



Evergreen Max Cash Capital Bhd (“EMCC”) – Maximise Return on Your Pledge

Recommendation: BUY

Share Price: RM0.415

FINANCIAL SUMMARY

FYE 31 Dec (RM' mil)	2021	2022	2023E	2024F
Revenue	60.9	67.2	100.0	120.0
EBITDA	19.6	29.6	25.0	30.0
EBITDA margin (%)	32.2	44.0	25.0	25.0
Pre-tax profit	15.6	24.3	24.3	28.6
Core net profit	10.8	11.1	17.0	20.0
EPS (sen)	1.3	1.3	1.5	1.8
DPS (sen)	-	-	0.3	0.4
PER (x)	-	-	27.2	23.1
Dividend yield (%)	-	-	0.7	1.0

OTHER KEY DATA

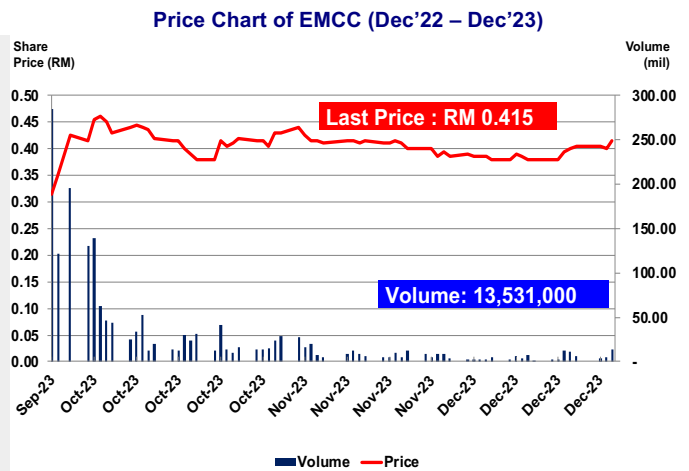
Listing	Ace Market
Issued Cap. (m)	1,114.9
Market Cap. (RM m)	462.7
52 Week Low/High (RM)	0.310 / 0.470
ROE (%)	8.5
P/BV (x)	2.3
BV/share (RM)	0.2

Major Shareholders

	(%)
Tirai Anggerik Sdn Bhd	55.6
Tee Kian Heng	1.7

Source: Bloomberg & PCM estimates

As a prominent corporate player in the pawnbroking industry, EMCC exhibits robust growth in contrast to traditional pawn operators facing stagnation due to limited ambition and succession planning. EMCC earnings is anticipated to achieve a minimum 15% CAGR for FY23-25, driven by fresh cash infusion from the IPO proceeds and the acquisitions/expansion of new pawnshops. Having acquired 2 pawnshops in Nov'23, EMCC is actively evaluating further acquisitions for expansion. Additionally, there's also a possibility for EMCC venturing into the *Ar-Rahnu* business as it has consultancy experience for 3rd party *Ar-Rahnu* entities. Given its business model characterized by low risk, high return, and resilience against economic cycles, we recommend a **Long-term BUY** call. It is currently trading at 23.1x FY24 PE.



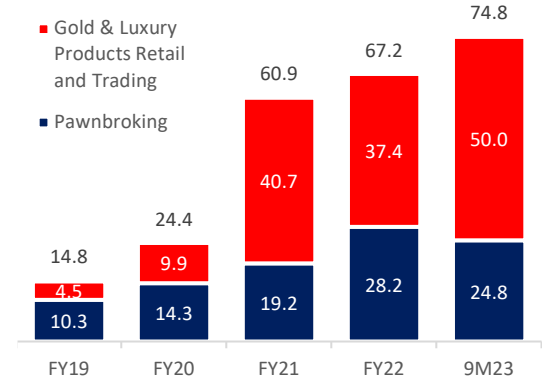
Source: Bloomberg

Highlights:

Background – Listed on the Bursa Malaysia Ace Market in Sep'23, EMCC primarily engages in pawnbroking services, gold and luxury products retail and trading, as well as offering pawnbroking consultancy services and IT solutions to 3rd party pawnbrokers. With the recent acquisition of 2 pawnshops in Nov'23, EMCC currently operates 24 pawnshops under *Pajaking* brand, with 11 outlets in Selangor, 10 in KL, 2 in Seremban and 1 in Pahang. Additionally, it also owns 3 gold retail outlets in KL under *Cahaya Gold*. *Cahaya Gold* mainly sells pre-owned gold acquired from gold auction as well as new gold products procured from gold trading companies. While a significant portion of its revenue stems from the retail and trade of gold & luxury products, the profit is primarily driven by the pawnbroking segment (see Fig 1 & 2).

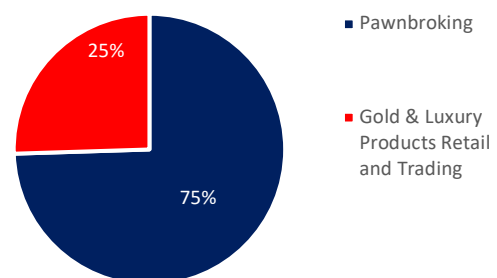
Low Risk and Synergistic Business Model – Pawnbroking is typically a low risk business given its resilience against economic cycle (perform well in both recession and economic boom) and pawn loan offered are fully backed by collaterals and pawn loan margin. As at 30 Apr'23, EMCC average pawn loan ticket size stood at RM1,809 while average pawn loan period was 4.9 months. The monthly interest rate that EMCC charged ranges 1.5-2.0%, depending on the competition at the pawnshop location. EMCC accepts various pledged items (see Fig 4), yet over 97% of the pledged items primarily consist of gold products. Similar to banking practices, EMCC also conducts know-your-customer and enhanced customer due diligence assessment for every customer to ascertain risk profile and validate ownership of pledged items. Since its inception in 2012, EMCC only encountered a single incident of stolen jewellery pledged. EMCC has no bad debts as it will buy the unredeemed pledged items via auction and re-sell them to *Cahaya*

Fig 1: FY18-22 Revenue & PBT (RM m)



Source: Company

Fig 2: 9M23 PAT Breakdown by Segment



Source: Company

Gold for cash recovery. Cahaya Gold then sells the well-maintained gold jewellery to end customers and the balance to gold trading companies or scrap gold collectors. Unlike peers who usually do not own gold retail outlet, this strategy enables EMCC to gain additional profit.

Leveraging on its pawnbroking experience, EMCC also provides pawnbroking consultancy service to 3rd party pawnbrokers whom the group is not identified to be not in direct competition. The consultations provided are mainly in relation to the pawnshop setup, business model, pawn processing system and general operating procedures which includes the necessary regulatory requirements. Presently EMCC are contracted to provide pawnbroking consultancy services to 3 Islamic pawnshops (*Ar-Rahnu*) owned by a co-operative society on an annual basis. Given its experience in handling *Ar-Rahnu* pawnbroking business, we do not rule out the possibility for EMCC venturing into this business in the future. Refer Fig 3 for the summary of EMCC's business.

Comparison with Pappajack – Despite both operating within the pawnbroking industry, EMCC and another listed pawnbroker, Pappajack Bhd, exhibit several key differences in their business models (see Fig 4). Notably, EMCC pawnshops are more concentrated in Selangor and KL, whereas Pappajack pawnshops are spread across multiple states including Penang, Johor, and Perak, besides Selangor and KL. The more affluent Klang Valley allows EMCC to have higher pawnbroking revenue/pawnshop of RM1.4m (annualised) compared to RM1.0m for Pappajack. Moreover, Pappajack accepts a sizeable amount of luxury watches but EMCC rarely do non-jewellery. Additionally, in terms of pawn loan margins, EMCC can offer up to 95% margin for jewellery while Pappajack offers up to 90% only. Another notable divergence lies in the treatment of unredeemed pledged items. EMCC sells all unredeemed pledged gold products from auction to Cahaya Gold while Pappajack, who do not own gold retail outlet, sells these items to scrap collectors instead. Furthermore, EMCC currently has lower receivables at RM175m vs RM206m for Pappajack. However, we expect EMCC receivables to surpass Pappajack in medium term given that EMCC still have balance of RM22.8m from IPO proceeds to fund its pawnbroking business. EMCC's annualized effective interest rate stands at 18.9%, higher than Pappajack's 16.9%. This difference, in our view, is largely attributed to higher average interest rate charged by EMCC.

Mirroring Pappajack Historical Share Price Performance – Since its listing, EMCC share price performance has closely tracked Pappajack historical share price trend, outperforming with a gain of 72.9% compared to Pappajack's 63.3% (see Fig 5). We anticipate EMCC share price to maintain this trend or potentially exhibit slightly better performance than that of Pappajack in the future, supported by the robust anticipated growth in earnings.

Recommendation – We like EMCC given its business model is characterised by low risk, high return and resilience against economic cycles. EMCC earnings is projected to register at least 15% CAGR for FY23-25, driven by new cash capital from IPO proceeds and new pawnshop expansion. Furthermore, it could have further upside if EMCC ventures into *Ar-Rahnu* business in the future. Hence, we recommend **Long-term BUY** call. It is currently trading at undemanding 23.1x FY24 PE.

Fig 4: EMCC's Business Overview

	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"> Consultancy services on: <ul style="list-style-type: none"> setting-up of pawnshops business models training of staff operations support 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 solution fee based on number of pawn transactions processed under our pawn processing system
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

Fig 4: Comparison Between EMCC and Pappajack

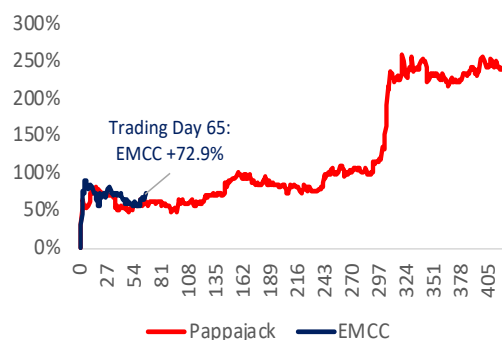
	EMCC	Pappajack
Number of Pawnshop	24 pawnshops 21 in Selangor, 10 in KL, 2 in Negeri Sembilan & 1 in Pahang	36 pawnshops 16 in Selangor, 4 in KL, 6 in Penang, 5 in Perak, 4 in Johor & 1 in Negeri Sembilan
Pawn Loan Margin for Selected Pledged Item	Gold: 85-95% Luxury watch: 50-60% Branded bags: 30-40% Diamonds: 20-25%	Gold: up to 90% Luxury watch: up to 80%
Unredeemed Pledged Item for Gold Product	Sell to Cahaya Gold	Sell to Scrap Collector
Receivables as at 3Q23	RM174.9m	RM206.2m
9M23 Pawnbroking Revenue	RM24.8m	RM26.1m
Annualised Pawnbroking Revenue/Pawnshop*	RM1.4m	RM1.0m
Annualised Effective Interest Rate**	18.9%	16.9%

*Derived from annualised 9M23 pawnbroking revenue divided by total number of pawnshop

**Derived from annualised 9M23 pawnbroking revenue divided by receivables

Source: Company

Fig 5: EMCC & Pappajack Historical Share Price Performance Since Listing

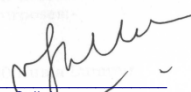


Source: Bloomberg

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For Phillip Capital Management Sdn Bhd


Nona Salleh
Executive Chairperson

APPENDIX

LIST OF STOCKS RECOMMENDED SINCE 2021

Our Picks – 2021/22/23							
No	Stock	Sy#	Date	Price*	Price @28/12/23 (RM)	% Change	Comments
1	BAuto	Sy	8-Mar-21	0.99	2.39	142.64%	Hold. Sales guidance raised despite market concerns of peaking TIV.
2	Panasonic	Non-Sy	11-Mar-21	26.74	17.96	-32.83%	Hold. Near to its Jun-23 support level.
3	Axis Reit	Sy	22-Mar-21	1.71	1.79	4.98%	Buy/Hold. A tug of war between ever-growing fundamental and rising MGS bond yield.
4	HPP	Sy	9-Apr-21	0.585	0.345	-41.03%	Sell. Hit recent high established in Dec-22.
5	Litrak	Sy	16-Apr-21	0.330	0.510	54.55%	Delisted.
6	SKP	Sy	4-Jun-21	1.51	0.81	-46.60%	Hold. Push back order from the main customer due to demand weakened.
7	Lagenda	Sy	21-Jun-21	1.15	1.25	8.70%	Buy. Overcoming construction hiccups and supported by exceptionally high unbilled sales of RM855m, and the introduction of new townships in Selangor Bernam Jaya and Pahang
8	Gtronic	Sy	29-Jun-21	2.14	1.61	-24.77%	Hold/Sell. New shareholder may add new dimension to the company
9	GDB	Sy	25-Aug-21	0.451	0.180	-60.09%	Hold. Continue to drag by legal issue. Submitted tenders of total RM2.1bn construction projects to diversified its risk.
10	Airport	Non-Sy	27-Aug-21	6.38	7.35	15.19%	Buy. New OA which allows revision of PSC every 3yr. Caution on MAVCOM proposal to peg airport tariff to CPI.
11	Dpharma	Sy	24-Sep-21	1.81	1.26	-30.54%	Buy. Potential recovery in CHC products after a contraction of >5% YoY in 9MFY23. CHC accounted for 26% of 9MFY23 revenue.
12	SIME	Sy	28-Sep-21	2.09	2.37	13.67%	Hold. Pending more clarity on UMW acquisition synergies..
13	Able Global	Sy	27-Oct-21	1.64	1.52	-7.32%	Buy on weakness. Record high earnings due to recovery in customer orders and lower raw material costs.
14	TM	Sy	29-Nov-21	5.07	5.56	9.66%	Hold. Share price surged on expectations of strong 4Q.
15	MATRIX	Sy	29-Nov-21	1.24	1.65	32.62%	Buy. Remain optimistic with the stronger sales momentum and unbilled sales of RM1.29b Attractive dividend of 6.2% for FY24.

16	MFlour	Sy	28-Dec-21	0.585	0.645	10.26%	Hold. Gradually recover from depleting in high-cost inventory and removal of chicken price ceiling.
17	OCK	Sy	29-Dec-21	0.455	0.440	-3.30%	Buy. Company started share buyback for the first time.
18	MFCB	Sy	25-Feb-22	3.45	3.68	6.65%	Hold. We anticipate a slight growth from the higher Don Sahong Hydropower stake and the completion of 5 th turbine.
19	CTOS	Sy	30-Mar-22	1.53	1.43	-6.31%	Buy. Management expects double digit earnings growth for the next 2-3 years.
20	TGuan	Sy	31-Mar-22	2.25	1.89	-15.91%	Buy. Expect a less favourable demand outlook but earnings stability will be underpinned by a more diversified product portfolio.
21	Armada	Non-Sy	29-Apr-22	0.430	0.500	16.28%	Buy. Issues with FPSO Kraken has been resolved. Meanwhile, Sterling V should achieve first oil by 4Q23.
22	OPTIMAX	Sy	13-May-22	0.556	0.620	11.51%	Hold. The aggressive expansion has raised operational costs, but we remain optimistic about reflective surgeries' medium-to-long-term growth.
23	InNature	Sy	8-Jun-22	0.505	0.375	-25.74%	Hold/Reduce. Operation impacted by subdued consumer sentiment.
24	SWIFT	Sy	23-Aug-22	0.507	0.545	7.50%	Sell. Penang warehouse purchase continue to exacerbate margin squeeze on existing weak profit margin.
25	Vitrox	Sy	26-Aug-22	7.24	7.30	0.78%	Hold. No clearer sky ahead in semiconductor recovery.
26	Kawan	Sy	26-Sep-22	2.17	1.82	-16.28%	Hold. Pending more clarity on management restructuring.
27	MPI	Sy	30-Sep-22	28.29	28.10	-0.67%	Buy. Healthy demand from automotive customers despite prolonged weakness in consumer electronic products.
28	Lagenda	Sy	28-Oct-22	1.13	1.25	11.11%	Buy. Overcoming construction hiccups and supported by exceptionally high unbilled sales of RM855m, and the introduction of new townships in Selangor Bernam Jaya and Pahang.
29	Coastal	Non-Sy	31-Oct-22	2.02	1.69	-16.34%	Buy/Hold. Temporary suspension of bare boat charter to Pemex is negative.
30	Yinson	Non-Sy	07-Dec-22	2.44	2.48	1.64%	Buy. The newly awarded FPSO Agogo has an IRR of >20%. Expect explosive growth in the coming years.
31	Kelington	Sy	20-Dec-22	1.44	2.15	49.31%	Buy. Margin expansion on improved revenue mix and outstanding orderbook remains strong at RM1.5bn.
32	Focus Point	Sy	30-Dec-22	0.590	0.715	21.19%	Buy. Optical segment is seasonally stronger in 4Q.

33	HLInd	Sy	27-Feb-23	8.42	9.20	9.26%	LT Buy. Stronger margins on improved sales mix with huge net cash position supportive of potential expansion/M&A.
34	Carlsberg	Non-Sy	19-Apr-23	21.49	19.30	-10.19%	Buy. Trading at -1.5 standard deviation of 3 yrs mean PE.
35	T7	Sy	19-Apr-23	0.405	0.445	9.88%	Buy/Hold. Expect sequentially better earnings as it begins to recognize revenue from Bayan MOPU and baggage handling system.
36	Sunview	Sy	20-Apr-23	0.775	0.735	-5.16%	Hold. Expect FY24 to be depressed due to lower gross profit margin projects LSS4, but we remain optimistic about CGPP job replenishment, as it has secured a total of 60mw power producer contracts under the NETR.
37	Bjfood	Sy	21-Jun-23	0.600	0.595	-0.83%	Buy on Weakness. Impact from boycott activity is just temporarily.
38	Sunway	Sy	22-Jun-23	1.590	2.030	27.67%	Buy/Hold. Beneficiary of the recovery of the Johor real estate market and supported by its strong orderbook of property and Suncon unbilled sales stood at RM4.17bn and RM5.79bn respectively.
39	DXN	Sy	27-Aug-23	0.713	0.640	-10.24%	Buy. Dividend yield now >5% post revision of dividend payout to >50% from 30-50%.
40	Synergy	Sy	28-Aug-23	0.385	0.705	83.12%	Still a Buy. US & Europe B2C sales strongest in 4Q.
41	Genetec	Sy	22-Sep-23	2.370	2.350	-0.84%	Buy. Recently completed Main Board transfer to generate more institutional interest.
42	Kitacon	Sy	27-Nov-23	0.655	0.640	-2.29%	Buy. Supported by its robust order book to RM1.24bn, providing a 2.5x cover ratio of FY22 revenue or a 3.87x order book to market cap, ensuring earnings visibility for c.3 years.
43	InfoTec	Non-Sy	27-Nov-23	0.800	0.740	-7.50%	Buy. Expect seasonally strong 4Q23 as enterprises tend to utilise the majority of their IT budgets towards the year-end period.

*Price adjusted for dividend, bonus and rights