

MAXI-CASH

A gold play that can pay dividends.

Bloomberg | Reuters | POEMS
MCFS: SP | _____.SI | MCF.SG
Industry: Financials, Gold

Phillip Securities Research Pte Ltd

22 June 2012

Report type: IPO (Not rated)

Company Overview

A licensed pawnbroker - offering short-term finance with a redemption period of 6 months for each pledge transaction, which is renewable - also trades/retails pre-owned watches & jewellery. Operates 24 branches now.

Issues not discussed in the IPO prospectus

This report discusses a few issues that are relevant in understanding this IPO, but had not been mentioned or elaborated upon in the prospectus. Calculations have been made from numbers provided in the prospectus and other sources in this regard. Opinions regarding gold price and interest rate have been used to infer likely areas that might affect profitability of *Maxi-Cash*. Readers are therefore expected to have read the prospectus and consulted with their financial advisers, so that they could better understand the issues raised, before investing.

The issues (discussed more fully on page 2) are:

- Market share of 13%, as defined in the prospectus, is the number of licenses held by *Maxi-Cash* divided by the total number of pawnbroking licenses in Singapore. We calculated that, in terms of loan amount, this share is about 8.2%. Viewed positively, it means that as the number of years of operating experience grows from 3 (FY11), the two market share numbers should near.
- The current low interest rate environment affords it a comfortable interest rate margin for pawnbroking profit.
- \$10.6m operating overheads (FY11) = \$5.6m rental + \$5m admin/marketing & other expense. With expansion plans, these overheads may not behave like a fixed cost item yet. A fixed cost item is one that increases less than proportionately to any increase in revenue.
- Applied for 4 additional pawnbroking licenses but Little India, a popular location among peers, is not included.
- A positive 1Q12 result has been announced in the *Aspial* segment result. FY12 is expected to be better.
- The trading segment is cyclical. Increase in loan amounts (industry) is, to some extent, attributed to the increase in gold price: 2011 over 2010; and, ytd2012 over 2011. Gold price decrease is stated only as a risk in the prospectus.

KIVs affecting share price

Positives are increases in loan amount market share; low interest rates; overheads per unit decreases; and, hedging of trading/inventories.

Negatives are decrease in gold price; increase in interest rates; and, increase in overheads that is not accompanied by expansion.

IPO FACTSHEET

MAXI-CASH

Listing (Catalist)

Date	22 Jun 2012
Price (SGD)	0.300
Market Cap (SGD mn)	88.8
Number of shares	
- Total	296m 100%
- Under moratorium	240m 81%
- Not under moratorium	56m 19%
Lead Manager	Canaccord Genuity
Prospectus	SGX Catalogue

Use of IPO Proceeds

Expansion (SGD mn)	6.0
Working capital (SGD mn)	9.1
Fees	1.7
Total (SGD mn)	<u>16.8</u>

Dividend Policy

None. Will pay 60% of net profit of FY12, with disclaimers.

Major Shareholders

	(%)
1 Aspial	81%

Key Financials

NTA/share (SGD)	0.203
P/NTA (X)	1.5
P/ND (X)	1.25
Historical P/E (X)	25.0
PBT/Rev (FY11)	
- Total	4.0%
- Pawnbroking	10.3%
- Trading/Retail	3.3%
Interest	
- Effective borrowing rate	2.12%
- Net margin (pawnbroking)	13.0% (derived)

Market Pawnbroking Statistics

Number of licenses owned	24
Number of licenses owned/Industry	13.0%
Total loans given out (SGD mn)	406.3 (derived)
Percentage of industry's loans	8.2% (derived)

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Market share

Page 84 of prospectus - *Maxi-Cash* states that its “market share of the pawnbroking business in terms of number of licenced pawnbrokers is approximately 13.0% at 1 May”.

The very low trade receivable turnover of 4 days (FY10) and 1 day (FY11) – page 83, prospectus - means almost \$0 balance. Therefore the \$64.4m (FY10) and \$123.9m (FY11) – page A5, prospectus – of trade & other receivables are the outstanding pawnbroking loan amounts. Assuming a straight-line monthly increase in loan amounts from Dec10 of \$64.4m to Dec11 of \$123.9m; interest at 1% in the first month of loan and 1.5% in subsequent months, interest earned of \$14.26m for FY11 – page A45, prospectus; we derive the average length of loan to be 2.8 months. And, we found the loans granted in FY11 to be \$406.3m.

According to DOS Monthly Digest of Statistics May 2012 issue, section 13.14-Pledges at Pawnshops, the loans granted by all the pawnbrokers in 2011 amounted to \$4.946.8b. Therefore, *Maxi-Cash* has a 8.2% market share (i.e. \$406.3m/\$4946.8m).

We understand that 2011 is the third year of operations. If one assumes that experience (years) translates to loan amount (higher) up to a certain number of years, then going forward the loan amount should increase as should their market share, at their existing branches.

If *Maxi-Cash* loans had performed to number of branches, that 13% would translate to \$643m. Proportionately, interest earned would have been \$22.56m instead of \$14.26m, an increase of 58%. We highlight this to gauge upside oomph.

Interest rates

The effective borrowing rate FY11 is 2.12% - page A37, prospectus. On the average outstanding loan amount of \$94.15m (\$64.4m ~ \$123.9m), the interest rate earned is 15.15%. The margin is a comfortable 13.0%. Only *Yangzhijiang* has a similar margin. Until the Fed raises rates again in 2014 or earlier, this stays comfortable.

Overheads \$10.595m

You can find this at page A4, prospectus. Page A29, rental for FY11 = \$5.548m. The balance of \$5.047m is made up mainly of general & admin, and sales & marketing expenses.

We note current “future minimum rental payable under non-cancellable operating leases as at 31 Dec11” on page A41, prospectus of \$6.24m. There is a similar obligation under financial lease of \$0.92m. Total = \$7.14m, higher than FY11 as some newer branches that started in 2011 got leases charged out of less than 12 months. There will also be additional 4,638 ft² space (=6084-1012-434) per page 73-75, prospectus. Existing space totals 13,371ft².

Marketing activities, if these remain visible, can easily be factored into your forecasting of the overheads total.

Popular pawnshop areas

From the List of Pawnbrokers (according to Registrar of Pawnbrokers) as at 1 June, the popular locations are: Woodlands, Ang Mo Kio, Bedok, Tampines, Hougang, Yishun, Jurong West, Toa Payoh, Geylang, Clementi, Jurong East, Chinatown, Serangoon, Little India, Bukit Batok, Pasir Ris, CCK/YT/BP, Boon Lay, Redhill, and Sengkang.

While Redhill and Pasir Ris are selected, Little India and Sengkang are not. Expansion, in addition to that already announced, will further add to rental expense.

Aspial 1Q12 result

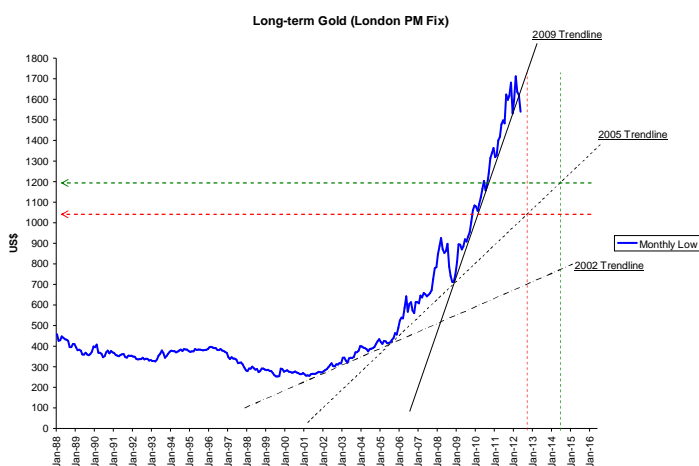
In its recent result announcement, it said, “The Financial Service Business (which is *Maxi-Cash*) continued to achieve substantially higher pre-tax profits. Pre-tax profit for 1Q12 was \$1.7m as compared to \$0.1m in 1Q11. The higher pre-tax profit was contributed by both pawnbroking and retail and trading of pre-owned jewellery and watches.”

“The Group expects its loan portfolio to continue its healthy growth this year. Income from the pawnbroking and trading of pre-owned jewellery and watches are expected to grow further. Therefore, the Group expects its Financial Service Business to perform better in 2012 compared to last year.”

The average gold price in S\$, 1Q12/1Q11, increased by 20.6% (\$1690.57x1.263587/\$1386.26x1.2777778). Please do give credit to the gold price effect if you are using such numbers for your forecasting.

Gold

The author is a long term gold bull but a short term bear. The 2009 trendline had been broken. Relying on the 2005 trendline could mean a slim chance of \$1040 by late 2012 or a better chance of \$1200 by 1H2014.



There is no discussion on any hedging of the gold price. Only the risk disclosure is evident in the prospectus. People, who believe (the author is not one of them) that hedging at a certain cost could make its trading segment better, should factor another element of discount in their forecast.

FYE Dec		IPO: 22 June 2012		
Income Statement (SGD mn)		FY09	FY10	FY11
Revenue		10.0	54.9	87.7
EBITDAR		-3.3	3.6	11.8
Rental		-1.9	-3.5	-5.4
Depreciation		-0.2	-0.8	-1.0
Taxation (net of attributable to finance)		0.7	0.2	-0.6
EBI		-4.7	-0.6	4.7
Net Finance (Expense)/Income		0.0	-1.0	-1.8
Taxation (attributable to finance)		0.0	0.2	0.2
Profit After Tax		-4.7	-1.3	3.1
Less: Non-controlling Interest		0.0	-0.1	0.0
Net Income		-4.7	-1.3	3.1
Source: PSR	Effective tax rate %	13.3%	25.4%	11.9%

FYE Dec		FY09	FY10	FY11
Balance Sheet (SGD mn)				
PPE		2.0	2.7	3.4
Others		1.6	2.5	1.9
Total non-current enterprise assets (1)		3.6	5.2	5.2
Inventories		3.4	6.1	9.3
Trade & other receivables		16.4	64.4	123.9
Others		0.1	0.5	0.6
Total current enterprise assets (2)		19.8	71.1	133.7
Total Enterprise Assets (3)=(1)+(2)		23.4	76.2	139.0
Trade & other payables		2.5	2.1	3.4
Current tax payable		0.0	0.3	0.9
Total current enterprise liabilities (4)		2.5	2.4	4.3
Deferred tax payable		0.0	0.0	0.1
Total non-current enterprise liabilities (5)		0.0	0.0	0.1
Total Enterprise Liabilities (6)=(4)+(5)		2.5	2.4	4.4
Enterprise Book Value (7)=(3)-(6)		20.9	73.8	134.6
Bank borrowing		7.9	44.1	91.0
Loan from immediate holding company		13.4	7.3	2.8
Total current financial liabilities (8)		21.2	51.4	93.7
Bank borrowing		1.0	1.0	0.4
Total non-current financial liabilities (9)		1.0	1.0	0.4
Total Financial Liabilities (10)=(8)+(9)		22.2	52.4	94.1
Cash and bank		1.9	2.9	4.9
Total current financial assets (11)		1.9	2.9	4.9
Others		0.0	0.0	0.0
Total non-current financial assets (12)		0.0	0.0	0.0
Total Financial Assets (13)=(11)+(12)		1.9	2.9	4.9
Net Debt (14)=(10)-(13)		20.3	49.5	89.2
Non-controlling interest		0.6	0.5	0.5
Shareholder Equity		0.1	23.8	44.9
Total Equity (15)		0.6	24.3	45.4
Financing Activities (16)=(14)+(15)		20.9	73.8	134.6

FYE Dec		FY09	FY10	FY11
Cashflow Statements (SGD mn)				
CFO				
PBT		-5.5	-1.8	3.5
Adjustments		0.4	1.8	3.0
Cash from ops before WC ex-financials' changes		-5.1	0.0	6.6
WC ex-financials' changes		-17.5	-51.6	-61.7
Cash generated from operations		-22.6	-51.6	-55.1
Taxes paid, net of attributable finance		0.0	0.0	0.0
Cashflow from Operations (17)		-22.6	-51.6	-55.1
CFI				
PPE, land rights, intangibles net		-0.8	-0.3	-1.1
Others		-0.4	-0.5	0.0
Cashflow from Investments (18)		-1.2	-0.7	-1.1
Cashflow from Enterprise (19)=(17)+(18)		-23.8	-52.3	-56.2
CFF				
Share issuance, net of expenses		0.6	25.0	18.0
Restructure prior IPO				
Loans, net of repayments		7.0	24.0	41.5
Pledged deposits				
Related parties, s/holder, immediate s/holder		17.6	-6.0	-3.7
Dividends to shareholders & capital reduction				
Finance expense, net of income		0.0	-1.0	-1.8
Taxes paid, attributable finance				
Cashflow from Financing (20)		25.1	42.0	53.9
Net change in Cash (21)=(19)+(20)		1.3	-10.3	-2.3
Effects of exchange rates				
CCE, begin		0.1	1.4	-8.9
CCE, end		1.4	-8.9	-11.2
Source: PSR				

Ratings History

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PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
>-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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