RM'm)					
Revenue	110.5	129.1	140.5	162.0	189.7
EBITDA	35.2	49.0	54.3	61.1	72.6
Depreciation and amortisation	3.4	6.3	7.5	6.0	6.2
Net interest (expenses)/income	(0.1)	1.0	4.0	0.0	0.0
Pre-tax profit	31.8	41.2	40.3	48.1	66.4
Tax	(2.1)	(2.2)	(0.0)	(2.4)	(3.3)
PATAMI	29.7	30.0	39.2	45.7	63.1
EPS	1.3	1.4	1.8	2.1	2.9

CY Dec	CY18	CY19	CY20	CY21(F)	CY22(F)
Key metrics					
Revenue growth (%)	NA	16.9	8.8	15.3	17.1
EBTIDA growth (%)	NA	39.2	10.7	12.6	18.9
PATMI growth (%)	NA	1.2	12.9	16.5	38.1
EBTIDA margin (%)	31.9	37.9	38.6	37.7	38.3
PATAMI margin (%)	26.8	23.2	27.9	28.2	33.3
Net gearing (x)	0.02	0.27	0.92	NET CASH	NET CASH
Current ratio	1.48	0.53	0.34	2.73	3.03

CY Dec	CY18	CY19	CY20	CY21(F)	CY22(F)
Balance Sheet (RM'm)					
Property, plant & Equipment	17.5	16.9	16.9	30.3	29.7
Other LT assets	38.0	97.8	204.5	228.6	223.1
Total cash and equivalents	10.2	6.1	26.4	58.0	58.7
Other ST assets	22.9	21.5	28.2	23.8	36.4
Total assets	88.6	142.2	276.0	340.8	347.9
ST borrowings	5.9	14.3	132.3	0.4	0.0
Other ST liabilities	16.6	37.6	159.1	29.6	31.0
LT borrowings	5.7	9.4	0.0	0.0	0.0
Other LT liabilities	0.5	1.9	0.8	1.8	3.2
Total liabilities	28.6	63.2	160.3	31.8	34.6
Share capital	198.0	198.0	198.0	411.9	411.9
Other equity and reserves	-138.0	-119.0	-82.3	-105.5	-98.6
Total equity	60.0	78.9	115.7	306.3	313.3
Total equity and liabilities	88.6	142.2	276.0	338.1	347.9

Source: Company, Inter-Pacific

VALUATION

At an IPO price of RM1.10 per share, the group is priced at a historical EV/EBIDTA of 38.7x, higher than its comparable peers in developed markets (19.9x) while slightly higher to its peers in emerging market (35.9x). After deliberating CTOS' market leader position, strong balance sheet, superior PATAMI margin & revenue growth and regional expansion plan, we apply a 40x EV/EBIDTA multiple - above all its listed peers which we think its justifiable to arrive at a target price of RM1.30, translating an upside of 18.3%, excluding dividend.

Table 3: Peer comparison (Price as of 14 July 2021)

Company	Country Listing	Market Cap \$US (m')	Fwd PER (x)	EV/EBITDA (X)	P/B (x)]	FWD ROE (%)	PATAMI MARGIN (%)	Dividend Yield (%)	CY18-20 Revenue CAGR (%)
CTOS Digital	Malaysia	576	53.0	38.7	7.9	15.7	39.2	1.1	8.3
<u>Developed Markets</u>									
Experian PLC	U.K.	38,027	34.6	23.7	12.2	25.0	14.9	1.1	4.2
TransUnion	U.S.	21,572	31.8	24.9	13.9	16.7	12.6	0.3	5.4
Credit Bureau Asia Limited	Singapore	221	NA	11.0	6.9	NA	15.7	NA	5.1
<u>Emerging Markets</u>									
Crisil LTD	India	2,611	50.6	37.4	14.8	28.6	16.8	1.3	5.4
Business Online PLC	Thailand	242	NA	34.3	11.8	NA	29.9	2.00	8.6

Source: Inter-Pacific, Bloomberg

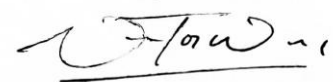
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Signed



Victor Wan Kum Seng
Head of Research
Inter-Pacific Research Sdn Bhd

Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
TRADING BUY	Total return is expected to exceed 10% in the next 3 months
NEUTRAL	Total return is expected to be between –15% to 15% in the next 12 months
SELL	Total return is expected to be below 15% in the next 12 months
TRADING SELL	Total return is expected to be below 10% in the next 3 months
NOT RATED	The stock is not within regular research coverage

Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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