

Evergreen Max Cash Capital (EMCC MK)

Pawnbroker going for listing

Second pawnbroker on Bursa Malaysia

Evergreen Max Cash Capital (EMCC) will be listed on the ACE Market of Bursa Malaysia Securities Bhd on 26 Sep 2023. The IPO application will close today (12 Sep 2023). This pawnbroker comes to the market at an historical FY22 core PER of 24.0x, at its IPO price of MYR0.24.

Raising MYR64.2m from IPO

EMCC is principally involved in: 1) pawnbroking services; 2) retail and trading of gold and luxury products; and 3) pawnbroking consultancy services and IT solutions to third-party pawnbrokers. In FY22, pawnbroking services accounted for 41.9% of revenue and 87.6% of gross profit. Listing on the ACE Market on 26 Sep 2023, EMCC is issuing 267.6m new shares at MYR0.24/sh, raising total funds of about MYR64.2m. There is also an offer for sale of 43.0m existing shares at MYR0.24/sh.

Expansion plan

The group currently operates a network of 22 “Pajaking” pawnshops (9 in KL, 10 in Selangor, 2 in Negeri Sembilan and 1 in Pahang). It has earmarked MYR20m from the IPO proceeds to open five new “Pajaking” pawnshops in Kuala Lumpur, Selangor and Pahang to capture a larger market share as well as to increase its brand visibility. The Independent Market Research Report (IMRR) expects the pawnbroking industry size to grow at a CAGR of 5.9% (Malaysia) and 6.6% (Selangor, Kuala Lumpur, Negeri Sembilan and Pahang) in 2022-24 to MYR12.0b and MYR5.8b, respectively.

Valuation on listing day

Based on its pro-forma financial statements, EMCC is valued at an historical FY22 core PER of 24.0x, at its IPO price of MYR0.24. In comparison, another pawnbroker Pappajack (PPJACK MK, CP: MYR0.995, Not Rated) is currently trading at an annualised 1H23 PER of 41.5x.

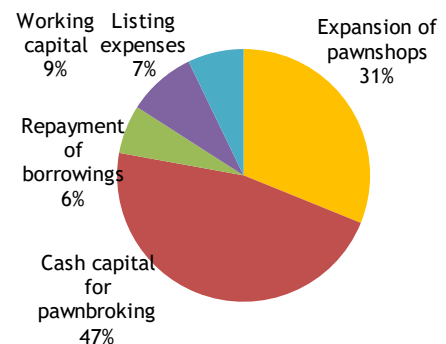
Company Description

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Statistics

Free float (%)	39.4
Issued shares (m)	1,114.9
Market capitalisation	MYR267.6M USD57.2M
Major shareholders:	
Tirai Anggerik S/B	55.6%
Tee Kian Heng	4.9%

Utilisation of IPO proceeds - MYR64.2m



Source: Prospectus

FYE Dec (MYR m)	FY19	FY20	FY21	FY22
Revenue	14.8	24.4	60.9	67.2
EBITDA	5.2	12.4	19.6	29.6
Core net profit	0.8	6.3	12.0	11.2
Core FD EPS (sen)	0.1	0.6	1.1	1.0
Core FD EPS growth (%)	-	695.6	89.0	6.7
Net DPS (sen)	-	-	-	-
Core FD P/E (x)	336.6	42.3	22.4	24.0
P/BV (x)	4.0	3.5	2.5	2.1
Net dividend yield (%)	-	-	-	-
ROAA (%)	-	5.0	8.1	6.0
EV/EBITDA	51.5	21.5	13.7	9.0
Net gearing (%) (incl perps)	41.8	45.9	33.7	49.6

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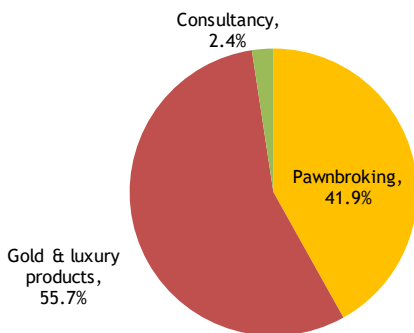
IPO highlight

Company background

Evergreen Max Cash Capital (EMCC) is principally involved in: 1) pawnbroking services; 2) retail and trading of gold and luxury products; and 3) pawnbroking consultancy services and IT solutions to third-party pawnbrokers. Pawnbroking services refer to the provision of pawn loans which are short-term loans that are secured, and are governed by Kementerian Perumahan dan Kerajaan Tempatan (KPKT; Ministry of Housing and Local Government of Malaysia) under the Pawnbrokers Act. The Act stipulates: 1) a maximum pawn loan amount of MYR10,000 for each pawn ticket issued; 2) a maximum monthly interest rate of 2% on the pawn loan amount; 3) a maximum pawn loan period of six months; and 4) a maximum one-off administrative fee of MYR0.50 can be charged for each pawn ticket issued.

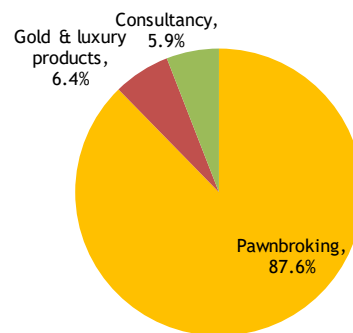
The group provides pawnbroking services through its network of 22 “Pajaking” pawnshops, of which 19 are located in the Klang Valley (9 in KL, 10 in Selangor), while the other three are located in Negeri Sembilan (2) and Pahang (1). Meanwhile, its 100%-owned subsidiary Cahaya Gold procures pre-owned gold and luxury products, which include unredeemed pledged items, from its pawnbroking business as well as third-party pawnshops, gold trading companies and walk-in individuals. Notably, it also procures new gold products from gold trading companies. In FY22, pawnbroking services accounted for 87.6% of its gross profit (GP), followed by its gold and luxury products business (6.4%) and consultancy services (5.9%).

Figure 1: FY22 revenue by type of services



Source: Prospectus

Figure 2: FY22 GP by type of services



Source: Prospectus

Target market. EMCC’s customers comprise individuals aged 18 and above, who may include the unserved or underserved community. EMCC’s pawn loans offer an alternative for the unbanked and underbanked population by allowing them to convert their valuable personal items into cash. According to the Independent Market Research Report (IMRR), the unbanked population in Malaysia stood at 7.0% in 2021 (approximately 2.3m persons).

Faster access. Unlike banks and financial institutions, pawnbrokers generally do not review income requirements or credit score ratings prior to offering the loan. Therefore, they are able to process and provide pawn loans within the same day. In comparison, banks typically process a loan application within one week. In other words, pawnbrokers offer faster access to funds, one of the key factors driving demand for pawn broking services in Malaysia.

Highly regulated. All pawnshops in Malaysia must be operated by sole proprietors or companies that hold licences issued by KPKT, which are valid for two years. The licences have to be renewed at least 60 days before the expiry. Pawnbrokers must also adhere to key regulations under the Pawnbrokers Act. In addition to the above, pawnbrokers need to comply with the regulatory framework set out by the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act (AMLA) and guidelines issued by Bank Negara Malaysia (BNM).

Market share. According to the IMRR, EMCC garnered a market share of 3.3% based on the total value of pawn loans disbursed in 2022, amounting to MYR10.7b. Within the four states that it operates, i.e. Selangor, Kuala Lumpur, Negeri Sembilan and Pahang, EMCC's market share is estimated to be 6.9%. For its gold trading and retail business, its market share was 0.5% in 2022, based on the total gold trading and retail industry in Malaysia which amounted to MYR8.1b.

Outlook & prospects

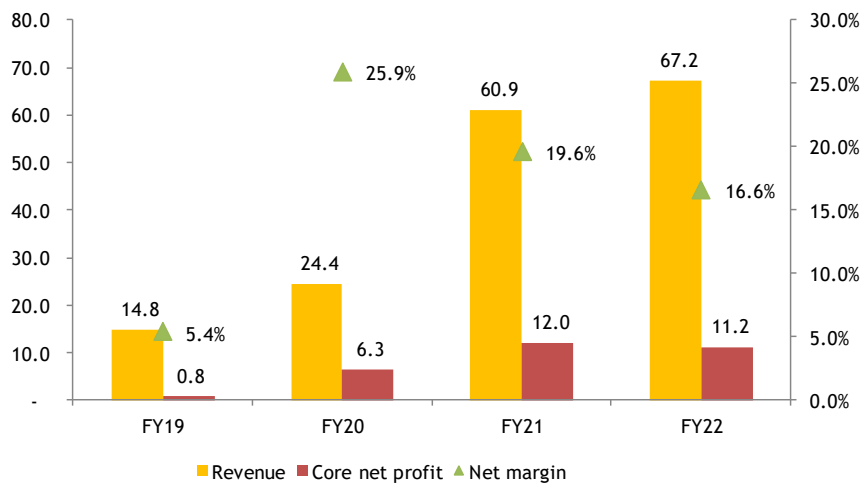
Industry outlook. According to the IMRR, the pawnbroking industry size in Malaysia grew at a CAGR of 5.2% in FY17-22, and a faster 6.1% in the four states that EMCC operates in. Moving forward, the pawnbroking industry is expected to grow at a CAGR of 5.9% (Malaysia) and 6.6% (Selangor, Kuala Lumpur, Negeri Sembilan and Pahang) between 2022-24 to reach MYR12.0b and MYR5.8b, respectively. For its gold trading and retail business, the IMRR expects the industry to grow at a CAGR of 10.4%, from MYR8.1b in 2022 to MYR9.9b in 2024.

Expanding pawnbroking business. As at Jul 2023, EMCC has 22 "Pajaking" pawnshops in Peninsular Malaysia. The group has earmarked MYR20m from the IPO proceeds to open five new "Pajaking" pawnshops in Kuala Lumpur, Selangor and Pahang to capture a larger market share as well as to increase its brand visibility. Under the guideline issued by KPKT, a minimum paid-up capital of MYR4m is required to obtain a pawnbroker's licence for each new pawnshop. In the event that it fails to identify suitable locations to set up new pawnshops, EMCC will undertake selective acquisitions and/or investments in other pawnbrokers in Kuala Lumpur, Selangor and Pahang.

Increase market visibility of its gold and luxury products. EMCC uses social media and e-commerce platforms such as Facebook Live, Telegram, WhatsApp, Instagram, Tik Tok and Shopee to conduct digital marketing and online sales of its gold products. The group intends to invest in sponsored advertisements to market its products. Similarly, EMCC also plans to recruit three new online sales team by end of 2023, from the current five online sales teams.

Financials & valuation

Historical trend. EMCC's net profit grew at a 78.6% 2-year CAGR in FY20-22, mainly attributable to: 1) higher pawn loans disbursed, which grew at a 39.9% 2-year CAGR for FY20-22; and 2) gains on disposal in FY22 which amounted to MYR8.9m. Notably, the average pawn loan value has also grown from MYR1,480 in FY20 to MYR1,694 in FY22; +14.5%, despite still operating with 22 pawnshops. A slight setback is that the default rate which was at 11.7% in FY22, though ultimately, EMCC should be able to recover any defaulted pawn loan via public auction.

Fig 3: Revenue, net profit and net margin (MYR'm)


Source: Prospectus

Valuation on the listing day. Based on its pro-forma financial statements, EMCC is trading at an historical FY22 core PER of 24.0x, at its IPO price of MYR0.24. In comparison, another listed pawnbroker Pappajack (PPJACK MK, CP: MYR0.995, Not Rated) is currently trading at 41.5x annualised 1H23 EPS of 2.4sen.

Risks

Subject to regulatory requirements. The pawnbroking business is governed under the Pawnbrokers Act issued by KPKT, which sets out, among others, the maximum monthly interest rate, pawn loan period, administrative fee that is chargeable, as well as procedures for unredeemed pledged items. Therefore, any adverse changes in regulatory requirements may affect its pawnbroking business.

Requires cash capital to operate. The pawnbroking business requires cash capital for disbursement. In the event that EMCC does not have sufficient cash capital or faces delays in sales of unredeemed pledged items, the liquidity and growth of its pawnbroking business will be impacted.

Profit guarantee for its borrowing. EMCC obtained USD5m unsecured borrowing to fund its pawnbroking business, which requires the group to achieve an audited PAT of USD3m (equivalent to MYR13.5m) in FY22 and USD3.5m (equivalent to MYR15.8m) for FY23-26.

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