

10 June 2026

Well Chip Group Rights for Expansion

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WELLCHIP proposed a rights issue which could increase its share base by up to 20.0%. While this supports an additional 6 new outlet expansion and long-term earnings by c.18%, we opine debt financing could be a better alternative as net gearing of 0.82x remains below the group's comfort range of 1.0x-1.5%. That said, earnings contribution from the new outlets could take up to two years to breakeven upon commencement. Thus while we maintain our **OUTPERFORM** call, we account for the share dilution effect for now by lowering our GGM-PBV TP to RM1.60 (from RM2.00) via lowered ROE.

Raising up to RM120m in capital. WELLCHIP announced a proposed renounceable rights issue of up to 120.0m new shares on the basis of 1 Rights Share for every 5 existing shares at an issue price of RM1.00 per share. With a minimum subscription commitment of 60.8m Rights Shares from its major shareholder, VYN Holdings Sdn Bhd (50.7% stake), the exercise is expected to raise gross proceeds of RM60.8m–RM120.0m, resulting in a share base dilution of 10.1%–20.0%.

Subject to the relevant approvals, the proposed rights issue is expected to be completed by 4QFY26.

Wider footprint expansion. The group intends to allocate RM15.0m–RM30.0m of the proceeds towards the establishment of an additional six new pawnshop outlets, in addition to its existing pipeline of six new outlets targeted by end-FY26 which utilised the proceeds of its IPO. This would bring its pawnshop network from 27 outlets to 39 outlets in total. In line with the unaccounted incremental store count expansion, this could increase long-term earnings growth by c.18%, assuming all matured stores deliver similar performance.

That said, we are negatively surprised by the proposed development. WELLCHIP's current net gearing of 0.82x remains below the group's comfortable range of 1.0x-1.5x, which suggests that debt capacity remains available. We also gather that c.10% of the group's borrowings comprise related-party loans carrying an interest rate of 7.0%, equivalent to a potential effective after-tax cost of debt of 5.3%.

Even if assuming access to bank financing is constrained and future expansion must be funded through additional related-party loans, we believe debt financing would remain more attractive than a rights issue that could dilute shareholders by up to 20.0%.

Given that new outlets typically require up to two years to reach breakeven, shareholders would incur immediate dilution while the earnings contribution from the expanded network is only likely to materialize progressively over the medium-to-long term.

Forecast. As we believe the minimum scenario is likely to proceed, we raise our FY27 share base by 60.8m shares to 660.8m shares. This results in an EPS dilution from 17.9 sen (from 19.7 sen), thereby reducing YoY growth to 1.3% from 11.6% while reducing our FY27F ROE to 17.8% (from 18.6%). The enlarged share base also led to lower dividend per share of 6.3 sen (from 6.9 sen).

Maintain OUTPERFORM but with a lower TP of RM1.60 (from RM2.00). Arising from the proposed rights issue, we trimmed the ROE inputs in our GGM to 16.0% from 18.0%, as we opine earnings accretion may be a medium-term endeavour. Meanwhile, our ROE applied inputs were conservatively below our model projections to account for gold price fluctuation risks which could affect the group's longer-term sustainability.

OUTPERFORM ↔

Price : **RM1.13**
Target Price : **RM1.60** ↓

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,675.50 |
| YTD KLCI chg | -0.3% |
| YTD stock price chg | -28.9% |

Stock Information

| | |
|-----------------------|--------------------|
| Shariah Compliant | No |
| Bloomberg Ticker | WELLCHIP MK Equity |
| Market Cap (RM m) | 678.0 |
| Shares Outstanding | 600.0 |
| 52-week range (H) | 1.75 |
| 52-week range (L) | 1.11 |
| 3-mth avg. daily vol. | 537,233 |
| Free Float | 83% |
| Beta | 0.79 |

Major Shareholders

| | |
|------------------------|-------|
| VYN Holdings Sdn Bhd | 50.7% |
| VMM Holdings Sdn Bhd | 14.8% |
| Hong Leong Co Malaysia | 1.8% |

Summary Earnings Table

| FY Dec (RM m) | 2025A | 2026F | 2027F |
|------------------------|-------------|--------------|--------------|
| Turnover | 270.2 | 394.4 | 429.2 |
| Operating Profit | 120.4 | 151.6 | 168.7 |
| Profit Before Tax | 120.3 | 151.6 | 169.1 |
| Net Profit | 86.1 | 106.1 | 118.4 |
| Core Net Profit | 86.1 | 106.1 | 118.4 |
| Consensus (NP) | - | 95.2 | 103.7 |
| Earnings Revision | - | 0% | 0% |
| Core EPS (sen) | 14.4 | 16.1 | 17.9 |
| Core EPS Growth (%) | 72.3% | 11.8% | 11.6% |
| NDPS (sen) | 5.1 | 5.6 | 6.3 |
| BVPS (RM) | 0.81 | 0.89 | 1.12 |
| PER (x) | 7.9 | 7.0 | 6.3 |
| PBV (x) | 1.40 | 1.26 | 1.01 |
| Net Div. Yield (%) | 4.5 | 5.0 | 5.5 |



10 June 2026

This lowers our implied PBV to 1.77x (from 2.05x) and results in a revised TP of RM1.60 (from RM2.00). Nevertheless, WELLCHIP still stands out amongst its listed pawnbroking peers, with a 3-years earnings CAGR of 50% (vs c.40%) coupled with stronger yields of c.5% (vs. c.2%). WELLCHIP also operates more efficiently with leading net margins of c.30% (vs. average c.19%).

Risk to our call include: (i) steep plunges in gold prices; (ii) a slowdown in demand for pawn loans; (iii) delay in outlet launches; and (iv) regulatory changes.

| Income Statement | | | | | | Financial Data & Ratios | | | | | |
|-----------------------------|--------------|--------------|--------------|----------------|----------------|-------------------------|-------|-------|-------|-------|-------|
| FY Dec (RM m) | 2023A | 2024A | 2025A | 2026F | 2027F | FY Dec | 2023A | 2024A | 2025A | 2026F | 2027F |
| Revenue | 203.7 | 222.1 | 270.2 | 394.4 | 429.2 | Growth | | | | | |
| Operating Profit | 50.4 | 70.2 | 120.4 | 151.6 | 168.7 | Turnover | 28.8% | 9.1% | 21.6% | 46.0% | 8.8% |
| Interest Inc/(Exp) | -0.4 | 0.9 | -0.2 | 0.0 | 0.4 | Operating Profit | 35.8% | 39.4% | 71.6% | 25.9% | 11.3% |
| Profit Before Tax | 50.0 | 71.1 | 120.3 | 151.6 | 169.1 | PBT | 35.9% | 42.2% | 69.2% | 26.0% | 11.6% |
| Taxation | -14.7 | -21.1 | -34.1 | -45.5 | -50.7 | Core Net Profit | 40.4% | 41.5% | 72.3% | 23.2% | 11.6% |
| PATAMI | 35.3 | 50.0 | 86.1 | 106.1 | 118.4 | Profitability | | | | | |
| Balance Sheet | | | | | | Operating Margin | 24.7% | 31.6% | 44.6% | 38.4% | 39.3% |
| FY Dec (RM m) | 2023A | 2024A | 2025A | 2026F | 2027F | PBT Margin | 24.5% | 32.0% | 44.5% | 38.4% | 39.4% |
| Fixed Assets | 7.6 | 6.8 | 8.5 | 6.6 | 3.9 | Core Net Margin | 17.3% | 22.5% | 31.9% | 26.9% | 27.6% |
| Intangible Assets | 0.4 | 0.4 | 18.5 | 18.5 | 18.5 | Effective Tax Rate | 29.3% | 29.7% | 28.4% | 30.0% | 30.0% |
| Other Fixed Assets | 22.5 | 25.7 | 29.6 | 29.6 | 29.6 | ROA | 7.6% | 8.5% | 10.5% | 9.8% | 9.0% |
| Inventories | 32.1 | 27.3 | 28.6 | 48.6 | 52.9 | ROE | 18.8% | 16.0% | 19.0% | 19.7% | 17.8% |
| Receivables | 420.5 | 531.2 | 831.1 | 912.2 | 1,028.0 | DuPont Analysis | | | | | |
| Other Current Assets | 0.3 | 0.4 | 0.5 | 0.5 | 0.5 | Net Margin | 17.3% | 22.5% | 31.9% | 26.9% | 27.6% |
| Cash | 12.5 | 93.6 | 44.0 | 197.5 | 272.4 | Assets Turnover (x) | 0.41 | 0.32 | 0.28 | 0.32 | 0.31 |
| Total Assets | 495.8 | 685.5 | 960.8 | 1,213.5 | 1,405.8 | Leverage Factor (x) | 2.4 | 1.6 | 2.0 | 2.1 | 1.9 |
| Payables | 79.9 | 56.7 | 54.4 | 82.2 | 87.8 | ROE | 18.8% | 16.0% | 19.0% | 19.7% | 17.8% |
| ST Borrowings | 188.7 | 177.5 | 391.7 | 508.6 | 545.3 | Leverage | | | | | |
| Other ST Liability | 4.4 | 8.5 | 11.6 | 11.6 | 11.6 | Debt/Asset (x) | 0.4 | 0.3 | 0.4 | 0.4 | 0.4 |
| LT Borrowings | 3.8 | 4.5 | 4.5 | 4.5 | 4.5 | Debt/Equity (x) | 0.9 | 0.4 | 0.8 | 0.9 | 0.7 |
| Other LT Liability | 15.7 | 17.2 | 15.3 | 15.3 | 15.3 | Net (Cash)/Debt | 180.0 | 88.4 | 352.1 | 315.6 | 277.4 |
| Net Assets | 203.4 | 421.1 | 483.3 | 591.2 | 741.3 | Net Debt/Equity (x) | 0.9 | 0.2 | 0.7 | 0.5 | 0.4 |
| Shareholders' Equity | 203.4 | 421.1 | 483.3 | 591.2 | 741.3 | Valuations | | | | | |
| Cashflow Statement | | | | | | Core EPS (sen) | 5.9 | 8.3 | 14.4 | 16.1 | 17.9 |
| FY Dec (RM m) | 2023A | 2024A | 2025A | 2026F | 2027F | NDPS (sen) | 0.8 | 4.0 | 5.1 | 5.6 | 6.3 |
| Operating CF | -36.1 | -47.4 | -166.9 | 194.6 | 59.1 | BV/sh (RM) | 0.34 | 0.70 | 0.81 | 0.89 | 1.12 |
| Investing CF | -0.7 | -54.5 | -14.5 | -4.0 | -4.0 | PER (x) | 19.2 | 13.6 | 7.9 | 7.0 | 6.3 |
| Financing CF | 62.2 | 147.4 | 155.8 | -37.2 | 19.8 | PBV (x) | 3.3 | 1.6 | 1.4 | 1.3 | 1.0 |
| Change In Cash | 25.4 | 45.5 | -25.5 | 153.5 | 74.9 | Div. Yield | 0.7% | 3.5% | 4.5% | 5.0% | 5.5% |
| Free CF | -39.1 | -48.9 | -170.8 | 190.6 | 55.1 | | | | | | |

Source: Kenanga Research

10 June 2026

Peer Table Comparison

| Name | Rating | Last Price (RM) | Target Price (RM) | Upside | Market Cap (RM m) | Shariah Compliant | Current FYE | Core EPS (sen) | | Core EPS Growth | | PER (x) - Core Earnings | | PBV (x) | | ROE | | Net. Div. (sen) | | Net Div Yld | |
|--|--------|-----------------|-------------------|--------|-------------------|-------------------|-------------|----------------|------------|-----------------|-------------|-------------------------|-------------|------------|--------------|------------|-------------|-----------------|------------|-------------|--|
| | | | | | | | | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | | |
| NON-BANK FINANCIAL INSTITUTIONS | | | | | | | | | | | | | | | | | | | | | |
| AEON CREDIT SERVICE M BHD | OP | 5.86 | 6.25 | 6.7% | 2,992.2 | N | 02/2027 | 78.2 | 86.5 | 3.4% | 10.6% | 7.5 | 6.8 | 0.9 | 12.7% | 31.5 | 5.4% | | | | |
| BURSA MALAYSIA BHD | OP | 8.58 | 9.25 | 7.8% | 6,943.8 | Y | 12/2026 | 37.0 | 36.4 | 19.8% | -1.6% | 23.2 | 23.5 | 8.5 | 37.1% | 35.0 | 4.1% | | | | |
| CTOS DIGITAL BHD | OP | 0.650 | 0.830 | 27.7% | 1,478.5 | Y | 12/2026 | 4.3 | 4.1 | 11.8% | -4.1% | 15.2 | 15.9 | 2.4 | 15.9% | 3.2 | 4.9% | | | | |
| LPI CAPITAL BERHAD | OP | 15.10 | 16.00 | 6.0% | 6,015.6 | N | 12/2026 | 96.2 | 99.2 | 4.2% | 3.1% | 15.7 | 15.2 | 2.5 | 15.6% | 88.0 | 5.8% | | | | |
| SYARIKAT TAKAFUL MSIA KELUARGA BHD | OP | 3.33 | 4.40 | 32.1% | 2,904.4 | Y | 12/2026 | 47.1 | 48.9 | 2.6% | 3.7% | 7.1 | 6.8 | 1.2 | 17.3% | 19.0 | 5.7% | | | | |
| WELL CHIP GROUP BHD | OP | 1.13 | 1.60 | 41.6% | 678.0 | N | 12/2026 | 16.1 | 17.9 | 23.2% | 11.6% | 7.0 | 6.3 | 1.3 | 19.7% | 5.6 | 5.0% | | | | |
| SECTOR AGGREGATE | | | | | 21,012 | | | | | 7.6% | 4.3% | 12.5 | 12.0 | 2.1 | 16.8% | | 5.1% | | | | |

Source: Kenanga Research

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10 June 2026

Stock ESG Ratings:

| Criterion | Rating | | | | |
|---|--------|---|---|--|--|
| Customer Privacy | ★ | ★ | ★ | | |
| Data Security | ★ | ★ | ★ | | |
| Financial Inclusion & Capacity Building | ★ | ★ | ★ | | |
| Selling Practices | ★ | ★ | ★ | | |
| Product Sourcing (Retail) | ★ | ★ | ★ | | |
| Employee Diversity & Inclusion | ★ | ★ | ★ | | |
| OVERALL | ★ | ★ | ★ | | |

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

Stock Ratings are defined as follows:**Stock Recommendations****

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

** *The Expected Total Return might contain rounding discrepancy*

****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.*

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