

Well Chip Group Bhd

Raising Capital To Feed The Golden Goose

- Well Chip Group Bhd provides pawnbroking services, retails and trades new and pre-owned jewellery and gold. We like the company on the back of its (i) expansion plans of the upcoming 7 new pawnshops in Johor (5) and Melaka (2), (ii) positive outlook on gold prices that bode well for the gold trading segment, and (iii) growing number of underserved customers.
- For FY24-25f, we project the topline growth of 10% to RM224.0m and RM246.4m, respectively, supported by the growth from the planned expansion of the new pawnshops, and the positive outlook of gold prices. Meanwhile, we project the core PAT to expand 12.3-14.2% to RM41.6m and RM46.7m.
- We derived a fair value of RM2.33 for WCGB. Our fair value of RM2.33 (upside of 103.1% against IPO price of RM1.15) is derived by pegging a P/E of 30x to the FY25f EPS of 7.8 sen. We believe a forward P/E of 30x is justified as it is in line with the YTD average current P/E of the selected peers.

Investment Highlights

Expansion of 7 new pawnshops in Johor and Melaka. As of the LPD, Well Chip Group Bhd (WCGB) operates 23 pawnshops in Johor and it plans to open 5 new pawnshops in Johor and 2 new pawnshops in Melaka to increase market share in Johor and penetrate the market in Melaka. Furthermore, WCGB's future expansion strategy is to eventually increase market share in the other states. We believe WCGB's track record and expertise will be integrated into the new pawnshops, which should reduce operational risks and improve the group's revenue.

Positive outlook for gold prices would bode well for the gold trading segment. We believe the current elevated inflationary pressure should continue to be a catalyst for sustained uptrend in gold prices. As a result, WCGB should see revenue improvements in the trading of gold & gold jewellery segment as WCGB will be able to sell the gold items at a marked-up value representing the difference between the increased prices to the prices during procurement.

Growing number of underserved customers. From 2024 to 2028, Protégé Associates estimates the pawnbroking industry is estimated to grow at a CAGR of 11.4%, underpinned by demand for immediate access to funds and demand from the unserved population. Conventional loans require strict requirements namely credit scores which may prevent capable customers from securing loans. This trend is expected to continue due to the uncertain Economic conditions ahead which bodes well for pawnbrokers.

Company Background

WCGB's history traces back to 2006, where they started the pawnbroking services business and the first pawnshop was opening in 2007. The business has expanded to 23 pawnshops and 4 retail outlets as of LPD.

IPO Note

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Non-Rated

Share price	RM1.15
Target price	RM2.33
Previous TP	-
Capital upside	103.1%
Dividend return	2.4%
Total return	105.5%

Company profile

Well Chip Group Bhd provides pawnbroking services. The Company retails and trades new and pre-owned jewellery and gold. Well Chip Group serves customers in Malaysia.

Stock information

Bursa Code	5325
Bloomberg ticker	WELLCHIP MK
Listing market	MAIN
Share issued (m)	600.0
Market Cap (m)	690.0
Shariah compliant	No

Major shareholders

	%
VYN Holdings	50.7
VNM Holdings	14.8

Earnings snapshot

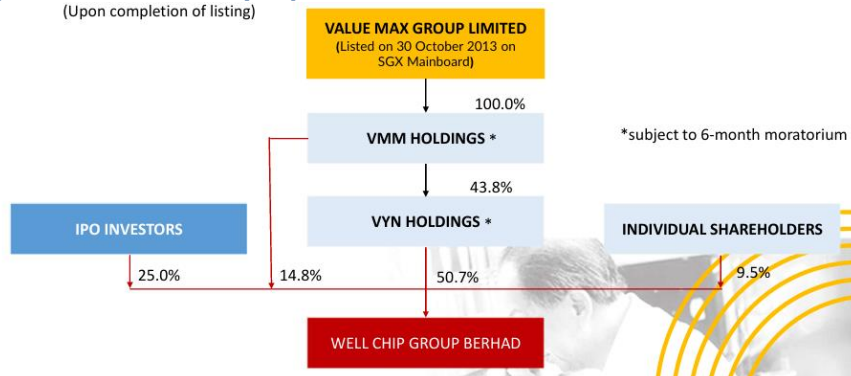
FYE (Sep)	FY23	FY24f	FY25f
PATMI (m)	36.4	41.6	46.7
EPS (sen)	6.1	6.9	7.9
P/E (x)	18.9	16.6	14.8



Wednesday, 10 Jul, 2024

Fig #1 Post-IPO company structure

(Upon completion of listing)



Source: WCGB

Fig #2 Utilisation of Proceeds

Utilisation of Proceeds	RM 'm	%	Estimated time frame for utilisation
Cash capital for existing 23 pawnshops	124.00	72.00	Within 24 months
Expansion of pawnshops	40.00	23.20	Within 24 months
Estimated listing expenses	8.20	4.80	Immediate
Total	172.50	100.00	

Source: WCGB

Business Segments

Provision of pawnbroking services (35.9% of Revenue). WCGB provides pawnbroking services where they offer pledges-backed pawn loans with a short repayment period to pawnbroking customers. WCGB charges 1-2% monthly interest rate and a one off RM0.50 administrative fee on pawn loans which has a period of 6 months. Acceptable pledge items include gold & gold jewellery, luxury watches and diamond jewellery. Loan margins for gold & gold jewellery are up to 95%, 60% for luxury watches and 30% for diamond jewellery. Upon expiry of the pawn loan period, customers can choose to redeem pledges, or renew the pawn loans after settling outstanding debt and the new loan amount is subject to re-assessment. Customers will need to pay the difference in pawn value in the case that the pledged item has decreased in value. Customers who do not redeem pledges, renew the pawn loan or pay the interest charge will be given a 3-month grace period before the items are considered property of WCGB and WCGB will be permitted to sell them.

Retail and trading of jewellery and gold (64.1% of revenue). WCGB also sells and trades jewellery and gold through: (i) WCGB's retail outlets adjacent to the pawnshops, (ii) online and (iii) scrap gold traders. The gold and gold jewellery are procured through (i) unredeemed pledges and (ii) purchase of gold and jewellery from walk-in customers which will be reconditioned and sold.



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Fig #3 Business Summary

Business Segment	Pawnbroking	Retail & Trading of Jewellery and Gold
Products & Services	<ul style="list-style-type: none"> Provision of pawn loans in exchange for pledges such as gold and gold jewellery, luxury watches and diamond jewellery 	<ul style="list-style-type: none"> Retail sale of new and pre-owned jewellery Sale of scrap gold acquired from unredeemed and bid pledges, and pre-owned jewellery
Revenue model	<ul style="list-style-type: none"> Monthly interest charged on pawn loan amount One-off administrative fee for pawn ticket 	<ul style="list-style-type: none"> One-off sales
Channels	<ul style="list-style-type: none"> 23 pawnshops in Johor 	<ul style="list-style-type: none"> 4 retail outlets in Johor Website and e-commerce platforms Scrap gold traders
Customers	<ul style="list-style-type: none"> Individuals 18 and above 	<ul style="list-style-type: none"> End customers Scrap gold traders

As of June 2024, the group have 27 operating outlets, comprising 23 pawnshops and 4 retail outlets which are adjacent to our pawnshops.

Source: WCGB

Financials

In FY23, WCGB's core PAT increased +38.2% YoY to RM36.4m from RM26.4m, in line with the topline improvement from RM158.1m to RM203.7m (+28.8% YoY). The revenue increase was mainly due to gold prices increasing which allowed WCGB to lend out larger loan amounts, on top of the opening of 3 new pawnshops in FY23. Furthermore, the retail and trading of gold or gold jewellery increased as a result of increased unredeemed pledges.

For FY24-25f, we project the topline to see improvement of 10% to RM224.0m and RM246.4m, respectively, supported by the planned expansion of the new pawnshops, the increased capital from the IPO proceeds and the positive outlook of gold prices. Also, we expect the core PAT to grow by 14.2% and 12.3% to RM41.6m and RM46.7m for FY24-25f, respectively.

Fig #4 Financial Highlights

FYE Dec (RM m)	FY21	FY22	FY23	FY24f	FY25f
Revenue	101.9	158.1	203.7	224.0	246.4
EBITDA	35.5	40.1	54.1	59.4	66.8
EBIT	32.9	37.1	50.4	55.2	61.9
PBT	32.7	36.8	50.0	54.7	61.5
PAT – Core	24.0	26.4	36.4	41.6	46.7
% change YoY – Core PAT	-9%	10%	38%	14%	12%
Core EPS (sen)	4.0	4.4	6.1	6.9	7.8
P/E (x)	28.8	26.2	18.9	16.6	14.8
DPS (sen)	-	-	2.4	2.7	3.1
Dividend yield (%)	-	-	2.1	2.4	2.7
EV/EBITDA (x)	13.3	11.8	8.7	7.9	7.0
BVPS (RM/share)	0.3	0.3	0.3	0.7	0.7
P/B (x)	4.6	4.0	3.4	1.7	1.6
ROE (%)	17%	16%	19%	14%	11%
Net Gearing (%)	0.5	0.9	1.0	CASH	CASH

Source: Prospectus, M+ Research

Valuations

We derived a fair value of RM2.33 for WCGB. Our fair value of RM2.33 (upside of 103.1% against IPO price of RM1.15) is derived by pegging a P/E of 30x to the FY25f EPS of 7.8 sen. We believe a forward P/E of 30x is justified as it is in line with the YTD average current P/E of selected peers.



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Peers Comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM'm)	YTD Avg Current P/E (x)	Forward P/E (x)	NP Margin (%)
Well Chip Ground Bhd	Main	Dec	1.150	690.0	18.9	31.4	17.9
Pappajack Bhd	ACE	Dec	1.010	775.9	36.5	-	18.4
Evergreen Max Cash Capital	ACE	Dec	0.435	485.0	26.2	-	16.1
Avg ex-WCGB					31.4	-	17.3

Source: M+ Research

Investment risks

Exposed to gold price fluctuations. WCGB sells unredeemed pledges of gold and gold jewellery in the case of defaults from clients to recover cash. Therefore, a sustained downtrend in gold prices may cause WCGB to sell the gold items at a loss.

Strong competition from other industry players. There are more than 805 active licensed pawnbrokers in Malaysia in 2022, therefore WCGB faces strong competition from its peers. In the case that, industry players reduce the offered monthly rates to customers to improve competitiveness, it will adversely affect profit margins.

Exposed to physical security risks and trustworthiness of personnel. WCGB operates the retail and trading of jewellery and gold, therefore the operation is subject to theft, burglary which may incur losses from robbers as well as from internal personnel.

Subject to regulatory requirements. Any unfavourable regulatory policies from the authorities such as the lowering of the maximum allowed interest rates may affect profit margins.

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As of **Wednesday, 10 Jul, 2024**, the analyst(s), **Chiang Fong Kai**, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned

