

12 September 2023

Financial Services | Non-Bank Financials

Evergreen Max Cash Capital (EMCC MK)

Eyeing Growth On All Fronts

- **MYR0.29 FV on 1.5x FY24F P/BV.** At MYR0.24/share IPO price, Evergreen Max Cash Capital will raise MYR64.2m from the public issue of 267.6m shares. The proceeds will mainly be used to fund the pawnbroker's expansion plans and new digital marketing initiatives, which are positive for future earnings growth. Our 1.5x P/BV is a discount to its peers' 1.8x, given its smaller size.
- **An established pawnbroker.** EMCC is principally involved in the provision of pawnbroking services via its network of 22 "Pajaking" pawnshops in the Klang Valley, Negeri Sembilan and Pahang. As at end-FY22, the group commanded an estimated market share of 6.9% in the four states that it operates in, up from 5.1% in FY21. Additionally, it also trades gold products and luxury items, including unredeemed pledges from its pawn customers. The group also leverages on its expertise in the pawnbroking industry to offer consultancy and IT solution services to third-party pawnbrokers.
- **Expansion plans.** EMCC intends to establish five new pawnshops by end-FY24F using MYR20m of the IPO proceeds. In FY22, the group processed an average of over 9,000 pawn transactions/outlet, with a yield of c.MYR136/transaction. We expect it to book a 12% FY22-25F CAGR in pawn loan transactions, leading to a 17% CAGR in pawn loans disbursed (FY22: MYR351.2m).
- **Ramping up digital marketing initiatives.** In FY22, c.7% of the total gold and luxury products trading revenue came from online channels. The group sees this as a key growth area, and will be allocating MYR3.5m of the IPO proceeds to intensify its digital marketing initiatives – including hiring three new online sales teams, and utilising sponsored advertisements.
- **An optimistic outlook.** According to an independent market research report by Providence Strategic Partners, the pawnbroking industry in Malaysia is expected to grow at a 5.9% CAGR between 2022 and 2024. EMCC's pawnbroking business – the group's highest margin business – is poised to book decent growth, especially considering its expansion plans. Higher default rates from aggressive growth can also be monetised by the trading business via the sale of unredeemed pledged items. On top of that, the business should also benefit from the gold prices' rising trend.
- **Earnings estimates and valuation.** We forecast core PATAMI of MYR17.4m for FY23 (c.+42% YoY), with a 22% FY22-25F CAGR. Growth is expected to be driven by a steady increase in pawn loan disbursements, along with improved margins for its trading business given the rising forecasted trend in gold prices. We peg a 1.5x P/BV to EMCC's FY24F BVPS to arrive at MYR0.29 FV. This valuation is at a discount to its international peers (c.1.8x) given its smaller market cap and expectations of negative headline earnings growth for FY23F.

| | |
|---------------------------|-------------------|
| Fair Value (Return): | MYR0.29 (+22.4%) |
| IPO Price: | MYR0.24 |
| Closing Application Date: | 12 September 2023 |
| Indicative Listing Date | 26 September 2023 |

Analyst

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Company description

Evergreen Max Cash Capital (EMCC) is principally involved in the provision of pawnbroking services and the complementary trading of gold and luxury retail products, through the "Pajaking" and "Cahaya Gold" franchises. As of 2020, the group had also begun offering pawnbroking consultancy and IT solutions services to third-party pawnbrokers.

IPO details

| | |
|------------------------|-----------|
| Public Issue (%) | 24.0 |
| Shares outstanding (m) | 1,115 |
| Implied market cap | MYR267.6m |

Major shareholders (%)

| | |
|------------------------|------|
| Tirai Anggerik Sdn Bhd | 55.6 |
| Tee Kian Hen | 4.9 |

Utilisation of IPO proceeds

| | MYRm |
|---------------------------------------|-------------|
| Expansion of pawnshops | 20.0 |
| Cash capital for pawnbroking business | 30.0 |
| Repayment of bank borrowings | 4.0 |
| Working capital | 5.6 |
| Estimated listing expenses | 4.6 |
| TOTAL | 64.2 |

Additional data

| | |
|----------------|------|
| Listing Market | ACE |
| Bursa Code | 0286 |

| Forecasts and Key Data | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---------------------------------|--------|--------|---------|---------|---------|
| Total turnover (MYRm) | 60.9 | 67.2 | 94.9 | 106.9 | 118.7 |
| Recurring net profit (MYRm) | 12.0 | 12.2 | 17.4 | 19.7 | 22.0 |
| Recurring net profit growth (%) | 89.0 | 2.4 | 42.3 | 12.8 | 11.8 |
| Recurring EPS (MYR) | 0.01 | 0.01 | 0.02 | 0.02 | 0.02 |
| Recurring P/E (x) | 22.4 | 21.8 | 15.4 | 13.6 | 12.2 |
| P/BV (x) | 2.5 | 2.1 | 1.3 | 1.2 | 1.1 |
| P/CF (x) | -15.0 | -9.8 | -21.4 | 40.4 | 26.2 |
| Dividend yield (%) | na | na | 1.0 | 1.5 | 1.6 |
| EV/EBITDA (x) | 14.8 | 14.6 | 11.0 | 9.6 | 8.6 |
| ROE (%) | 13.0 | 17.0 | 7.7 | 9.3 | 9.7 |
| Net debt to equity (%) | 0.20 | 0.39 | 0.2 | 0.2 | 0.2 |

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Overview And Valuation

Results review. FY22's headline PATAMI increased 68% YoY on the back of stronger pawnbroking revenue (+47% YoY) and other income (more than tripled YoY). The greater pawnbroking revenue came as a result of higher pawn loans disbursed (+45% YoY), as the group had drawn down financing facilities amounting to MYR47m during the year. Meanwhile, the greater other income was largely from several one-off gains on disposals of investment properties and other investments. On the other hand, revenue from trading of gold and luxury products slipped 8% YoY due to lower sales of unredeemed pledged items and new gold products. We estimate EMCC to have achieved a core net profit of MYR12.2m (+2% YoY) in FY22, after stripping the one-off other income items.

For the financial period between 1 Jan 2023 and 30 Apr 2023 (FPE23), the group's PATAMI of MYR4.9m was a 12% YoY increase. This was mostly driven by greater revenue from both the pawnbroking (+28%) and trading (more than doubled) businesses.

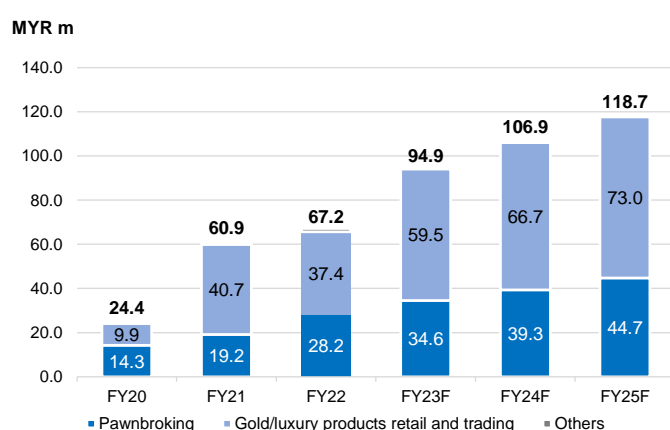
Balance sheet. Net gearing doubled YoY to 0.39x in FY22 after the drawdown of the financing facilities – this level is still on the lower-end of the non-bank lenders under our coverage (0.4-3.2x). The group will set aside MYR4m of its IPO proceeds to repay its borrowings. We estimate net gearing to remain at a healthy 0.2x between FY23F-25F.

Dividend. EMCC has not paid out any dividends since FY19, but has committed to a 20% dividend payout policy post listing.

Earnings forecast. We forecast EMCC's core net profit to grow by a CAGR of 22% between FY22-25, and 42% YoY in FY23. Our optimistic growth forecasts are premised on steady growth in its pawn loan disbursements (17% CAGR), which are high margin in nature (>70% gross margin), aided by pawnshop expansions. We are also forecasting improved margins for its trading business, given the rising trend in gold prices. According to Bloomberg consensus, average gold prices are expected to trend above USD1.9k in FY23F-25F, vs USD1.8k in FY22. For FY23F, our headline profit of MYR12.8m is a 36% YoY decline due to non-recurring listing expenses of MYR4.6m incurred during the year, along with several one-off disposal gains amounting to an estimated MYR7.8m recorded in FY22.

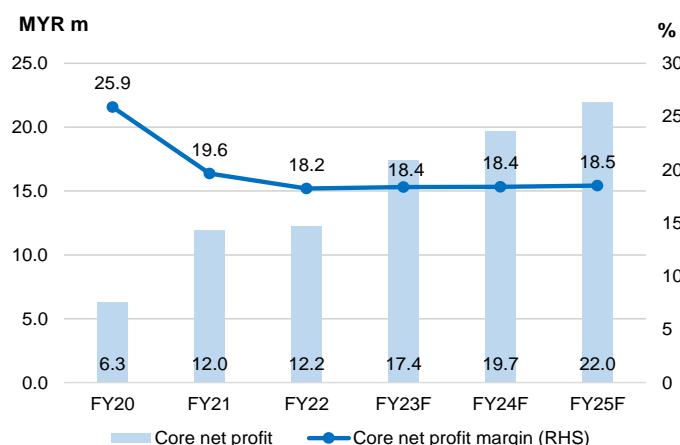
Valuation. We peg a 1.5x P/BV to EMCC's FY24F BVPS to arrive at a MYR0.29 FV. While trading of gold and luxury items forms the bulk of revenue, we opted for a P/BV multiple to value the group as most of its gross profits are obtained from its pawnbroking business. This valuation is at a discount to its international peers' average of 1.9x, which we believe is warranted, given its smaller market cap, and expectations of negative headline earnings growth for FY23F – though we estimate core profit to show a 42% YoY increase.

Figure 1: Revenue breakdown and trend



Source: Company data, RHB

Figure 2: Core profit trend*



Note: *FY22 core profit of MYR17.4m is based on internal estimates
Source: Company data, RHB

12 September 2023

Financial Services | Non-Bank Financials

Figure 3: FY22 revenue by business units

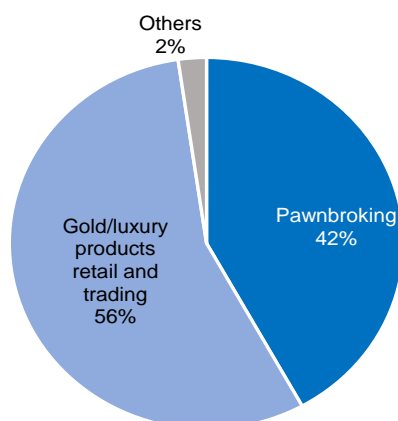
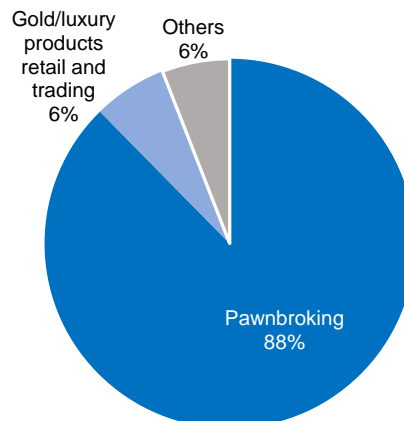


Figure 4: FY22 gross profit by business units



Source: Company data, RHB

Source: Company data, RHB

Figure 5: Peer comparison – as at 8 Sep 2023

| | Country | Last price (LCY) | Market Cap (USD m) | P/E (x) | | | P/BV (x) | | | EPS Growth (%) | | ROE (%) | | Yield (%) |
|----------------------------------|---------|------------------|--------------------|-------------|-------|-------|------------|-------|-------|----------------|-------|-------------|-------|-----------|
| | | | | FY22 | FY23F | FY24F | FY22 | FY23F | FY24F | FY23F | FY24F | FY22 | FY23F | FY23F |
| EMCC* | MY | 0.24 | 57 | 21.8 | 15.4 | 13.6 | 2.1 | 1.3 | 1.2 | 42.3 | 12.9 | 7.7 | 9.3 | 1.0 |
| MY pawnbrokers | | | | | | | | | | | | | | |
| Pappajack | MY | 1.00 | 163 | 66.4 | na | na | 3.2 | na | na | na | na | 7.0 | na | na |
| International pawnbrokers | | | | | | | | | | | | | | |
| Firstcash Holdings | US | 88.15 | 3,976 | 16.9 | 15.9 | 12.9 | 2.1 | 2.1 | 1.9 | 0.0 | 0.0 | 13.4 | na | 1.5 |
| Ezcorp | US | 8.16 | 449 | 11.5 | 10.8 | 9.3 | 0.6 | na | na | 0.0 | 0.0 | 7.5 | 1.0 | 14.8 |
| Cash Converters International^ | AU | 0.23 | 91 | nm | 7.5 | 5.9 | 0.7 | 0.7 | 0.6 | nm | 26.7 | -7.6 | 10.7 | 8.9 |
| Moneymax Financial Service | SG | 0.23 | 75 | 4.6 | na | na | 0.8 | na | na | na | na | 17.9 | na | na |
| Aspial Lifestyle | SG | 0.14 | 142 | 10.4 | na | na | 1.2 | na | na | na | na | 9.9 | na | na |
| Valuemax Group | SG | 0.32 | 169 | 5.1 | na | na | 0.6 | na | na | na | na | 12.9 | na | na |
| Weighted average | | | | 15.3 | | | 1.8 | | | | | 12.3 | | |
| MY non-bank lenders | | | | | | | | | | | | | | |
| Aeon Credit Service M^ | MY | 11.36 | 621 | 7.1 | 7.0 | 6.5 | 1.2 | 1.1 | 1.0 | 1.1 | 6.7 | 19.0 | 16.3 | 4.6 |
| RCE Capital^ | MY | 2.36 | 373 | 12.5 | 12.4 | 11.8 | 2.2 | 2.0 | 1.9 | 0.9 | 5.3 | 16.5 | 17.1 | 5.5 |
| ELK-Desa Resources^ | MY | 1.27 | 123 | 12.1 | 14.0 | 13.0 | 1.2 | 1.2 | 1.1 | -13.3 | 7.7 | 10.4 | 8.6 | 4.3 |

Note: *EPS growth refers to core EPF growth, ^FY23F refers to FY24F (non-Dec financial year ends)

Source: Company data, RHB, Bloomberg

Future Plans And Strategies

Expansion of pawnbroking business. EMCC currently operates a network of 22 “Pajaking” pawnshops – 19 in the Klang Valley, two in Negeri Sembilan and one in Pahang. On average, the group processed over 9,000 pawn transactions per outlet in FY22, with a yield (interest plus administrative fee) of c.MYR136 per transaction.

The group intends to establish five new pawnshops in FY24 – two in 1H24, and the remaining three in 2H24 – using MYR20m of the IPO proceeds. Of this, MYR1.5m has been set aside for renovation costs of the five new “Pajaking” shops, with the remaining MYR18.5m to fund the cash capital needs of the new pawnshops. As a result, we expect the group to book a pawn loan disbursements CAGR of 17% between FY22 and FY25F (FY22 pawn loan disbursements: MYR351m).

Ramping up digital marketing initiatives. EMCC utilises social media and e-commerce platforms (eg Facebook Live, Telegram, Instagram, and Shopee) as digital marketing tools for its trading arm. In FY22, the group achieved MYR2.5m (+>3x YoY) in online sales, or c.7% of total trading revenue. It intends to post more interactive digital content on its social media pages, as well as conduct more online live sessions for its gold products by expanding its online sales team.

At present, the group has five online sales teams, and aims to recruit another three teams by end-FY23. The increasing reach of sponsored advertisements is also an area that the group is keen to explore. Lastly, given the expected increase in sales from the two initiatives mentioned, it sees the need for additional working capital, particularly for inventories of its gold products. In total, EMCC will allocate MYR3.5m of the IPO proceeds to be funnelled towards its trading arm.

Company Overview

EMCC is principally involved in the provision of pawnbroking services via its network of 22 “Pajaking” pawnshops in the Klang Valley, Negeri Sembilan and Pahang. Additionally, as a complementary business, it also trades gold products and luxury items.

- i. **Pawnbroking (42% of FY22 revenue)** – EMCC provides pawnbroking services by offering collateralised pawn loans to adults aged 18 and above at a monthly interest rate of 1.5-2%, with loan periods up to six months. The group generates interest income from the pawn loans offered, on top of an administrative fee of MYR0.50 for each pawn ticket issued. The average ticket size as at 30 Apr 2023 was MYR1,809, with MYR125.6m in pawn loans disbursed in FPE2023 (FY22: MYR351.2m). The group typically accepts collateral (or pledges) in the form of gold and luxury items, with a 90% average loan-to-value (LTV) for gold products and c.38% for luxury items;
- ii. **Trading of gold products and luxury items (55.7% of FY22 revenue)** – EMCC trades new and pre-owned gold products and luxury items through its “Cahaya Gold” brand and multiple e-distribution channels. The group is also able to monetise its non-performing loans by selling off the unredeemed pledges of the defaulted accounts. Revenue for this segment is generally dependent on gold prices;
- iii. **Pawnbroking consultancy and IT solution services (2.3% of FY22 revenue)** – EMCC provides pawnbroking consultancy and IT solution services to third-party pawnbrokers, through which it earns monthly fees.

Figure 6: Business model

| | Pawnbroking Services | Gold and Luxury Products Retail and Trading | Pawnbroking Consultancy and IT Solutions |
|--------------------|---|---|--|
| Products/ Services | Pawnbroking services | <ul style="list-style-type: none"> Sales of pre-owned gold and luxury products (including unredeemed pledged items from our pawnbroking segment) Sales of new gold products | <ul style="list-style-type: none"> Pawnbroking consultancy services Pawn processing system |
| Revenue Model | <ul style="list-style-type: none"> Monthly interest based on pawn loan Administrative fee | One-off sales | <ul style="list-style-type: none"> Monthly consultation fee Monthly IT solutions fee |
| Channels | "Pajaking" pawnshops | <ul style="list-style-type: none"> "Cahaya Gold" retail outlets Social media and e-commerce platforms Direct to gold trading companies, scrap gold collectors and luxury product retailers | Direct to pawnbrokers |
| Customers | Individuals aged 18 and above | <ul style="list-style-type: none"> Gold trading companies Scrap gold collectors Luxury product retailers End customers | Pawnbrokers |

Source: Company data

EMCC is led by Dato' Low Kok Chuan, the group managing director, who is also a substantial shareholder. He is responsible for determining the group's overall strategic business direction as well as overseeing its overall business operations.

Group CEO Sing Suk Fuen is responsible for managing the group's overall day-to-day operations and execution of the business strategies. She is also responsible for monitoring its business performance.

Group CFO Hee Chee Keong is primarily responsible for planning, managing, and implementing the group's accounting functions and corporate exercises, as well as overseeing investor-relations activities.

Group COO Tan Chai Seong is in charge of monitoring the overall day-to-day operations, with a focus on the security of the pawnbroking and gold and luxury products trading businesses.

IPO Details

Figure 7: Indicative IPO timeline

| | |
|---|-------------|
| Opening of application | 29 Aug 2023 |
| Closing of application | 12 Sep 2023 |
| Balloting of applications | 15 Sep 2023 |
| Allotment/transfer of IPO shares to successful applicants | 22 Sep 2023 |
| Listing on the ACE Market | 26 Sep 2023 |

Source: Company data

Figure 8: Utilisation of IPO proceeds

| Details | Estimated timeframe for utilisation upon listing | Amount (MYRm) | Percentage (%) |
|---------------------------------------|--|---------------|----------------|
| Expansion of pawnshops | Within 24 months | 20 | 31.1 |
| Cash capital for pawnbroking business | Within 24 months | 30 | 46.7 |
| Repayment of bank borrowings | Within 1 month | 4 | 6.2 |
| Working capital | Within 12 months | 5.6 | 8.8 |
| Estimated listing expenses | Within 1 month | 4.6 | 7.2 |
| Total | | 64.2 | 100 |

Source: Company data

Figure 9: Offering structure

| | No. of IPO shares | % of enlarged share base |
|--|--------------------|--------------------------|
| Public Issue | | |
| i. Malaysian Public | 55,700,000 | 5 |
| ii. Eligible directors, employees and persons who have contributed to the success of the group | 27,900,000 | 2.5 |
| iii. Private placement to identified institutional and/or selected investors | 44,600,000 | 4 |
| iv. Private placement to identified <i>bumiputera</i> investors approved by MITI | 139,400,000 | 12.5 |
| | 267,600,000 | 24 |

Source: Company data

Key Risks

- Unavailability of cash capital to fund pawnbroking operations;
- Adverse (downward) movements in gold price;
- Exposure to unlawful and suspicious transactions;
- Exposure to physical and cyber security risks; and
- Loss of key senior management personnel.

RHB Guide to Investment Ratings

| | |
|---------------------|--|
| Buy: | Share price may exceed 10% over the next 12 months |
| Trading Buy: | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| Neutral: | Share price may fall within the range of +/- 10% over the next 12 months |
| Take Profit: | Target price has been attained. Look to accumulate at lower levels |
| Sell: | Share price may fall by more than 10% over the next 12 months |
| Not Rated: | Stock is not within regular research coverage |

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