

MY: Evergreen Max Cash Capital Berhad - Pawnbroker on expansion course



Company Info
Board: Ace
Non-Shariah

IPO Price@26/9/2023:RM0.24
Market Cap: RM267.6m
Free Float: 37.0%

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What does the company do?

- Started its first pawnshop in 2012 in Sungai Besi, Kuala Lumpur, Evergreen Max Cash Capital (EMCC) is principally involved in the pawnbroking services (30% of 4M23 revenue), gold and luxury products retail and trading (69%) as well as to provide pawnbroking consultation services and IT solutions to Islamic pawnbrokers (1%). To date, EMCC operates 22 "Pajaking" pawnshops and 3 "Cahaya Gold" retail outlets with its presence mainly in Klang Valley.
- In terms of revenue recognition, its pawnbroking business recorded sales based on monthly interest of 1.5%-2% on pawn loan (with a maximum monthly interest rate of 2% on the pawn loan amount over a maximum pawn loan period of 6 months under the Pawnbrokers Act). EMCC also sells new and pre-owned gold as well as luxury products (including unredeemed pledged items from the pawnbroking segment) through retail outlets, social media, e-commerce platforms, gold trading companies, scrap gold collectors and luxury product retailers. The company also charges monthly consultation fees and IT solution fees on annual contracts.

Is the company profitable?

- Revenue & profit trend.** EMCC recorded a 3-year (FY19-22) revenue CAGR of 66% mainly driven by its pawnbroking (40%) and retail trading (102%) segments. It is also worth noting that the pawnbroking business generates superior gross profit margin (73% in FY22) as compared to the retail trading division (4%).
- The latest results wrap.** EMCC's net profit rose 12% yoy to RM4.9m in 4M23 (vs FY22's full-year net profit of RM20.1m). This was due to stronger interest income growth on pawn loan (+28% yoy), coupled with higher sales on unredeemed pledged items (+139% yoy) and pre-owned gold products (+274% yoy) in 4M23. Meanwhile, the group's gross profit margin for its pawnbroking and retail trading segments also expanded 3.2%-pts and 0.7%-pts yoy respectively to 74.5% and 6.2% in 4M23 due to economies of scale and higher gold prices. However, higher interest cost from the drawdown of additional credit facilities for working capital has weighed on the group's PAT margin, which dropped 7.9%-pts yoy to 13.7% in 4M23.

Does the company have debt or cash?

- Net debt.** EMCC's net gearing improved to 0.30x as of 30 April 2023 (from 0.39x in FY22), arising from the RM15m net repayment of short-term bank borrowings.

Does the company pay any dividends?

- Post IPO, EMCC intends to distribute dividends with a payout ratio of 20% of its net profit.

Who owns the company?

- Tirai Anggerik Sdn Bhd which is owned by Dato Low Kok Chuan, his spouse Datin Tea Guat Ngo, his brother Low Kok Hu and both his sons Low Kai Loon and Low Kai Sein, is the group's largest shareholder.
- Dato Low is the co-founder and Managing Director of the company who has approximately 11 years of experience in the pawnbroking industry.

What is the company's business direction?

- EMCC plans to expand its pawnbroking business by opening 5 new "Pajaking" pawnshops in Kuala Lumpur, Selangor and Pahang in the next 12 months. The company targets to expand its market share and increase its brand visibility. To note that, EMCC has increased its market share gradually to 6.9% in FY22 (from 4.3% in FY20 and 5.1% in FY21) in Kuala Lumpur, Selangor, Pahang and Negeri Sembilan based on its improved pawn loan disbursed over the years.
- The group also aims to enhance digital marketing for its retail trading business via online advertising and promotions. EMCC targets to grow its online sales of gold products (from RM2.5m in FY22, which is equivalent to 6.7% of the segmental revenue) and increase followers on social media accounts. As part of its strategy, the company plans to recruit an additional 3 online sales teams by the end 2023 (vs. 5 online sales teams currently).
- Other growth drivers include: 1) Unbanked population in Malaysia (7% in 2021) which could lead to higher demand for pawnbroking services, and 2) Unredeemed pawn loans which is reflected in trade receivables of RM161m in 4M23.
- Key risks** to the group include: 1) Regulatory requirements and renewal of licences, 2) fluctuation of gold price and 3) higher-than-expected financing costs.

Key stock statistics

| FYE Dec (RM m) | 2020A | 2021A | 2022A | 4M2023A |
|-----------------|-------|-------|-------|---------|
| Revenue | 24.4 | 60.9 | 67.2 | 36.0 |
| GP | 10.5 | 18.6 | 23.4 | 9.8 |
| EBITDA | 12.4 | 19.6 | 29.6 | 8.9 |
| PATAMI | 6.3 | 12.0 | 20.1 | 4.9 |
| Basic EPS (sen) | 0.6 | 1.1 | 1.8 | 0.4 |
| Net Gearing (x) | 0.2 | 0.2 | 0.4 | 0.3 |
| DPS (sen) | 0.6 | 0.0 | 0.0 | 0.0 |
| Div. Yield (%) | 2.6 | 0.0 | 0.0 | 0.0 |
| P/E (x) | 42.3 | 22.4 | 13.3 | 54.2 |
| P/BV (x) | 3.5 | 2.5 | 2.1 | 2.0 |
| ROE (%) | 8.3 | 13.0 | 17.4 | 3.8 |
| ROA (%) | 4.7 | 8.1 | 11.0 | 2.4 |

SOURCE: COMPANY

Major shareholders (Post-IPO)

| Name of shareholders | % of Shares |
|------------------------|-------------|
| Tirai Anggerik Sdn Bhd | 55.60 |
| Tee Kian Heng | 4.90 |

SOURCE: COMPANY

Peers Comparison

| Companies | FY22 Trailing P/E (x) | Market Cap (RM) |
|-----------------------------------|-----------------------|-----------------|
| Pappajack Holdings | 37.4 | 745.2 |
| Poh Kong Holdings | 9.0 | 352.9 |
| Tomei Consolidated | 4.0 | 155.2 |
| YX Precious Metals | 6.0 | 98.6 |
| Evergreen Max Cash Capital | 13.3 | 267.6 |
| Simple Average | 14.1 | |

SOURCE: BLOOMBERG

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Any corporate development?

- EMCC will be listed on the Bursa Ace Market on 26th September 2023 with a target market capitalisation of RM267.6m. The final day for IPO application will be on 12th September 2023.
- With the IPO, the group will raise total proceeds of RM64.2m: RM30m (47% of total proceeds) for cash capital for pawnbroking business, RM20m (31%) for expansion of pawnshops, RM6m (9%) for working capital, RM5m (7%) for listing expenses and RM4m (6%) to repay borrowings.

Valuation?

- Based on the IPO price of RM0.24, EMCC trades at 13.3x FY22 trailing P/E (vs. Bursa Malaysia gold-related players FY22 trailing P/E of 14.1x, according to Bloomberg).

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

| | | | | | |
|---------------------|-----------|-----------|---------|----------|------------------|
| Score Range: | 90 - 100 | 80 – 89 | 70 - 79 | Below 70 | No Survey Result |
| Description: | Excellent | Very Good | Good | N/A | N/A |

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| Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2023 | | |
|--|-------------------------|--------------------------------|
| 632 companies under coverage for quarter ended on 30 June 2023 | | |
| | Rating Distribution (%) | Investment Banking clients (%) |
| Add | 65.3% | 0.9% |
| Hold | 25.8% | 0.3% |
| Reduce | 8.9% | 0.0% |

Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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.

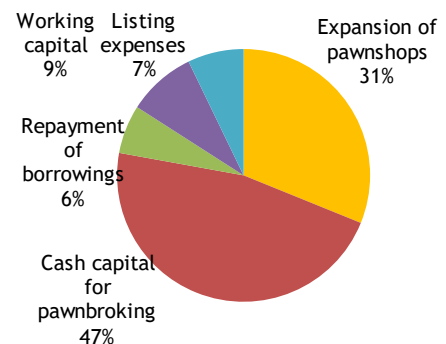
Company Description

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.

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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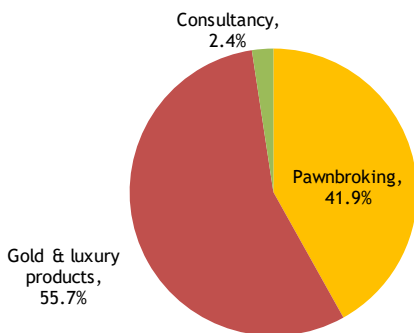
IPO highlight

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.

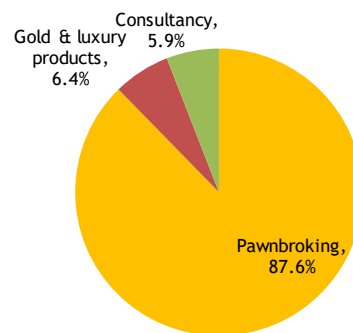
The group provides pawnbroking services through its network of 22 “Pajaking” pawnshops, of which 19 are located in the Klang Valley (9 in KL, 10 in Selangor), while the other three are located in Negeri Sembilan (2) and Pahang (1). Meanwhile, its 100%-owned subsidiary Cahaya Gold procures pre-owned gold 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

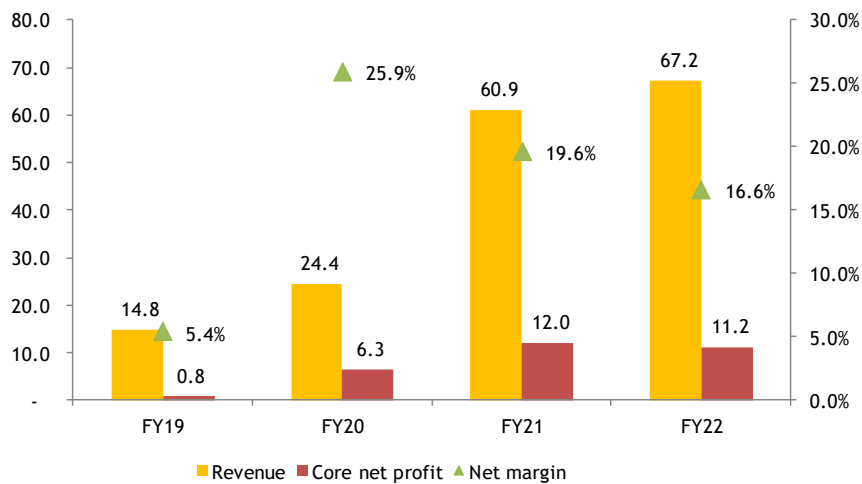
Industry outlook. According to the IMRR, the pawnbroking industry size in Malaysia grew at a CAGR of 5.2% in FY17-22, and a faster 6.1% in the four states that EMCC operates in. Moving forward, the pawnbroking industry is expected to grow at a CAGR of 5.9% (Malaysia) and 6.6% (Selangor, Kuala Lumpur, 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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|-------------|--|
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DESCRIPTION

Through its subsidiaries, Evergreen Max Cash Capital Bhd is principally involved in the provision of pawnbroking services.

| | |
|--------------------------|--------------|
| Fair Value | RM0.30 |
| IPO Price | RM0.24 |
| Expected Return | 25.0% |
| Closing Application Date | 12 Sept 2023 |
| Indicative Listing Date | 26 Sept 2023 |

| | |
|-------------------|---------|
| Market | ACE |
| Bursa Code | 0286 |
| Bloomberg Ticker | EMCC MK |
| Shariah-compliant | - |

IPO DETAILS

| | |
|----------------|------------------|
| | Shares(m) |
| Offer for Sale | 43.0 |
| Public Issue | 267.6 |

UTILISATION OF PROCEEDS

| | |
|---------------------------------------|---------------|
| | RM (m) |
| 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 |

KEY STOCK DATA

| | |
|------------------------------|---------|
| Market Capitalisation (RM m) | 267.6 |
| No. of Shares (m) | 1,114.9 |

MAJOR SHAREHOLDERS

| | |
|--------------------|----------|
| | % |
| Tirai Anggerik S/B | 55.6 |
| Tee Kian Heng | 1.7 |

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Pawnbroking Services Provider

Through its subsidiaries, Evergreen Max Cash Capital Bhd (EMCC) is principally involved in the provision of pawnbroking services, i.e. provision of short-term secured pawn loans to individuals aged 18 and above. These individuals may be part of the population that is underserved by financial institutions. In addition, the group is also involved in the business of retail and trading of gold and luxury products as well as provision of pawnbroking consultancy services and information technology (IT) solutions to third-party pawnbrokers, whom the group has identified to not be in direct competition with its "Pajaking" pawnshops. As at 31 July 2023, the group has a network of 22 "Pajaking" pawnshops in Peninsular Malaysia, of which 19 are located in Kuala Lumpur and Selangor, two in Negeri Sembilan and one in Pahang.

EMCC intends to open five new "Pajaking" pawnshops in Kuala Lumpur, Selangor and Pahang, in order to capture a larger market share. Besides that, the group plans to increase the market visibility of its gold and luxury products retail and trading business. We derive a fair value of **RM0.30** based on a c.19x PE multiple to its FY24F EPS of 1.6sen. The IPO is expected to raise approximately RM64.2m from the issuance of 267.6m new shares. Besides utilising 31.1% and 46.7% of the proceeds for expansion of pawnshops and cash capital for pawnbroking business, respectively, 6.2% and 8.8% of the proceeds are allocated for repayment of bank borrowings and working capital, respectively.

- § **Growth drivers.** EMCC's growth will be driven by: i) expansion of its pawnbroking business, and ii) increased market visibility of its gold and luxury products retail and trading business.
- § **Competitive strengths.** EMCC's competitive strengths include: i) ability to serve the unbanked and underbanked population, ii) network of pawnshops which are strategically located, and adhering to the regulations and guidelines, iii) experienced and committed key management, and iv) proprietary pawn processing system for enhanced operational efficiency and standardised operating procedures.
- § **Catalysts.** Key drivers may include: i) immediate access to funds without proof of income or review of credit score ratings requirements, ii) relatively higher interest rates charged for unsecured borrowings, iii) increased acceptance of gold as an investment among growing population with increased disposable income, and iv) cultural affinity towards gold jewellery.
- § **Key risks.** Key downside risks, among others, include: i) competition, ii) exposure to unlawful and suspicious transactions, iii) volatility in the price of gold, iv) unsecured borrowing with profit target requirement, v) potential changes in regulatory requirements, and vi) possible termination and/or non-renewal of lease or rental agreements.

KEY FINANCIAL SUMMARY

| FYE Dec (RM m) | 2020A | 2021A | 2022A | 2023F | 2024F | CAGR |
|--------------------|-------|-------|-------|-------|-------|-------|
| Revenue | 24.4 | 60.9 | 67.2 | 109.8 | 126.3 | 50.8% |
| Gross Profit | 10.5 | 18.6 | 23.4 | 31.0 | 35.4 | 35.6% |
| Pre-tax Profit | 9.2 | 15.6 | 24.2 | 21.2 | 24.1 | 27.3% |
| Net Profit | 6.3 | 12.0 | 20.1 | 16.1 | 18.3 | 30.5% |
| EPS (Sen) | 0.6 | 1.1 | 1.8 | 1.4 | 1.6 | |
| P/E (x) | 42.3 | 22.4 | 13.3 | 16.6 | 14.6 | |
| DPS (Sen) | - | - | - | 0.3 | 0.3 | |
| Dividend Yield (%) | - | - | - | 1.2% | 1.4% | |

Source: Company, PublicInvest Research estimates

Is principally involved in the provision of pawnbroking services, retail and trading of gold and luxury products as well as provision of pawnbroking consultancy services and IT solutions to third-party pawnbrokers

Has a network of 22 “Pajaking” pawnshops in Peninsular Malaysia

Offers pawn loans as a percentage of the value of the items pledged, with loan periods of up to six months and fixed monthly interest rate ranging between 1.5% and 2.0%

Company Background

Through its subsidiaries, Evergreen Max Cash Capital Bhd (EMCC) is principally involved in the provision of pawnbroking services, i.e. provision of short-term secured pawn loans to individuals aged 18 and above. These individuals may be part of the population that is underserved by financial institutions. In addition, the group is also involved in the business of retail and trading of gold and luxury products as well as provision of pawnbroking consultancy services and information technology (IT) solutions to third-party pawnbrokers, whom the group has identified to be not in direct competition with its “Pajaking” pawnshops. As at 31 July 2023, the group has a network of 22 “Pajaking” pawnshops in Peninsular Malaysia (Kuala Lumpur and Selangor: 19; Negeri Sembilan: 2; Pahang: 1).

Table 1: Key milestones

| Year | Event |
|------|---|
| 2012 | - Opened its first pawnshop in Sungai Besi, Kuala Lumpur and another new pawnshop in Triang, Pahang |
| 2015 | - Opened three new pawnshops in: i) Ampang, Selangor; ii) Seri Kembangan, Selangor; and iii) Taman Maluri, Kuala Lumpur |
| 2017 | - Opened four new pawnshops in: i) Chow Kit, Kuala Lumpur; ii) Mahkota Cheras, Selangor; iii) Shah Alam, Selangor; and iv) Taman Putra, Selangor |
| 2018 | - Opened seven new pawnshops in: i) Jalan Tun Tan Cheng Lock, Kuala Lumpur; ii) Kajang, Selangor; iii) Petaling Jaya, Selangor; iv) Puchong, Selangor; v) Pudu, Kuala Lumpur; vi) Senawang, Negeri Sembilan; and vii) Setapak, Kuala Lumpur - Began to operate its pawnbroking business under the trade name “Pajaking” in order to strengthen its market presence as a pawnbroker |
| 2019 | - Opened six new pawnshops in: i) Brickfields, Kuala Lumpur; ii) Nilai, Negeri Sembilan; iii) Pandan Indah, Kuala Lumpur; iv) Shah Alam, Selangor; v) Bandar Sri Permaisuri, Kuala Lumpur; and vi) Sungai Way, Selangor - Opened its first “Cahaya Gold” retail outlet in Ampang, Kuala Lumpur |
| 2020 | - Opened a new “Cahaya Gold” retail outlet in Jalan Genting Kelang, Kuala Lumpur - Began offering pawnbroking consultancy services to third-party pawnbrokers |
| 2021 | - Opened a new “Cahaya Gold” retail outlet in Wisma Trax, Kuala Lumpur - Began offering IT solutions to third-party pawnbrokers |

Source: Company Prospectus, PublicInvest Research

Business Overview

As its pawnshops are licensed by Kementerian Perumahan dan Kerajaan Tempatan (Ministry of Housing and Local Government of Malaysia, KPKT), EMCC adheres to the regulations under the Pawnbrokers Act 1972 and guidelines (Pawnbrokers Act), which include the maximum interest rate and administrative fees chargeable to its pawnbroking customers as well as the administrative procedures in relation to unredeemed pledged items, amongst others. EMCC offers pawn loans with loan periods of up to six months to its pawnbroking customers who pledge their valuable personal items as collaterals. The items EMCC accepts as collaterals are valuable items such as gold jewellery, minted gold bars and luxury products the likes of branded watches, branded bags and certified diamonds. Pawn loans are calculated as a percentage of the value of the items pledged, with fixed monthly interest rate ranging between 1.5% and 2.0% (2.0% is the maximally permissible rate) after taking into consideration, amongst others, competition within the area where its pawnshop is located. In addition to interest income, EMCC also derives administrative fee of RM0.50 for each pawn ticket issued.

Table 2: Pawn loan offered

| Type of pledged item | Loan-to-value ratio (%) |
|----------------------|-------------------------|
| Gold products | 85 - 95 |
| Branded watches | 50 - 60 |
| Branded bags | 30 - 40 |
| Certified diamonds | 20 - 25 |

Source: Company Prospectus, PublicInvest Research

Note:

1. The value of pledged gold products is calculated based on the prevailing gold price and weight of the gold.
2. The pawn loans disbursed for luxury products is less than 3% of EMCC's total pawn loans disbursed during FY19 FY20, FY21, FY22 and 4MFY23.

Pawnbroking customers are required to pay the outstanding interest in full on their existing pawn loans, prior to renewal of their pawn loans

Will sell unredeemed pledged items as part of its cash recovery process

Sells pre-owned gold products and luxury products as well as new gold products

Charges a monthly consultation fee to third-party pawnbrokers for the services rendered

Charges the third-party pawnbrokers a monthly IT solution fee

Upon the expiry of the loan period, EMCC's pawnbroking customers may choose to redeem their pledged items (in accordance with Section 18 of the Pawnbrokers Acts), or renew their pawn loans. Customers who opt to renew their pawn loans are required to re-pawn their pledged items to obtain new pawn tickets with a new loan period. Prior to such renewal, the pawnbroking customers are required to pay the outstanding interest in full on their existing pawn loans. Upon full payment of the outstanding interest, EMCC will re-assess the value of the pledged items when they are being re-pawned. In the event there is a decline in the value of the pledged items which results in a lower pawn loan amount being offered, the customers are required to pay for the difference in cash and/or pledge more items failing which the pledged items will not be entitled for re-pawn.

In accordance with Section 25(1) of the Pawnbrokers Act, a notice will be sent to the pawnbroking customers via registered post on or before the 15th day of the following month after the pawn loan is due in order to notify them that their unredeemed pledged item will be auctioned. In the event the customers do not redeem their pledged items, renew their pawn loans or pay for the interests charged when due, the pawn loans will be categorised as defaulted pawn loans. As part of its cash recovery process, EMCC will acquire and sell the unredeemed pledged items to Cahaya Gold & Jewellery S/B, in accordance with the Pawnbrokers Act. Cahaya Gold & Jewellery S/B will then sell these unredeemed pledged items to the end customers or to gold trading companies or scrap gold collectors.

In addition to provision of pawnbroking services, EMCC is also involved in the business of retail and trading of gold and luxury products, whereby Cahaya Gold & Jewellery S/B sells pre-owned gold products (from third-party pawnshops, gold trading companies and walk-in individuals) and luxury products (including unredeemed pledged items obtained from the group's pawnbroking segment) as well as new gold products procured from gold trading companies.

Leveraging on its experience in pawnbroking, EMCC provides consultation services and information technology (IT) solutions to third-party pawnbrokers, whom the group has identified to be not in direct competition with its "Pajaking" pawnshops, in order to generate an additional revenue stream to the group. The consultations provided are mainly in relation to the general operating procedures, inclusive of the necessary regulatory requirements to be complied with by a pawnbroker. EMCC charges a monthly consultation fee to these pawnbrokers for the services rendered, based on a percentage of the pawnshop's earnings subject to a pre-agreed minimum fee during the consultation period. EMCC is presently contracted to provide pawnbroking consultancy services to three Islamic pawnshops owned by a co-operative society on an annual basis, subject to automatic renewal.

EMCC has a proprietary pawn processing system for the use of its "Pajaking" pawnshops to facilitate its pawnbroking services and prevent transactions with blacklisted individuals under the authorities' sanction lists. In addition to using the pawn processing system for its "Pajaking" pawnshops, EMCC also provides the system to third-party pawnbrokers. The group charges the third-party pawnbrokers a monthly IT solution fee at a pre-agreed rate for each pawn transaction processed under the system. EMCC is presently contracted to provide such IT solutions to one third-party pawnbroker on an annual basis, subject to automatic renewal.

Expanding its pawnbroking business

Increasing market visibility of its gold and luxury products retail and trading business

Ability to serve the unbanked and underbanked population

Network of pawnshops which are strategically located and adhere to the regulations and guidelines issued by KPKT

Experienced and committed key management

Proprietary pawn processing system for enhanced operational efficiency and standardised operating procedures

Future Plans

Expanding its pawnbroking business. EMCC intends to open five new “Pajaking” pawnshops in Kuala Lumpur, Selangor and Pahang, enabling the group to capture a larger market share as well as increase its brand visibility. Subject to the identification of suitable locations by the group as well as issuance of the pawnbroker’s licences by KPKT, EMCC plans to set up two new pawnshops by mid-2024 and another three new pawnshops by end-2024. In the event EMCC is unable to identify suitable locations to set up its new pawnshops, the group would expand its pawnbroking business via selective acquisitions and/or investments in other pawnbrokers which are located in the areas where EMCC intends to set up its new “Pajaking” pawnshops.

Increasing market visibility of its gold and luxury products retail and trading business. Recognising the importance of digital marketing, EMCC is increasing its efforts in online advertising and promotions to enhance its digital presence and increase the number of followers on its social media accounts and e-commerce platforms. As part of this strategy, EMCC intends to post more interactive digital contents in its social media accounts as well as conduct more online live sessions for its gold products by expanding its online sales team with recruitment of an additional three online sales teams (five online sales teams as at 31 July 2023) by end-2023. Also, EMCC intends to invest in sponsored advertisements to further advertise its products and services, and attract traffic to its social media accounts.

Competitive Strengths

Ability to serve the unbanked and underbanked population. EMCC’s pawnbroking services fill the gap not being served by financial institutions as its pawn loans offer an alternative for the unbanked (who do not have personal bank account) and underbanked (who do not meet financial institutions’ credit requirements) population by allowing them to convert their valuable personal items into cash in order to meet their funding needs. Through its pawnbroking services, EMCC’s customers are able to receive funds within a relatively quick processing time, typically within an hour.

Network of pawnshops which are strategically located and adhere to the regulations and guidelines issued by KPKT. As at 31 July 2023, EMCC has a total of 22 “Pajaking” pawnshops which are strategically located in areas with high foot traffic and commercial activity. In addition, EMCC’s pawnshops are concentrated in the central region, namely Kuala Lumpur, Selangor and Negeri Sembilan, which is densely populated. As such, EMCC’s pawnshops have visibility and accessibility to a larger target reach. In addition, as at 31 July 2023, the group has also obtained and/or renewed the respective pawnbroker’s licenses for all of its 22 “Pajaking” pawnshops, which is a testament that EMCC is able to meet the requirements under the Pawnbrokers Act.

Experienced and committed key management. EMCC’s key management team has an average of approximately 18 years of relevant experience in their respective fields. Their experience and leadership capabilities are expected to continue contributing positively to its future growth and prospects. In addition, EMCC also ensures that its pawnshops are staffed by operations personnel who are trustworthy, skilled and competent in providing pawnbroking services. All operations personnel are required to attend annual training in order to keep abreast of the latest developments in the pawnbroking industry as well as related regulatory requirements.

Proprietary pawn processing system for enhanced operational efficiency and standardised operating procedures. EMCC’s proprietary pawn processing system automates its recordkeeping of pawn transactions and pledged items, allowing EMCC to minimise human errors and optimise its operations process. By incorporating the proprietary system in its operations, EMCC has been able to effectively and systematically serve its pawnbroking customers as well as manage its cash capital and the pledged items across all its pawnshops. In addition, the use of the proprietary system also allows EMCC to rapidly expand its pawnbroking business without compromising its services.

Key Risks

Competition risk

Competition risk. The pawnbroking industry is a fragmented and competitive industry. EMCC thus faces stiff competition from existing industry players, especially pawnshops with a larger establishment and/or a retail chain, as well as incoming new players in the pawnbroking industry. In addition, EMCC also faces indirect competition from licensed moneylenders, who are involved in the provision of short-term micro loans, as well as Islamic pawnbrokers (Ar-Rahnu). The gold retail and trading industry is also a fragmented and competitive industry which comprises both large and small gold products retailers and traders. As a small industry player in the gold retail and trading industry, EMCC's "Cahaya Gold" retail outlets may not be able to compete competitively against more established gold products retailers and traders, especially those with a retail chain.

Exposure to unlawful and suspicious transactions

Exposure to unlawful and suspicious transactions. Notwithstanding preventive measures put in place, EMCC is exposed to the risk of losing the pledged items if such items are subsequently confiscated by the authorities. Since incorporation up to 31 July 2023, there were 64 occurrences where EMCC's pledged items were confiscated by the police. The total loss incurred due to these confiscations amounted to RM117,884 and were not recovered. Notwithstanding the foregoing, the group has not been convicted for unlawful or suspicious pawn transactions since incorporation up to 31 July 2023.

Volatility in the price of gold

Volatility in the price of gold. As gold is a globally traded commodity, the price for gold can fluctuate widely and is affected by various market factors which are beyond EMCC's control, such as supply and demand for gold, inflation, the USD exchange rate, interest rates as well as global and regional political and economic conditions. Should EMCC be required to sell unredeemed pledged gold items for cash capital when there is a significant decline in the market price of gold, the group would incur a loss upon the sales of these unredeemed pledged gold items. In addition, this would also result in the sales proceeds of such redeemed pledged gold items being insufficient to recover the defaulted pawn loans, which in turn may adversely impact EMCC's cash recovery process.

Unsecured borrowing with PAT target requirement

Unsecured borrowing with profit after taxation (PAT) target requirement. EMCC has drawdown an unsecured borrowing of USD5.0m that requires the group to achieve an PAT target of USD3.0m for the FY22 and USD3.5m (equivalent to RM15.8m) for the FY23 to FY26 periods, respectively. The said PAT targets shall include exceptional gains and losses, if any, during the relevant financial year. In the event that the said PAT targets are not achieved, the outstanding borrowing together with all accrued interests will immediately become due and payable, whereby any resultant decrease in EMCC's cash capital may have an adverse impact on its pawnbroking business and financial performance. Moreover, should there be a material depreciation of the RM against the USD, this may result in higher finance costs and repayment amount, which have a material adverse impact on EMCC's gearing ratio and financial performance.

Potential changes in regulatory requirements

Potential changes in regulatory requirements. EMCC's pawnbroking business could be adversely affected in the event of changes in regulatory requirements which are unfavourable to the group's pawnbroking business, such as a downward revision to the maximum interest rate that a pawnbroker is allowed to charge under the Pawnbrokers Act. In addition, as EMCC funds its cash capital through amongst others, borrowings, any adverse changes to the credit conditions in Malaysia, such as stricter credit requirements may adversely impact its ability to raise additional cash capital to its pawnbroking business. Furthermore, any upward revision in overnight policy rates may also have a material adverse impact on EMCC's finance costs and financial performance.

Possible termination and/or non-renewal of lease or rental agreements

Possible termination and/or non-renewal of lease or rental agreements. As at 31 July 2023, save for its two pawnshops at Triang, Pahang and Pudu, Kuala Lumpur, EMCC's other 20 pawnshops are leased from third parties. Whilst EMCC has secured long-term tenancies for 10 of its pawnshops, i.e. 15 years, the tenancies for its other 10 pawnshops are only for a period of three years. There is no guarantee that each of these leases can be renewed upon expiry or be renewed with reasonable terms and conditions. In the event EMCC is unable to renew the expiring tenancies on reasonable terms and conditions, the group may have to relocate the affected pawnshops to a new location.

Industry Outlook

Moving forward, the pawnbroking industry size in Malaysia is expected to grow at a CAGR of 5.9% between 2022 and 2024 to reach RM12.0bn in 2024. Meanwhile, the pawnbroking industry size in Selangor, Kuala Lumpur, Negeri Sembilan and Pahang is forecast to grow to reach RM5.8bn in 2024, registering a CAGR of 6.6% between 2022 and 2024. Moving forward, the gold trading and retail industry in Malaysia is expected to grow at a CAGR of 10.4%, from an estimated RM8.1bn in 2022 to RM9.9bn in 2024.

(Source: Providence Strategic Partners S/B, from Company Prospectus)

Financials

Revenue. EMCC recorded a 3-year CAGR of 65.6% between FY19-FY22, in terms of total revenue. Revenue from its pawnbroking business, which remains as its key focus for business growth, increased by 3-year CAGR of 40.0% for the stipulated financial periods, mainly due to the increase in total pawn loans disbursed as a result of availability of additional cash capital for its pawnshops, mostly via drawdown of banking facilities, together with establishment of new pawnshops in 2019. On the other hand, the performance of EMCC's revenue from its gold and luxury products retail and trading business depends on: i) the resultant sales of unredeemed pledged items following defaulted pawn loans, ii) sales of pre-owned gold products, as well as iii) movement of gold price.

EMCC's pawnbroking business generally experiences higher redemption of pledged items prior to festive seasons, followed by an increase in the amount of pawn loans disbursed after the corresponding festive seasons. Meanwhile, the group's gold and luxury products retail and trading business generally experience higher sales of gold products to its retail customers prior to and during festive seasons.

Table 3: Revenue segmentation by business activity

| Business activity | FY19 (%) | FY20 (%) | FY21 (%) | FY22 (%) |
|--|-------------|-------------|-------------|-------------|
| Pawnbroking | 69.4 | 58.6 | 31.5 | 41.9 |
| Interest income | 69.0 | 58.4 | 31.4 | 41.8 |
| Administrative fee | 0.4 | 0.2 | 0.1 | 0.1 |
| Gold and luxury products retail and trading | 30.6 | 40.4 | 66.9 | 55.7 |
| Unredeemed pledged items | 28.7 | 26.6 | 41.7 | 31.8 |
| Pre-owned gold products | 1.9 | 12.7 | 14.2 | 18.3 |
| New gold products | - | 1.1 | 11.0 | 5.6 |
| Others | - | 1.0 | 1.6 | 2.4 |

Source: Company Prospectus, PublicInvest Research.

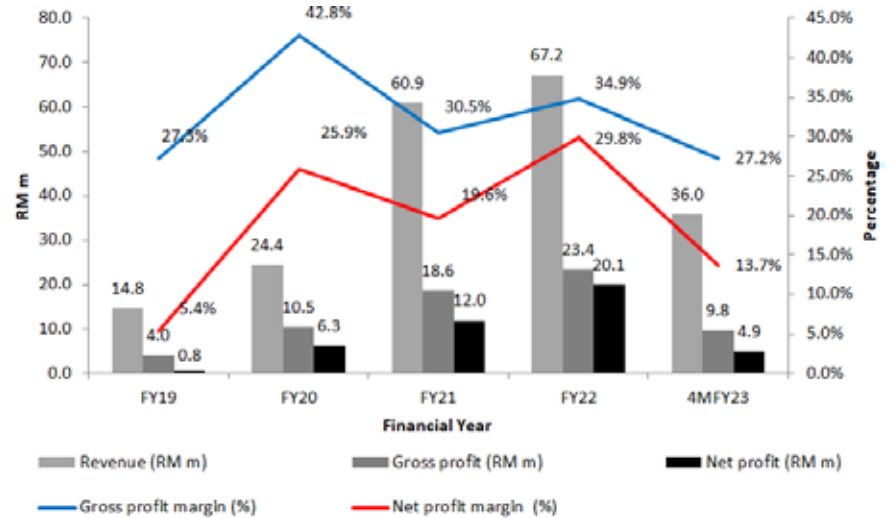
Note: Total pawn loans disbursed were RM132.8m, RM179.5m, RM242.4m and RM351.2m for FY19, FY20, FY21 and FY22, respectively.

Profitability. EMCC's gross profit margin for its pawnbroking business increased from 35.9% in FY19 to 72.9% in FY22, which was mainly due to higher economies of scale as its pawnbroking operating costs mainly consist of fixed costs such as staff costs and rental expenses which do not increase when the business of each of its pawnshops grow. On the other hand, EMCC's gross profit margin for its gold and luxury products retail and trading business is mainly impacted by movement of gold price.

Table 4: Gross profit margin by business activity

| Business activity | FY19 (%) | FY20 (%) | FY21 (%) | FY22 (%) |
|---|-------------|-------------|-------------|-------------|
| Pawnbroking | 35.9 | 52.8 | 61.5 | 72.9 |
| Gold and luxury products retail and trading | 7.8 | 27.0 | 14.3 | 4.0 |
| Others | - | 100.0 | 95.2 | 89.2 |

Source: Company Prospectus, PublicInvest Research

Figure 1: Revenue and profitability


Source: Company Prospectus, Public Invest Research

Trade receivables. EMCC's outstanding trade receivables not past due as at 31 July 2023 of RM60.6m are in relation to its pawn receivables which are within the pawn loan period. The outstanding trade receivables which are past due as at 31 July 2023 totalling RM13.0m are in relation to its pawn receivables which have not been redeemed or renewed upon the expiry of the pawn loan period. The group opines that these pawn receivables are recoverable as the unredeemed pledged items will be subsequently sold as part of its cash recovery process.

Gearing. Post-IPO, EMCC's gross gearing ratio would improve to 0.3x.

Dividend policy. EMCC intends to distribute a dividend of 20% of the profit after taxation.

Valuation

P/E valuation approach. We derive a fair value of RM0.30, pegging a c.19x PE multiple to EMCC's FY24F EPS of 1.6sen, in tandem with average non-banking financial institutions' PE multiple of 18.9x, after taking into consideration the sturdy demand potential for pawnbroking services. The group's earnings growth trajectory will be reliant on the pace of its pawnbroking business expansion.

Table 5: Peer comparison

| Company | Market Cap (RM m) | PE (x) | P/BV (x) | ROA (%) | ROE (%) |
|-----------------------------|-------------------|--------|----------|---------|---------|
| Pappajack Bhd | 764.4 | 39.9 | 3.2 | 7.1 | 8.2 |
| AEON Credit Service (M) Bhd | 2,900.3 | 8.4 | 1.2 | 3.2 | 14.8 |
| ELK-Desa Resources Bhd | 577.6 | 14.9 | 1.2 | 5.7 | 8.4 |
| RCE Capital Bhd | 1,766.2 | 12.3 | 2.2 | 5.0 | 17.3 |

Source: Bloomberg

IPO Details

EMCC is seeking a listing with an enlarged issued and paid-up share capital of 1,114,902,499 shares on Bursa Malaysia's ACE Market. Pursuant to the IPO listing, the group's market capitalisation is RM267.6m based on its IPO price of RM0.24.

The IPO allocation, post-IPO share capital of EMCC and utilisation of IPO proceeds are shown in the following tables.

Table 6: IPO allocation

| Categories | No. of shares | % of enlarged share capital |
|--|---------------------------|-----------------------------|
| Public Issue: | | |
| Malaysian public (via balloting) [^] | 55,700,000 | 5.0 |
| Eligible persons | 27,900,000 | 2.5 |
| Placement to selected investors | 44,600,000 | 4.0 |
| Placement to selected investors by MITI [^] | 139,400,000 | 12.5 |
| Subtotal | <u>267,600,000</u> | <u>24.0</u> |
| Offer for sale: | | |
| Placement to selected investors | 43,000,000 | 3.9 |
| Sub-total | <u>43,000,000</u> | <u>3.9</u> |
| Total | <u>310,600,000</u> | <u>27.9</u> |

Source: Company Prospectus

[^] 50.0% shall be set aside for Bumiputera investors

[^] Ministry of Investment, Trade and Industry

Table 7: Post-IPO share capital

| | No. of shares |
|--|-----------------------------|
| Issued share capital as at 31 July 2023 | 847,302,499 |
| To be issued pursuant to the IPO | <u>267,600,000</u> |
| Enlarged share capital upon listing | <u>1,114,902,499</u> |

Source: Company Prospectus

Table 8: Utilisation of IPO proceeds*

| Details of utilization | RM m | % |
|---------------------------------------|--------------------|---------------------|
| Expansion of pawnshops | 20.0 | 31.1 |
| Cash capital for pawnbroking business | 30.0 | 46.7 |
| Repayment of bank borrowings | 4.0 | 6.2 |
| Working capital | 5.6 | 8.8 |
| Estimated listing expenses | 4.6 | 7.2 |
| Total | <u>64.2</u> | <u>100.0</u> |

Source: Company Prospectus

* based on RM0.24 for 267,600,000 new shares issued

KEY FINANCIAL DATA

INCOME STATEMENT DATA

| FYE Dec (RM m) | 2020A | 2021A | 2022A | 2023F | 2024F |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Revenue | 24.4 | 60.9 | 67.2 | 109.8 | 126.3 |
| Cost of Sales | -14.0 | -42.3 | -43.7 | -78.8 | -90.9 |
| Gross Profit | 10.5 | 18.6 | 23.4 | 31.0 | 35.4 |
| Other Operating Income | 1.4 | 2.6 | 10.1 | 1.1 | 1.0 |
| General and Administrative Expenses | -1.8 | -3.5 | -6.4 | -6.8 | -7.6 |
| Finance Costs | -0.8 | -2.1 | -2.9 | -4.1 | -4.7 |
| Profit Before Taxation | 9.2 | 15.6 | 24.2 | 21.2 | 24.1 |
| Tax Expense | -2.9 | -3.6 | -4.2 | -5.1 | -5.8 |
| Effective Tax Rate (%) | 31.1% | 23.2% | 17.2% | 24.0% | 24.0% |
| Net Profit | 6.3 | 12.0 | 20.1 | 16.1 | 18.3 |
| Growth (%) | | | | | |
| Revenue | - | 149.3% | 10.3% | 63.5% | 15.0% |
| Gross Profit | - | 77.5% | 26.2% | 32.2% | 14.1% |
| Net Profit | - | 89.0% | 67.7% | -19.7% | 13.8% |

Source: Company Prospectus, PublicInvest Research estimates

BALANCE SHEET DATA

| FYE Dec (RM m) | 2020A | 2021A | 2022A | 2023F | 2024F |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Property, Plant and Equipment | 4.0 | 3.8 | 3.1 | 2.9 | 4.4 |
| Inventories | 0.8 | 3.8 | 0.6 | 1.2 | 1.4 |
| Trade Receivables | 83.6 | 117.6 | 165.3 | 186.7 | 214.7 |
| Cash and Bank Balances | 2.4 | 3.3 | 17.3 | 69.4 | 57.7 |
| Other Assets | 43.5 | 31.6 | 26.1 | 27.9 | 31.2 |
| Total Assets | 134.2 | 160.1 | 212.4 | 288.1 | 309.4 |
| Trade Payables | 10.0 | 8.8 | 0.0 | 0.0 | 0.0 |
| Borrowings | 20.2 | 25.0 | 66.9 | 67.0 | 69.6 |
| Other Liabilities | 27.6 | 18.2 | 17.4 | 19.4 | 23.5 |
| Total Liabilities | 57.8 | 52.0 | 84.3 | 86.4 | 93.1 |
| Shareholders' Equity | 76.4 | 108.1 | 128.1 | 201.7 | 216.3 |
| Total Equity and Liabilities | 134.2 | 160.1 | 212.4 | 288.1 | 309.4 |

Source: Company Prospectus, PublicInvest Research estimates

PER SHARE DATA & RATIOS

| FYE Dec (RM m) | 2020A | 2021A | 2022A | 2023F | 2024F |
|----------------------|-------|-------|-------|-------|-------|
| Book Value Per Share | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 |
| NTA Per Share | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 |
| EPS (Sen) | 0.6 | 1.1 | 1.8 | 1.4 | 1.6 |
| DPS (Sen) | - | - | - | 0.3 | 0.3 |
| Payout Ratio (%) | - | - | - | 20.0% | 20.0% |
| ROA (%) | 4.7% | 7.5% | 9.4% | 5.6% | 5.9% |
| ROE (%) | 8.3% | 11.1% | 15.7% | 8.0% | 8.5% |

Source: Company Prospectus, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

| | |
|---------------------|--|
| OUTPERFORM | The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months. |
| NEUTRAL | The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months. |
| UNDERPERFORM | The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months. |
| TRADING BUY | The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call. |
| TRADING SELL | The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months. |
| NOT RATED | The stock is not within regular research coverage. |

SECTOR

| | |
|--------------------|--|
| OVERWEIGHT | The sector is expected to outperform a relevant benchmark over the next 12 months. |
| NEUTRAL | The sector is expected to perform in line with a relevant benchmark over the next 12 months. |
| UNDERWEIGHT | The sector is expected to underperform a relevant benchmark over the next 12 months. |

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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

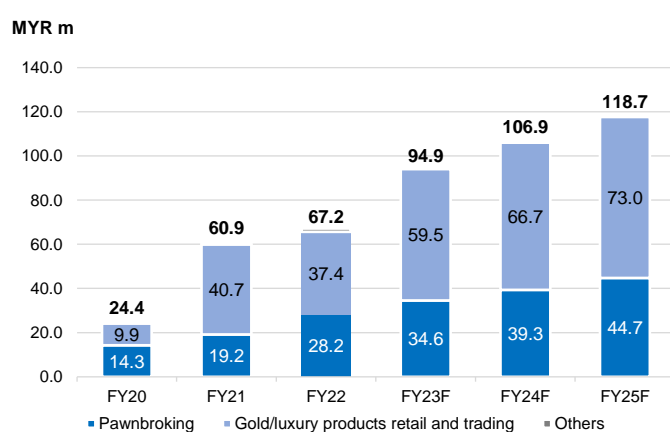
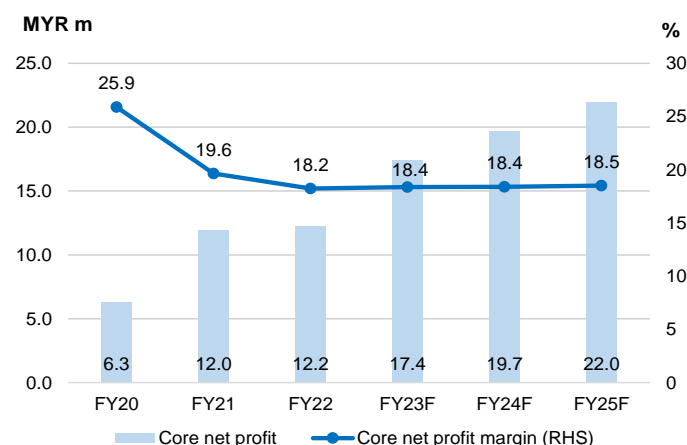


Figure 2: Core profit trend*



Source: Company data, RHB

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

Figure 3: FY22 revenue by business units

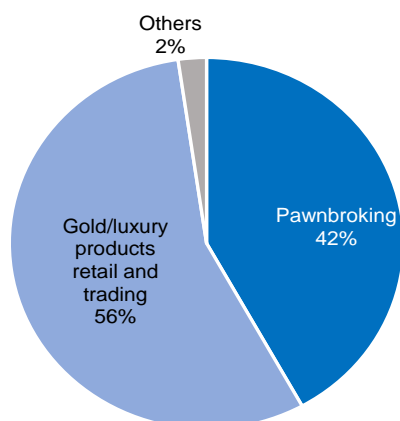
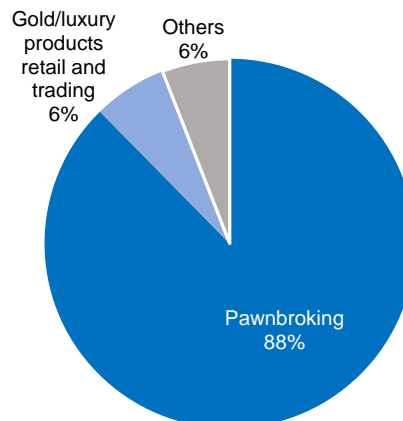


Figure 4: FY22 gross profit by business units



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

| Public Issue | No. of IPO shares | % of enlarged share base |
|--|--------------------|--------------------------|
| 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

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

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| | |
|---------------------|--|
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| Analyst | Company |
|---------|---------|
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Evergreen Max Cash Capital Berhad

TP: RM0.32 (+33.3%)

Rising Demand for Pawnbroking Services
Ace Market Listing
NOT RATED

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Background

The **Evergreen Max Cash Capital Berhad (EMCC)** group of companies is principally involved in the pawnbroking services business, i.e., providing short-term secured pawn loans. EMCC is also engaged in the retail and trade of pre-owned and new gold and luxury products, as well as providing pawnbroking consultancy and IT solutions to third-party pawnbrokers.

IPO Statistic

The IPO entails a public issue of 267,600,000 new ordinary shares and an offer for sale of 43,000,000 shares at an IPO price of RM0.24/share.

Public issue:

55,700,000 new shares for application by the Malaysian public;
 27,900,000 new shares for application by eligible parties; and
 44,600,000 new shares for private placement to selected investors; and
 139,400,000 new shares for private placement to selected Bumiputera investors

Main Competitive Advantages

Positioned to serve the unbanked or underbanked population;
 Supported by a network of pawnbroking outlets in strategic locations;
 Led by a hands-on and experienced management team and
 Possess a proprietary pawn processing system.

Valuation

At an IPO price of RM0.24/share, EMCC is priced at a trailing PER of 13.3x FY22 EPS. Ascribing a 10% discount to Malaysia's average NBFI (including Pappajack) P/B ratio of 2.1x due to EMCC's smaller market cap to FY23e BV, we arrive at a fair value of **RM0.32/share**.

Earnings Summary

| FYE Dec (RMmn) | FY21 | FY22 | FY23F | 2024F | 2025F |
|----------------------|------|------|-------|-------|-------|
| Revenue | 60.9 | 67.2 | 93.6 | 112.0 | 134.2 |
| Gross profit | 18.6 | 23.4 | 28.0 | 33.5 | 40.1 |
| EBITDA | 20.0 | 29.6 | 25.8 | 31.1 | 36.5 |
| EBITDA margin (%) | 32.9 | 44.1 | 27.6 | 27.8 | 27.2 |
| PBT | 15.6 | 24.2 | 20.2 | 25.2 | 30.5 |
| PAT | 12.0 | 20.1 | 15.3 | 19.2 | 23.2 |
| EPS (sen) | 1.1 | 1.8 | 1.4 | 1.7 | 2.1 |
| PER (x) | 22.4 | 13.3 | 17.5 | 13.9 | 11.6 |
| Gross dividend (sen) | 0.0 | 0.0 | 0.3 | 0.3 | 0.4 |
| Dividend yield (%) | 0.0 | 0.0 | 1.1 | 1.4 | 1.7 |

Note: *based on enlarged share base of 1,114.9mn, ^ based on IPO price of RM0.24/share

Share Information

| | |
|-----------------------------|------------|
| Listing | Ace Market |
| Enlarged Share Capital (mn) | 1114.9 |
| Market Cap @ RM0.24 (RM mn) | 267.6 |
| Issue price (RM) | 0.24 |
| Oversubscription rate | N/A |
| Estimated free float (%) | N/A |
| Tentative listing date | 26-Sep-23 |

Tentative Listing Dates

| | |
|---------------------------|----------------|
| Event | Tentative Date |
| Opening of the IPO | 29-Aug-23 |
| Closing of the IPO | 12-Sep-23 |
| Balloting of Applications | 15-Sep-23 |
| Allotment of Shares | 22-Sep-23 |
| Listing | 26-Sep-23 |

Ratio & Analysis

| | |
|--------------------------------|----------|
| NTA per share (post IPO) (sen) | 17.0 |
| Price to NTA (x) | 1.4 |
| Proforma Gearing (x) | Net Cash |

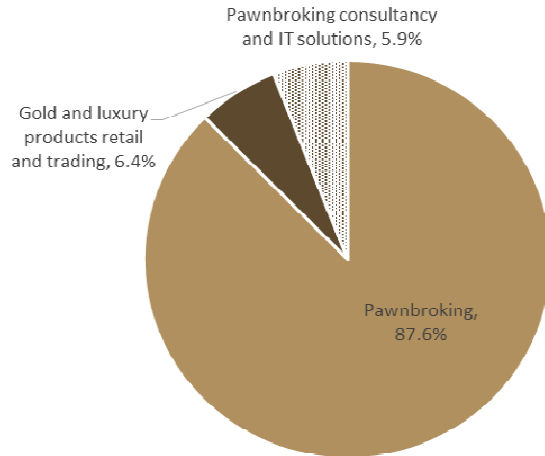
Utilisation of Proceeds

| | RM(mn) | % |
|---------------------------------------|-------------|--------------|
| Expansion of pawnshops | 20.0 | 31.1 |
| Cash capital for pawnbroking business | 30.0 | 46.7 |
| Repayment of bank borrowings | 4.0 | 6.2 |
| Working capital | 5.6 | 8.8 |
| Estimated listing expenses | 4.6 | 7.2 |
| TOTAL | 64.2 | 100.0 |

Business Overview

The **Evergreen Max Cash Capital Berhad (EMCC)** group of companies is principally involved in the pawnbroking services business, i.e., providing short-term secured pawn loans. EMCC is also engaged in the retail and trade of pre-owned and new gold and luxury products, as well as providing pawnbroking consultancy and IT solutions to third-party pawnbrokers.

Exhibit 1: Revenue Breakdown by Business Segments



Source: Company, TA Securities

Exhibit 2: IPO Structure

| Public Issue | No. of Shares | % of Enlarged Share Capital |
|--|---------------|-----------------------------|
| Malaysian public | 55,700,000 | 5.0 |
| Eligible directors and employees | 27,900,000 | 2.5 |
| Placement to selected investors | 44,600,000 | 4.0 |
| Placement to selected bumiputera investors | 139,400,000 | 12.5 |
| Offer for Sale | | |
| Private placement to selected investors | 43,000,000 | 3.9 |

Source: Company, TA Securities

Utilisation of Proceeds

The estimated gross proceeds of RM64.224mn raised are expected to be utilised for the following:

Exhibit 3: Utilisation of Proceeds

| Utilisation of proceeds | Estimated timeframe | | |
|---------------------------------------|---------------------|---------------|---------------|
| | for utilisation | RM '000 | % |
| Expansion of pawnshops | Within 24 months | 20,000 | 31.1% |
| Cash capital for pawnbroking business | Within 24 months | 30,000 | 46.7% |
| Repayment of bank borrowings | Within 1 month | 4,000 | 6.2% |
| Working capital | Within 12 months | 5,624 | 8.8% |
| Estimated listing expenses | Within 1 month | 4,600 | 7.2% |
| Total | | 64,224 | 100.0% |

Source: Company, TA Securities

Key Competitive Advantages

1) Positioned to serve the unbanked or underbanked population

EMCC's pawnbroking services fill the gap not served by financial institutions. Pawn loans offer an alternative for the unbanked and underbanked population to obtain cash for their funding needs by converting their valuable personal items. Processing time is relatively quick, with customers receiving funds within an hour. As such, pawnbroking services provided by EMCC supplement the role of traditional financial institutions in the supply of short-term micro-loans, as individuals who do not meet the income and credit score restrictions will have limited access to personal borrowing.

2) Supported by a network of pawnbroking outlets in strategic locations

EMCC is currently supported by a network of 22 "Pajaking" pawnshops. These pawnshops are strategically located in areas with high foot traffic and commercial activity as well as concentrated in the densely populated Central regions such as Kuala Lumpur, Selangor and Negeri Sembilan. Locations are essential as it would enable the pawnshops to capitalise on and capture high foot and vehicle traffic, thus increasing the visibility of the pawnbroking stores and attracting new customers.

3) Led by a hands-on and experienced management team

EMCC is led by a management team that has built its leadership capabilities over an average of 18 years of experience in their respective fields. Additionally, the management team members are hands-on, with the Chief Operating Officer and other senior personnel training new staff members at the pawnshops. As such, EMCC notes that its pawnshops are staffed by operations personnel who are trustworthy, skilled and competent in providing pawnbroking services. All operations personnel are also required to attend annual training to keep abreast of the latest developments in the pawnbroking industry and stay up-to-date with related regulatory requirements.

4) Possess a proprietary pawn processing system

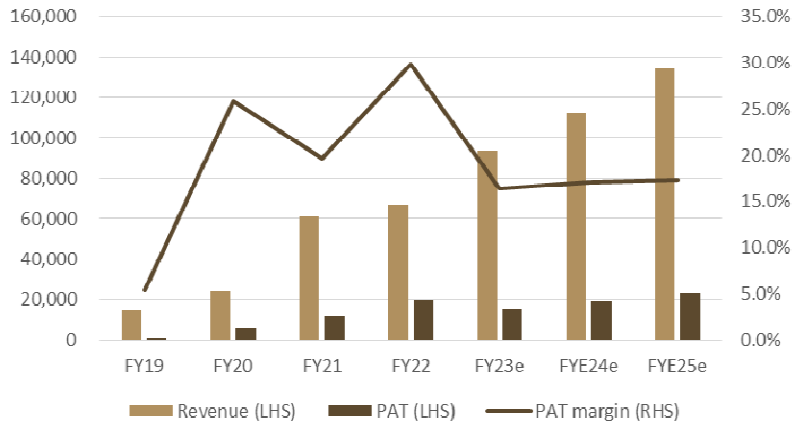
EMCC has its own proprietary pawn processing system, which has helped improve the group's operational efficiency and standardise operating procedures. The system will enable recording details and photos of pledged items, pawn ticket details, customers' personal details, pawn loan amounts and interests. The system also has features that would prevent "Pajaking" from transacting with blacklisted individuals under the sanction lists maintained by BNM, UNSCR, MOHA, FATF and/or have a history of pawning counterfeit or unlawful items. EMCC noted that using the proprietary system has allowed the group to rapidly expand its pawnbroking business without compromising its services.

Key Risks Relating to Business and Industry

- 1)** Exposed to illegal and suspicious pawn transactions and transactions of stolen gold or luxury watches;
- 2)** Subjected to regulatory requirements for pawnbroking business, which require licence renewal by KPKT every 2 years;
- 3)** High liquidity risk as the pawnbroking business requires substantial cash capital for operations; and
- 4)** The pledge value is susceptible to gold price volatility.
- 5)** "Pajaking" pawnshops are exposed to physical security risks, including burglary, theft, robbery or misappropriation of cash and valuable items.

Financial Highlights

Exhibit 4: Financial Performance



Source: Company, TA Securities

The group's revenue has expanded at a CAGR of 66% to RM67.2mn in FY22 from RM14.8mn in FY19. Similarly, profit after tax grew at a robust CAGR of 193% to RM20.1mn in FY22 from RM0.8mn in FY19. YoY, EMCC's revenue increased by RM6.3 million or 10.3% in FY22, mainly due to the increase in revenue from the pawnbroking business by RM9.0mn or 47%. Management noted the ability to raise the disbursement in total pawn loans by RM108.8mn (or +45% YoY) in FY22, attributed to the availability of additional cash capital for the pawnshops, which was made available via drawdown of banking facilities totalling RM46.7mn. Meanwhile, the retail and trading of gold and luxury products segment decreased by 8.1% YoY in FY22 due to lower revenue from sales of unredeemed pledged items and new gold products.

Future Plans and Business Strategies

The group's future plans and business strategies are as follows:

1) Expand its network of pawnshops

EMCC is looking to grow its pawnbroking business and increase its network of 22 "Pajaking" pawnshops to 27. The five new "Pajaking" pawnshops will be located in Kuala Lumpur, Selangor and Pahang. Given that a minimum paid-up capital of RM4.0mn is required to obtain a pawnbroker's licence for each new pawnshop, the RM20mn raised from the IPO will be used to fund the share capital of these new pawnshop subsidiaries. Once a suitable location is identified, it would typically take approximately 4 to 5 months to obtain the pawnbroker's license and renovate the new pawnshops before the commencement of operations.

2) Enhance digital presence

EMCC is looking to enhance its sales via online advertising and promotions to enhance its digital presence and increase the number of followers on its social media accounts and e-commerce platforms. The group plans to strengthen the sale of its gold products via the digital avenue and, as such, will be allocating RM3.5mn from the proceeds of the IPO to fund the purchase of inventories of gold products, especially from unredeemed pledged gold items from the pawnbroking segment.

Outlook

Non-bank financial institutions (NBFI) include pawnbrokers, moneylending organisations, non-bank credit suppliers, and hire purchase finance, among others. Pawnbrokers are controlled by the Kementerian Perumahan dan Kerajaan Tempatan (KPKT) under the Pawnbrokers Act 1972, as opposed to

banks, which Bank Negara Malaysia regulates. The KPKT requires each pawnbroking establishment to be licensed. According to the Pawnbrokers Act, a pawnbroker may offer 1) a The KPKT would also set the maximum pawn loan amount of RM10,000 for each pawn ticket issued, 2) a maximum monthly interest rate of 2% over a period of 6 months, and 3) a maximum one-off administrative fee of RM0.50 for each pawn ticket issued.

According to an independent market research report by Providence Strategic Partners, there are around 789 licensed pawnbrokers in Malaysia. In terms of revenue, the pawnbroking industry in Malaysia grew at a CAGR of 5.2% from RM8.3bn in 2017 to RM10.7bn in 2022. In states where EMCC operates, i.e. Selangor, Kuala Lumpur, Negeri Sembilan and Pahang, Providence noted that sales improved at a faster CAGR of 6.1% from RM3.8bn in 2017 to around RM5.1bn in 2022. Going forward, the independent market researcher forecasts the pawnbroking industry size in Malaysia to grow at a CAGR of 5.9% between 2022 and 2024 to reach RM12.0bn in 2024. Meanwhile, the pawnbroking industry size in Selangor, Kuala Lumpur, Negeri Sembilan and Pahang is estimated to register a CAGR of 6.6% between 2022 and 2024 and reach RM5.8bn in 2024.

In 2022, Providence estimates that EMCC Group garnered a market share of 3.3% based on the total value of pawn loans disbursed in Malaysia in 2022 of RM10.7bn and EMCC's pawn loan disbursement of RM351.2mn. Within the four states EMCC Group operates, i.e. Selangor, Kuala Lumpur, Negeri Sembilan and Pahang, the EMCC Group garnered a market share of 6.9% based on its pawn loans disbursed of RM351.2mn and total pawn loans disbursed in these states of RM5.1bn in 2022.

Balance Sheet

On a pro forma basis, the proposed repayment of bank borrowings of RM4.0mn from the IPO proceeds would reduce EMCC's gearing from 0.4x as at 30 April 2023 to 0.2x.

Dividend Policy

The group does not have any formal dividend policy. Nevertheless, management aspires to declare and distribute a dividend of 20% of the PAT attributable to shareholders.

Earnings Forecast

We estimate the group to record a 23.6% YoY decline in FY23 earnings to RM15.3mn despite projecting revenue to grow by around 39% YoY to RM93.6mn. The softer earnings are premised on the higher cost of sales and lower other operating income due to the absence of disposal gains, as reported in FY21 and FY22. However, we foresee revenue to improve on the back of higher pawn loans disbursed and improvement in the retail and trade of gold and luxury products YTD. We anticipate earnings to recover and increase by 25.5% and 20.8% for FY24 and FY25 to RM19.2mn and RM23.2mn, fueled by further improvement in the demand for gold and luxury products and additional cash capital raised from the IPO, which would enable EMCC to offer more pawn loans to their pawnbroking customers.

All in, our FY23-25 earnings projections are premised on the key assumptions below:

- Stronger than the industry's revenue growth due to the opening of several new outlets post-IPO,
- Average gross profit margin of around 30% for FY23 - FY25.

Valuation

At an IPO price of RM0.24/share, EMCC is priced at a trailing PER of 13.3x FY22 EPS. Ascribing a 10% discount to Malaysia's average NBFII (including Pappajack) P/B ratio of 2.1x due to EMCC's smaller market cap to FY23e BV, we arrive at a fair value of RM0.32/share. The potential upside in our valuation takes into account the following:

- Potentially more robust revenue growth prospects due to EMCC's expansion plans;
- Early mover advantage, being the second pawnbroking business to be listed in Malaysia.

Exhibit 5: Peer Comparison

| Company | Share price (RM) | Market Cap (RM mn) | EPS (sen) | PE Ratio (x) | BV (RM) | PBV (x) | DPS (sen) | Dividend yield (%) |
|-----------------------|---------------------|-----------------------|--------------|-----------------|------------|------------|--------------|-----------------------|
| AEON Credit | 11.36 | 2,900.2 | 163.6 | 6.9 | 9.11 | 1.2 | 43.5 | 3.8 |
| RCE Capital | 2.36 | 1,729.6 | 18.9 | 12.5 | 1.10 | 2.1 | 27.0 | 11.4 |
| ELK Desa | 1.27 | 577.2 | 10.5 | 12.1 | 1.04 | 1.2 | 7.5 | 5.9 |
| Pappajack | 1.00 | 764.4 | 2.0 | 49.8 | 0.26 | 3.8 | 0.0 | 0.0 |
| Simple average | | | 48.8 | 20.3 | 2.9 | 2.1 | 19.5 | 5.29 |

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

| | Environmental | Social | Governance | Average |
|----------------|---------------|--------|------------|---------|
| Scoring | NR | NR | NR | NR |
| Remark | NR | NR | NR | NR |

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Monday, September 11, 2023, the analyst, Wong Li Hsia, who prepared this report, has interest in the following securities covered in this report:
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