

Well Chip Group

Worth Its Weight in Gold

By Clement Chua | clement.chua@kenanga.com.my

INVESTMENT MERIT

Pawnbroker, WELLCHIP's share prices have been coming off since IPO, likely spurred by delays in its expansion plans. Notwithstanding three recent acquisitions of matured outlets in Perak, its initial seven new outlets are expected to see more action. Gold price achieving record-highs is slated to improve pawn loan disbursements as gold bearers can draw down higher amounts on their pledges. We call to ADD on WELLCHIP with a fair value of RM1.60 based on a GGM-derived PBV (COE: 10.0%, TG: 3.5%, ROE: 16.0%).

Pawnbroking revenues resilient. WELLCHIP saw its FY24 net profit increasing by 42% to RM50m despite only adding one outlet (to 23 outlets entirely across Johor) during the year. Its pawnbroking same-store sales growth of 13% was fuelled by improved CY24 average gold prices (+23%) as compared to FY23's SSSG and average gold price increase of 8%.

Expansion deferred but not deterred. Per its IPO, RM40m in proceeds were allocated to expand its footprint, having identified five new locations in Johor and two in Melaka, which will take its total location count from 23 to 30. WELLCHIP intended to establish four outlets per year from its listing in July 2024 but saw administrative delays. We gathered that the group had recently obtained its first new license in Johor, slated to launch by 2QFY25 with the remaining six by end-FY25.

Typically, the group's outlets break even on a net basis within 18-24 months and therefore may be profit-accretive soonest by FY27.

Penetrating northward. Aside from organic expansion, in Dec 2024 the group proposed to acquire three privately-owned matured pawnshops in Perak, a region on which it had previously not set its eyes. The combined price tag of RM63.4m (implying c.10x PER) is due to complete by 1QFY25 before contributing to group earnings, free of any liability from previous operations.

We gathered that the average annual sales per Perak store of c.RM25m beats WELLCHIP's same-store pawnbroking sales of c.RM4m. However, the former's gross pawnbroking margin of c.12% is far inferior from the group's c.80% (c.50% including retail sale of scrap gold and collateral). They believe they can significantly improve the returns from these outlets with the integration of its parent company's ValueMax Pawnbroking System to enhance the efficiency of managing pawn pledges, track loan transactions and streamline operational procedures.

All-time high gold price keeping pawnbrokers relevant. We opine pawnbrokers will continue to be sought out as an alternative to conventional loans while being assessable to pockets of underserved communities. This coincides with the tightening of system approval rates from personal loans and credit card applications, where monthly averages fell from 41% and 63% in 2013 to 34% and 47% in 2024, respectively. Strengthening gold prices entitle higher pawn loan values for gold pledges, which are 90% of the group's collateral.

While there is a perceived downside risk to pawnbrokers in declining gold prices, WELLCHIP is guarded by up to a 95% margin to the value of gold pledges. In the event of default (GIL: 7%-8%), the group is able to time the resale of pledges at more favourable rates. Hence, we believe only sharp downturns are harmful to pawnbrokers.

	Rating	Fair Value
Last Price		RM0.98
Kenanga	Add	RM1.60
Consensus	Add	RM1.43

Stock Information

Shariah Compliant	No
Stock Name	WELL CHIP GROUP BHD
CAT Code	5325
Industry	Retail
Industry Sub-sector	Retail-Jewelry
YTD stock price chg	-14.0%
Market Cap (RM m)	588.0
Shares Outstanding (m)	600.0
52-week range (Hi)	1.83
52-week range (Low)	0.94
3-mth avg. daily vol.	489,682
Free Float	98.2%
Beta	0.60
Altman's Z-score	3.32

Major Shareholders

VYN Holdings Sdn Bhd	50.7%
VMM Holdings Sdn Bhd	14.8%
Hong Leong Asset Management	1.8%

Financials

FYE Dec (RM m)	2024A	2025F	2026F
Revenue	222.1	331.6	363.7
Gross Profit	105.2	129.9	153.4
Profit Before Tax	71.1	84.6	100.6
Net Profit	50.0	59.2	70.4
EPS (sen)	8.3	9.9	11.7
BV/Share (RM)	0.70	0.77	0.84
PER (x)	11.8	9.9	8.4
Price/BV (x)	1.40	1.28	1.16
Net Gearing (x)	0.2	0.5	0.5
DPS (sen)	4.0	3.5	4.1
Div Yield (%)	4.1	3.5	4.2

Quarterly Financial Data (RM m)

	2QFY24	3QFY24	4QFY24
Revenue	63.9	47.7	55.7
PBT	20.2	14.0	20.2
Net Profit	14.3	8.8	15.0
Basic EPS (sen)	2.4	1.5	2.5
Revenue Growth (QoQ)	16.6%	-25.4%	16.7%
EPS growth (QoQ)	20.0%	-38.6%	71.5%
Net Profit Margin	22.3%	18.4%	27.0%

	PBV (x)	Div. Yld (%)	Mkt Cap (RM m)
Peers Comparisons			
EMCC	1.38	0.0	323
PPJACK	2.81	1.0	737
Average	2.10	0.5	

20 March 2025

Forecast. Our FY25F/FY26F earnings reflect a growth in net profit by 18%/19%. Though we only account for a modest SSSG of 5%, most gains in earnings are derived from the three Perak outlets which we had ascribed an uptick in gross margins to 20%/25% from their current c.12%, thanks to efficiencies injected by the group. Besides this, we had modelled for the group to inject four new outlets in FY25 and 3 net outlets in FY26, though are not projected to contribute to earnings in the near-term.

We value WELLCHIP at RM1.60, based on a GGM-derived PBV of 1.93x (COE: 10.0%, TG: 3.5%, ROE: 16.0%) on a FY26F BVPS of RM0.84. We opted to use GGM valuations to draw comparison to financial lending peers i.e. banking sector, where its COE averages at 10%. The TG of 3.5% is higher than the banks' average of c.3% as we find WELLCHIP's relatively smaller operations and highly scalable business model to reflect faster long-term earnings growth trajectory.

We believe a near 2x PBV is inexpensive for the stock, being within its peers' average valuations and moderately above its implied IPO PBV of 1.6x. We opine the recent sell down in WELLCHIP was spurred by the delays in its pawnbroking outlet expansion, being a key feature of its IPO. Concerns are likely to dissipate with the gradual establishment of said outlets, as the group still demonstrated strong earnings growth from its existing footprint. Meanwhile, the injection of the three Perak outlets should noticeably bolster near-term earnings post completion in 1QFY25.

FY24's dividend of 4.0 sen reflected a payout of 48%, above its guided 35% for the first three years of listing. We had applied future near-term dividends to be at guided levels, though dividend yields could rise up to c.5% if the group is to be similarly more generous going forward. Going forward, we anticipate WELLCHIP's net gearing ratio to rise from FY24 at 0.21x to 0.46x with the implementation of its expansion pipeline, which is reasonable as the group operated as c.0.8x pre-listing.

We call to "ADD" on WELLCHIP.



Comment: WELLCHIP closed at RM0.985, stabilising after a sharp downtrend and establishing support near RM0.94. While the overall trend remains bearish, a technical rebound is emerging, with immediate resistance at RM1.00 (5-day SMA), followed by RM1.06 and RM1.12.

The stochastic oscillator is recovering from oversold territory, indicating a potential rebound, while the Tom Demark Pressure Ratio (TDRP) at 27.10 suggests that selling pressure is easing. Meanwhile, the RSI (33.22) remains weak but is showing early signs of recovery.

A breakout above RM1.00 could pave the way for further upside towards RM1.06 and RM1.12, but the downtrend remains intact unless this level is decisively breached. Conversely, failure to hold RM0.94 may lead to renewed selling pressure and another leg lower.

Source: Kenanga Research

About the stock:

Name : Well Chip Group Bhd
Bursa Code : WELLCHIP
CAT Code : 5325

Key Support & Resistance level

Resistance : RM1.00 (R1) RM1.06 (R2)
Support : RM0.94 (S1) -
Outlook : Potential technical rebound

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workforce Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	☆		
	Anti-corruption Policy	★	★	☆		
	Emissions Management	★	★	☆		
SPECIFIC	Product Quality & Safety	★	★	★	★	
	Effluent/Water Management	★	★	★		
	Waste Management	★	★	★		
	Biodiversity & Conservation	★	★	★		
	Green Building	★	★	★		
	Supply Chain Management	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

