

Pappajack Berhad

First Pawnbroker to be Listed

TP: RM0.34 (+13.3%)

Ace Market Listing

NOT RATED

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Background

Pappajack Berhad (Pappajack) is principally involved in the pawnbroking industry in Malaysia.

IPO Statistic

The IPO entails a public issue of 167,000,000 new ordinary shares at an IPO price of RM0.30/share.

Public issue:

- 33,400,000 new shares for application by the Malaysian public;
- 6,680,000 new shares for application by eligible parties;
- 83,500,000 new shares for private placement to Bumiputra investors approved by MITI; and
- 43,420,000 new shares by way of a private placement to selected investors.

Main Competitive Advantages

1. Positioned to support those who are financially unserved or underserved by providing short-term micro-loans.
2. The pawn loan offer is secure because it is all collateralised by pledges.
3. Possess the ability to provide immediate access to pledge-backed short-term microloans.
4. Store employees have the technical skills and expertise required to assist consumers efficiently.
5. Supported by a network of pawnbroking stores strategically positioned in convenient locations.
6. Skilled management team.

Valuation

At an IPO price of RM0.30/share, Pappajack is priced at a trailing PER of 24.4x FY20 EPS. We value the company based on Malaysia's average NBF1 P/B ratio of 1.4x to FY21e BV, thus arriving at a fair value of **RM0.34/share**.

Earnings Summary

FYE Dec (RM mn)	2019	2020	2021F	2022F	2023F
Revenue	19,207	30,769	33,876	37,264	40,990
Gross profit	5,944	13,818	14,016	14,905	16,396
Operating profit	3,690	11,856	11,347	11,296	12,426
Operating profit margin (%)	19%	39%	33%	30%	30%
PBT	3,317	11,112	10,672	10,619	11,680
PBT margin (%)	17%	36%	32%	28%	28%
PAT	1,962	8,205	7,235	7,199	7,919
EPS (sen)	0.29	1.23	1.08	1.08	1.19

Note: *based on enlarged share base of 668.0mn, ^ based on IPO price of RM0.30/share

Share Information

	Ace Market
Listing	
Enlarged Share Capital (mn)	668.0
Market Cap @ RM0.30 (RM mn)	200.4
Issue price (RM)	0.30
Oversubscription rate	N/A
Estimated free float (%)	25.0
Tentative listing date	1-Apr-22

Tentative Listing Dates

Event	Tentative Date
Opening of the IPO	11-Mar-22
Closing of the IPO	18-Mar-22
Balloting of Applications	23-Mar-22
Allotment of Shares	30-Mar-22
Listing	1-Apr-22

Ratio & Analysis

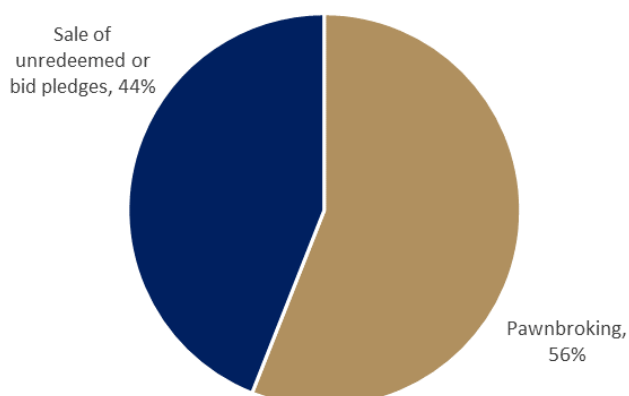
NTA per share (post IPO) (sen)	24.0
Price to NTA (x)	1.3
Proforma Gearing (x)	0.005

Utilisation of Proceeds	RM(mn)	%
Expansion of pawnbroking business	19.2	38.4
Cash capital for existing 20 pawnbroking outlets	27.1	54.1
Estimated listing expenses	3.8	7.6
TOTAL	50.1	100.0

Business Overview

The principal activity of Pappajack Holdings is to operate as a licensed pawnshop.

Exhibit 1: Revenue Breakdown by Segment



Source: Company, TA Securities

Exhibit 2: IPO Structure

Public Issue	No. of Shares	% of Enlarged Share Capital
Malaysian public	33,400,000	5.0
Eligible parties	6,680,000	1.0
Bumiputra investors approved by MITI	83,500,000	12.5
Placement to selected investors	43,420,000	6.5

Source: Company, TA Securities

Utilisation of Proceeds

The estimated gross proceeds of RM50.1mn raised are expected to be utilised for the following:

Exhibit 3: Utilisation of Proceeds

Utilisation of proceeds	Estimated timeframe for utilization	RM '000	%
Expansion of pawnbroking outlets	Within 12 months	19,220	38.36
Cash capital for existing 20 pawnbroking outlets	Within 12 months	27,080	54.05
Estimated listing expenses	Immediate	3,800	7.59
Total Public Issue Proceeds		50,100	100.00

Source: Company, TA Securities

Key Competitive Advantages

1) Positioned to serve the financially unserved or underserved by offering short term micro loans

Pawnbroking services provided by Pappajack supplement the role of traditional financial institutions in the supply of short-term micro-loans. Individuals who do not meet the income and credit score restrictions will have limited access to personal borrowing. Pappajack's short-term micro-loans provide borrowers with alternative financing options, particularly those who are financially unserved or underserved and want immediate finances.

2) Pawn loans are collateralised by pledges

Pappajack's pawnbroking firm encourages ethical lending because all pawn loans are collateralised by pledges such as gold and luxury watches. The loan amount granted to the customers is determined by the current market value of the pledges.

3) Experienced outlet personnel and management team

New outlet employees will be expected to undergo an internal training programme to master the foundations of the pawnbroking process, which includes pledge assessment techniques as well as price valuation for pledges. Furthermore, as a consequence of years of expertise in their respective disciplines, the main management team possesses in-depth knowledge and competencies. They take an active and hands-on role in spearheading their respective departments in order to promote the group's growth.

4) Supported by a network of pawnbroking outlets

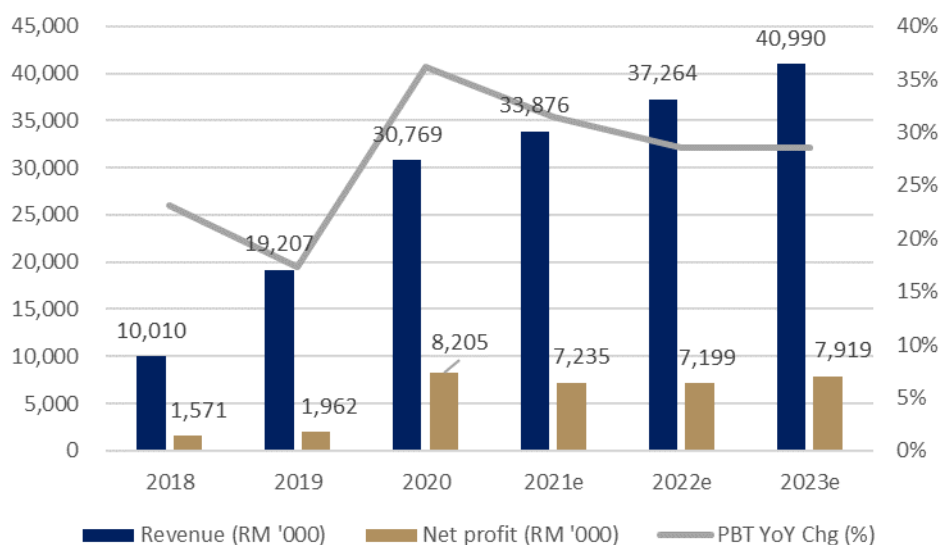
Pappajack has an established network of 25 pawnbroking outlets to cater for customers in Peninsular Malaysia. The outlets are strategically placed in convenient locations, such as near residential or commercial districts, and with easy access to public transportation. These locations enable the firm to capitalise on and capture high foot and vehicle traffic, increasing the visibility of the pawnbroking stores and attracting new customers.

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 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.

Financial Highlights

Exhibit 4: Financial Performance



Source: Company, TA Securities

Pappajack's revenue increased by 25.1% from RM20.3mn in FPE 2020 to RM25.4mn in FPE 2021. The increase was mostly due to an increase in pawnbroking revenue as well as an increase in revenue from unredeemed or bid pledges by customers. Pappajack's revenue for FPE 2021 was underpinned by the existing pawnbroking outlets, as there were no new pawnbroking outlets set up during FPE 2021, as well as a Cash Capital injection equivalent to RM12.0mn in 4Q of FYE 2020, which enabled the business to offer more pawn loans to customers.

Meanwhile, Pappajack's gross profit climbed by approximately 13.3% YoY to RM10.5mn in the FPE 2021. Except for six newly established pawnbroking outlets in 2020, which incurred initial running expenditures and the gestation period required for these outlets to earn profit, the majority of Pappajack's pawnbroking outlets were profitable. The central area remained the group's largest revenue provider, with revenue increasing by 6.6% from RM17.1mn in the FPE 2020 to RM18.2mn in the FPE 2021. In the FPE 2021, the group's revenue from the northern and southern regions was around RM4.5mn and RM2.7mn, respectively.

Future Plans and Business Strategies

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

1) Expansion in the network of pawnbroking outlets

Pappajack plans to expand the network of pawnbroking outlets from 25 currently. The group plans to open another 5 new pawnbroking outlets in the next 3-6 months, in new geographical markets within Peninsular Malaysia. By expanding the network, Pappajack hopes to increase its market presence and serve a wider customer base.

2) Longer-term expansion plans

In the longer term, Pappajack's business expansion plans are premised on the setting up and opening new pawnbroking business and/or acquiring 3rd party pawnbroking outlets to widen its coverage and increase its market reach. The group plans to raise additional funds from bank borrowings and/or the capital market to finance its business expansion when required.

Outlook

Non-bank financial institutions (NBFI) include pawnbrokers, moneylending organisations, non-bank suppliers of credit, 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 are regulated by Bank Negara Malaysia. The KPKT requires each pawnbroking establishment to be licensed. The KPKT would also set the maximum amount of pawn loan that may be issued under a single pawn ticket (RM10,000) as well as the monthly interest rate (2%).

According to an independent market research report done by Smith Zander, there are 716 companies with pawnbroking licenses issued by KPKT. Studying the pawnbroking industry in six states namely Johor, Kuala Lumpur, Negeri Sembilan, Pulau Pinang, Perak and Selangor, Smith Zander noted that the pawnbroking industry in these 6 states represented approximately 79% of the pawnbroking industry in Malaysia, in 2020. In terms of revenue, the pawnbroking industry in Malaysia grew from RM0.93bn in 2017 to RM1.11bn in 2019, but declined slightly to RM0.84bn in 2020, thereby registering an overall CAGR of 5.76% during the period. In 2020, Smith Zander estimates that Pappajack commands a market share of 3.66% in the 6 states which it operates and 2.88% of the overall pawnbroking industry in Malaysia.

Balance Sheet

On a pro forma basis, post-listing with pre-IPO reorganization and utilisation of IPO proceeds, the net asset position and gearing level is expected to be approximately RM160.2mn and 0.005x respectively.

Dividend Policy

The group currently does not have any formal dividend policy.

Earnings Forecast

Annualising FPE FY21 performance, we estimate the group to register a 10.1% increase in revenue but an 11.8% YoY decrease in core profit to RM7.2mn due to initial running expenditures and the gestation period required for new outlets to earn profit. We further foresee revenue growth of c 10% in FY22 due to opening of another 5 outlets but net profit could slip by another 0.5% due to the 2-year gestation period. We believe the group should be able to post stronger profit growth of around 10% in FY23 to RM7.9mn.

All in, our FY21-23 earnings projections are premised on the key assumptions below:

- Stronger than industry's revenue growth due to the opening of several new outlets (another 5 in 2022)
- Gross margins of around 40% for FY21 - FY23, respectively.

Valuation

At an IPO price of RM0.30/share, Pappajack is priced at a trailing PER of 24.4x FY20 EPS. We value the company based on Malaysia's average NBF1 P/B ratio of 1.4x to FY21e BV, thus arriving at a fair value of **RM0.34/share**. Our valuation takes into account the following:

- a. Potentially stronger revenue growth prospects due to Pappajack's aggressive expansion plans;
- b. Healthy double-digit gross margin of around 40%; and
- c. First mover advantage, being the first pawnbroking business to be listed in Malaysia.

Exhibit 5: Peer Comparison

Stock	Share Price (RM)	Market Cap (RM'mn)	EPS (sen)	PE Ratio (x)	DPS (sen)	Div Yield (%)	Net Gearing (x)	PB Ratio (x)
Malaysia								
Aeon Credit	13.28	3390.5	87.7	15.1	23.2	1.7	3.8	1.7
ELK Desa	1.30	386.9	11.9	11.0	2.5	1.9	0.3	0.9
RCE Capital	1.70	1244.0	18.4	9.2	6.8	4.0	1.4	1.5
Average				11.8		2.6		1.4
	Share Price (SGD)	Market Cap (SGD (SGD'mn)	EPS (sen)	PE Ratio (x)	DPS (sen)	Div Yield (%)	Net Gearing (x)	PB Ratio (x)
Singapore								
Maxi-Cash	0.16	175.0	1.4	11.8	1.9	11.3	2.6	1.2
Value Max	0.35	285.2	6.4	5.5	1.9	5.4	1.3	0.8
Money Max	0.20	86.7	5.3	3.7	1.2	6.0	0.0	0.8
Average				7.0		7.6		0.9
Pappajack	0.30	200.4	1.2	24.4	n.a.	n.a.	0.01	1.3

Note: *based on pro-forma balance sheet

^based on previous financial year

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.

Disclaimer

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As of Wednesday, March 16, 2022, the analyst, Li Hsia Wong, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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