

5 July 2024

Financial Services | Non-Bank Financials

Well Chip Group (WELLCHIP MK)

Pawn King Of The South

- **MYR2.11 FV on 25x FY25F P/E.** At a MYR1.15/share IPO price, Well Chip Group will raise MYR172.5m from the public issuance of 150m shares. The proceeds will mainly be used to fund the pawnbroker's expansion plans within and beyond its home state of Johor, as well as for the cash capital requirements of its existing and new pawnshops. Our 25x P/E target was obtained after benchmarking against the group's domestic peers.
- **Pawn king of the south.** Well Chip is principally involved in the provision of pawnbroking services via its network of 23 pawnshops, all of which are located in Johor. The group estimates that it commands a 36% market share in the state, making it the largest pawnbroker in Johor. Well Chip benefits from the expertise and experience of parent company ValueMax Group (VMAX SP, NR), which has a 36-year track record of providing pawnbroking services in Singapore. Both parties share the ValueMax Pawnbroking System, which allows for improved operational efficiency, transaction processing times, and risk management.
- **Expansion plans.** Well Chip has earmarked MYR28m of its IPO proceeds to be used to establish five new pawnshops in Johor. Additionally, the group is also looking to set up its first two pawnshops in Melaka, marking its maiden venture outside of its home state. In FY23, Well Chip processed an average of over 23,000 pawn transactions/outlet, with a yield of c.MYR144/transaction. We expect the group to book a 16% FY23-26 CAGR in pawn loan transactions, leading to a 16% CAGR in pawn loans disbursed (FY23: MYR990.6m) within the same period.
- **An optimistic outlook.** According to an independent market research report by Protégé Associates, the domestic pawnbroking industry is expected to grow at an 11.4% CAGR between 2024 and 2028. Gradually increasing income levels in Johor could also lead to greater popularity of gold as an investment, especially among individuals underserved by incumbent financial institutions – this is beneficial for Well Chip, in our view. Additionally, the group's soon-to-be public listed entity status should provide it with greater visibility to incumbent banks, and could make it easier for Well Chip to obtain bank borrowings at more favourable rates for cash capital.
- **Earnings estimates and valuation.** We forecast core PATAMI of MYR44.8m for FY24 (c.+27% YoY) with a 17% FY23-26F bottomline CAGR. Growth is expected to be driven by a strong increase in pawn loan disbursements in tandem with the greater availability of cash capital and steady network expansion. We derive our MYR2.11 FV by pegging a 25x target P/E to our FY25F EPS. Given its stronger transactions per store credentials and listing on the Main Market, along with the backing of a reputable and experienced parent, we think Well Chip deserves to trade at least at the P/E level of its cheapest peer.

Fair Value (Return):	MYR2.11 (+83.7%)
IPO Price:	MYR1.15
Closing Application Date:	10 Jul 2024
Indicative Listing Date	23 Jul 2024

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Company description

Well Chip is principally involved in the provision of pawnbroking services together with the complementary retail and trading of gold and luxury products. The group operates 23 pawnshops and four retail outlets, all of which are located in Johor.

IPO details

Public Issue (%)	25.0
Shares outstanding (m)	600
Implied market cap	MYR690.0m

Major shareholders (%)

VYN Holdings	60.7%
VMM Holdings	14.8%

Utilisation of IPO proceeds

	MYRm
Cash capital for pawnbroking business	124.3
Expansion of pawnshop network	40.0
Estimated listing expenses	8.2
TOTAL	172.5

Additional data

Listing Market	Main
Bursa Code	5325

Forecasts and Key Data	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	158.1	203.7	249.4	286.8	321.3
Recurring net profit (MYRm)	25.2	35.3	44.8	50.7	56.7
Recurring net profit growth (%)	5.8	40.4	26.8	13.2	11.8
Recurring EPS (MYR)	0.04	0.06	0.07	0.08	0.09
Recurring P/E (x)	27.4	19.5	15.4	13.6	12.2
P/BV (x)	4.0	3.4	1.7	1.6	1.4
P/CF (x)	-11.4	-17.9	-36.5	-63.7	-59.0
Dividend yield (%)	na	na	1.9	2.6	2.9
EV/EBITDA (x)	20.7	16.1	12.7	10.8	10.1
ROE (%)	15.6	18.8	12.0	12.0	12.3
Net debt to equity (%)	0.81	0.89	0.32	0.32	0.36

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. FY23 headline PATAMI increased 40% YoY on the back of stronger pawnbroking (+23% YoY), and retail and trading revenues (+32% YoY). The opening of three new pawn shops in FY23, along with higher average gold prices (+12%), helped support the growth of new pawn loans disbursed (+39%). This led to higher interest income earned from pawnbroking operations, and also greater volume of pledges to be auctioned off should they be unredeemed by customers. However, the GPM for the pawnbroking segment slipped 2.7ppts YoY to 79.5% as a result of higher interest rates on a larger stock of borrowings and credit facilities.

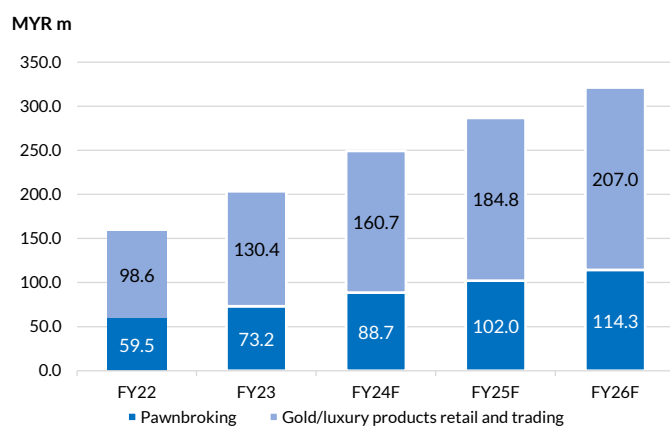
Balance sheet. Net gearing rose 8bps YoY to 0.89x after the increased drawdown of bank borrowings, though it is still at the lower end of the 0.4-3.6x range of the other Malaysian non-bank lenders.

Dividend. Well Chip has not paid out any dividends since FY20, but has committed to a 35% dividend payout policy at least for the first three years post listing.

Earnings forecast. We forecast Well Chip's core earnings to grow by 17% CAGR between FY23-26. Our optimistic growth forecasts are premised on steady growth in its pawn loan disbursements (16% CAGR), which are high margin in nature (>78% gross margin), aided by pawnshop expansions. We forecast its gold and luxury products retail and trading arm to chart growth at a slightly faster clip of 17%, largely due to the increasing trend in gold prices expected (Bloomberg consensus is predicting 2024-2026 gold prices to trade above USD2.4k per tonne vs the USD1.9k per tonne average in 2023). We expect core net profit margin to increase in FY24 due to an acceleration of pawn loan disbursements, but slip slightly in the coming years as the revenue mix gradually shifts from greater retail and trading contributions (lower margin vs pawnbroking).

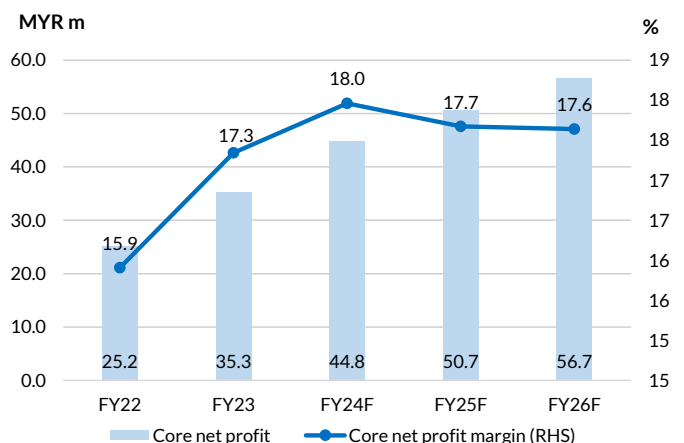
Valuation. We peg a 25x P/E multiple to FY25F EPS to derive a FV of MYR2.11. Comparatively, Well Chip commands better transactions per store credentials vs its peers (>23k transactions per store vs peers' <10k), partly due to its efficient ValueMax Pawnbroking System and market leadership in the less competitive Johor market. The group will also be listing on the Main Market, whereas its peers are listed on the ACE Market. Hence, despite the rather inflated range, we think Well Chip deserves to trade at least at the level of its cheapest peer.

Figure 1: Revenue breakdown and trends



Source: Company data, RHB

Figure 2: Core profit trends



Source: Company data, RHB

Figure 3: FY23 revenue by business units

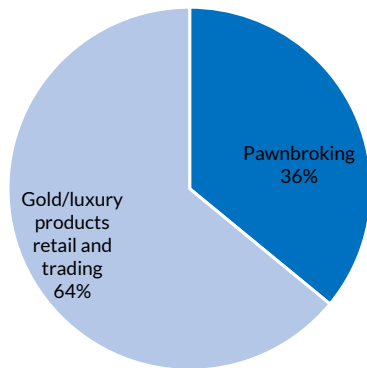
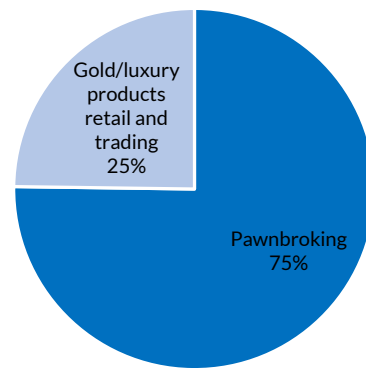


Figure 4: FY23 gross profit by business units



Source: Company data, RHB

Source: Company data, RHB

Figure 5: Peer comparison – as at 2 Jul 2024

	Country	Last price (LCY)	Market Cap (USD m)	P/E (x)			P/BV (x)			EPS Growth (%)		ROE (%)		Yield (%)
				FY23	FY24F	FY25F	FY23	FY24F	FY25F	FY24F	FY25F	FY23	FY24F	FY24F
Well Chip Group	MY	1.15	146	19.5	15.4	13.6	3.4	1.7	1.6	26.8	13.2	12.0	12.0	1.9
Malaysian pawnbrokers														
Pappajack	MY	1.02	164	36.7	na	na	3.1	na	na	na	na	10.0	na	na
Evergreen Max Cash Capital	MY	0.44	103	25.3	na	na	2.3	na	na	na	na	9.0	na	na
International pawnbrokers														
FirstCash Holdings Inc	US	104.64	4,758	21.7	15.8	13.3	2.3	1.9	na	37.0	19.5	11.9	13.5	1.3
EZCORP	US	10.33	568	15.0	9.3	8.8	0.7	na	na	60.9	5.4	10.4	na	na
Cash Converters International^	AU	0.20	80	nm	6.5	5.3	0.6	0.5	na	nm	23.3	8.8	9.0	10.3
MoneyMax Financial Services	SG	0.26	83	5.0	na	na	0.8	na	na	na	na	16.3	na	na
Aspial Lifestyle	SG	0.13	132	9.3	na	na	1.1	na	na	na	na	11.8	na	na
ValueMax Group	SG	0.41	284	5.8	na	na	0.8	na	na	na	na	13.4	na	na
Malaysian non-bank lenders														
AEON Credit Service^	MY	7.47	813	9.2	9.0	8.4	1.4	1.2	1.1	2.6	7.3	16.7	15.3	4.6
RCE Capital^	MY	2.86	449	15.1	14.1	13.3	2.5	2.3	2.2	7.2	5.9	17.0	17.5	4.9
ELK-Desa Resources^	MY	1.26	120	15.6	14.0	13.0	1.2	1.1	1.1	11.7	7.8	7.7	8.4	3.6

Note: *EPS growth refers to core EPS growth

Note 2: ^FY23F refers to FY24F (non-December financial year ends)

Source: Company data, RHB, Bloomberg

Future Plans And Strategies

Expansion of pawnbroking business. Well Chip currently operates a network of 23 pawnshops, all of which are located in Johor. On average, the group processed over 23,000 pawn transactions per outlet in FY23, with an average pawnbroking yield (interest plus administrative fees) of c.MYR144 per transaction.

Well Chip intends to establish five new pawnshops in Johor within 24 months from the listing date using MYR28m of the IPO proceeds. Of this, MYR2.6m has been set aside for set-up and renovation costs of the new pawnshops, whereas the remaining MYR25.4m will be utilised to fund the cash capital needs of these new facilities. We expect the group to book a pawn loan disbursements CAGR of 16% between FY23 and FY26F as a result (FY23 pawn loan disbursements: MYR990.6m).

Venturing into Melaka and Negeri Sembilan. Further out, Well Chip also has plans to expand its pawnshop network in Melaka and Negeri Sembilan. While details of such expansions are still scarce, we understand the group has flagged for MYR12m of the IPO proceeds to be used to open two pawnshops in Melaka within 24 months of the listing date. The group will then plan to enter into the Negeri Sembilan market within 36 months of listing. The relatively close proximity of these two states to Well Chip's main Johor operations should allow for reduced operational risks.

Company Overview

Well Chip is principally involved in the provision of pawnbroking services via its network of 23 pawnshops located in the Johor. Additionally, as a complementary business, it also trades gold products and luxury items.

- i. **Pawnbroking (36% of FY23 revenue)** – The group provides pawnbroking services by offering collateralised pawn loans to adults aged 18 and above at a monthly interest rate of 1-2%, with loan periods up to six months. It 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 31 Dec 2023 – was MYR1,943, with MYR990.6m in pawn loans disbursed in FY23 (FY22: MYR710.3m). Well Chip typically accepts collateral (or pledges) in the form of gold and luxury items, with a loan-to-value of up to 95% for gold products and up to 60% for luxury items;
- ii. **Trading of gold products and luxury items (64% of FY23 revenue)** – Well Chip trades new and pre-owned gold products and luxury items as well as scrap gold through its four retail and trading outlets that are located adjacent to its pawnshops. The group also operates a retail and trading website for online sales. Inventory is procured through purchases of new gold and luxury items, and also from unredeemed pledges from its pawnbroking business. Hence, Well Chip is effectively able to monetise its non-performing loans.

Figure 6: Business model

Business segment	Pawnbroking services	Retail and trading of jewellery and gold
Product/ Services	<ul style="list-style-type: none"> Provision of pawn loans in exchange for pledges such as gold and gold jewellery, luxury watches and diamond jewellery 	<ul style="list-style-type: none"> Retail sale of new and pre-owned jewellery Sale of scrap gold acquired from unredeemed and bid pledges, and pre-owned jewellery from walk-in individuals
Revenue model	<ul style="list-style-type: none"> Monthly interest charge based on the pawn loan amount One-off administrative fee for issuance of pawn ticket 	One-off sales
Channels	23 pawnshops in Johor	<ul style="list-style-type: none"> 4 retail outlets in Johor Website and e-commerce platforms Scrap gold traders
Customers	Individuals aged 18 and above	<ul style="list-style-type: none"> End customers Scrap gold traders

Source: Company data

Well Chip is led by Group Chief Executive Officer Ng Hooi Lang who is also an executive director. As CEO, she is responsible for overseeing the smooth running of the day-to-day business and determining the group's overall business direction and strategies.

Ng is assisted by Tang Soo Yen, another executive director who is also Well Chip's director of retail and merchandising. Her responsibilities revolve around overseeing and managing the procurement of gold and jewellery products for the group, and to manage the post-auction processes for defaulted pawn items, alongside other administrative matters.

Group CFO Sia Shu Yee is primarily responsible for managing the accounting and finance related functions of the group – this includes financial planning and review, cash flow management, and financial reporting.

IPO details

Figure 7: Indicative IPO timeline

Opening of application	26 Jun 2024
Closing of application	10 Jul 2024
Balloting of applications	12 Jul 2024
Allotment of IPO shares to successful applicants	19 Jul 2024
Listing on the Main Market	23 Jul 2024

Source: Company data

Figure 8: Utilisation of IPO proceeds

Details	Estimated timeframe for utilisation upon listing	Amount (MYRm)	Percentage (%)
Cash capital for pawnbroking business	Within 24 months	124.3	72.0
Expansion of pawnshop network	Within 24 months	40.0	23.2
Estimated listing expenses	Immediate	8.2	4.8
Total		172.5	100.0

Source: Company data

Figure 9: Offering structure

	No. of IPO shares	% of enlarged share base
Public Issue		
i. Malaysian public;	30,000,000	5.0
ii. Bumiputera investors approved by the Ministry of Investment, Trade, and Industry;	75,000,000	12.5
iii. Other institutional and selected investors.	45,000,000	7.5
	150,000,000	25.0

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;
- Loss of key senior management personnel.

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