

## 8. INDUSTRY OVERVIEW

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The information in this Section 8 is based on market research conducted by Protégé Associates commissioned by Well Chip Group Berhad for the purpose of the IPO.

Date: 14 NOV 2023

The Board of Directors  
Well Chip Group Berhad,  
No. 23-01 & 23-02,  
Jalan Harmonium 35/3,  
Taman Desa Tebrau,  
81100 Johor Bahru

Dear Sirs/Madams,

### **Independent Market Research Report on the Pawnbroking Industry in Malaysia and an Overview of the Gold and Jewellery Market ("IMR Report")**

Protégé Associates Sdn. Bhd. ("**Protégé Associates**") has prepared this IMR Report for inclusion in the Prospectus of Well Chip Group Berhad ("**Well Chip**" or the "**Company**") in relation to its listing on the Main Market of Bursa Malaysia Securities Berhad ("**Bursa Securities**").

We have been engaged to provide an independent market research of the abovementioned industry in which Well Chip and its subsidiaries ("**Well Chip Group**", or the "**Group**") operate in. The market research process undertaken involved secondary research as well as detailed primary research when required, which involves interviews with the relevant stakeholders of the industry to discuss the state of the industry. Quantitative market information could be sourced from such interviews and therefore, the information is subject to fluctuations due to changes in business, industry and economic conditions.

We have prepared this IMR Report in an independent and objective manner and have taken adequate care to ensure the accuracy and completeness of the report. We believe that this IMR Report presents a balanced view of the industry within the boundaries and limitations of secondary statistics, primary research and continued industry movements. Our research has been conducted to present an overall view of the industry and may not necessarily reflect the performance of individual companies in this industry. Protégé Associates is not responsible for the decisions and/ or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies as mentioned in this report.

Thank you.

Yours sincerely,



Seow Cheow Seng  
Managing Director

### **About Protégé Associates Sdn. Bhd.**

*Protégé Associates is an independent market research and business consulting company. Our market research reports provide an in-depth industry and business assessment for companies raising capital and funding in the financial markets; covering their respective market dynamics such as market size, key competitive landscape, demand and supply conditions, government regulations, industry trends and the outlook of the industry.*

### **Profile of signing partner, Seow Cheow Seng**

*Seow Cheow Seng is the Managing Director of Protégé Associates. He has 23 years of experience in market research, having started his career at Frost & Sullivan where he spent 7 years. He has a Master in Business Administration from Charles Sturt University, Australia and Bachelor of Business majoring in Marketing from RMIT University, Australia.*

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The research for this IMR Report was completed on November 2023

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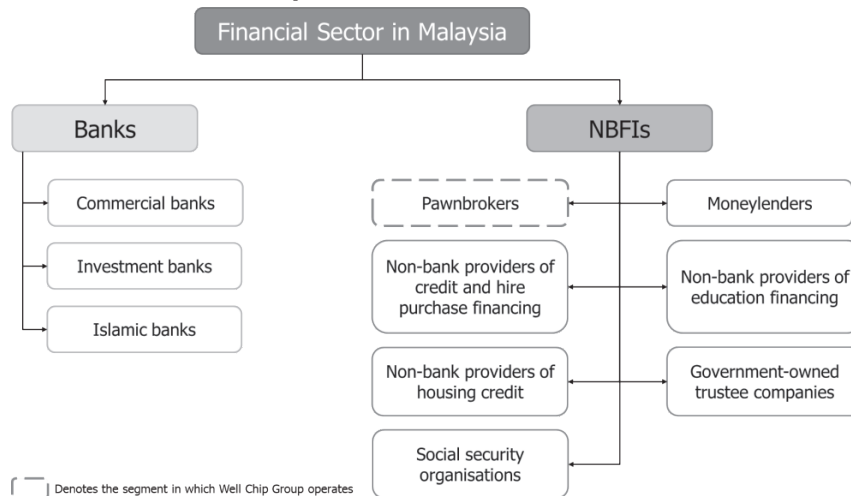
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### 1.0 Overview of the Pawnbroking Industry in Malaysia

The financial sector in Malaysia comprises banks and non-bank financial institutions ("NBFIs") that provide a variety of financial services, which include, amongst others, management of money and assets as well as provision of loans and investment products to the public. Banks comprise commercial banks, investment banks, and Islamic banks while NBFIs comprise, amongst others, pawnbrokers, moneylenders, non-bank providers of credit and hire purchase financing, non-bank providers of education financing, non-bank providers of housing credit, government-owned trustee companies, and social security organisations.

**Figure 1: Financial sector in Malaysia**



Source: Bank Negara Malaysia ("BNM")

Banks are regulated by BNM while NBFIs are regulated by other authorities such as government ministries, the Malaysia Co-operative Societies Commission, the Securities Commission Malaysia, and the Ministry of Local Government Development otherwise known as the *Kementerian Pembangunan Kerajaan Tempatan* ("KPKT").

Pawnbroking service is a form of micro-financing extended by pawnbrokers in the form of pawn loans, which are short-term collateralised loans. Pawnbroking service in Malaysia is governed by KPKT and regulated under the Pawnbrokers Act 1972 ("PA 1972"). Customers of pawnbrokers are individuals seeking loans that are part of the financially unserved or underserved population or are unable to obtain loans from banks or other NBFIs. Customers seeking pawnbroking services must be aged 18 and above. Customers generally pledge valuable goods such as gold jewellery, minted gold bars, or luxury items such as branded watches and gems as collateral for their pawn loans.

The PA 1972 sets out the regulations for all licensed pawnbrokers operating in Malaysia, which include amongst others, the prescribed interest rate, administrative fees chargeable to pawnbroking customers, and the administrative procedures related to unredeemed pledged items. According to the PA 1972 and Pawnbrokers (Control and Licensing) Regulations 2004, a pawnbroker may offer:

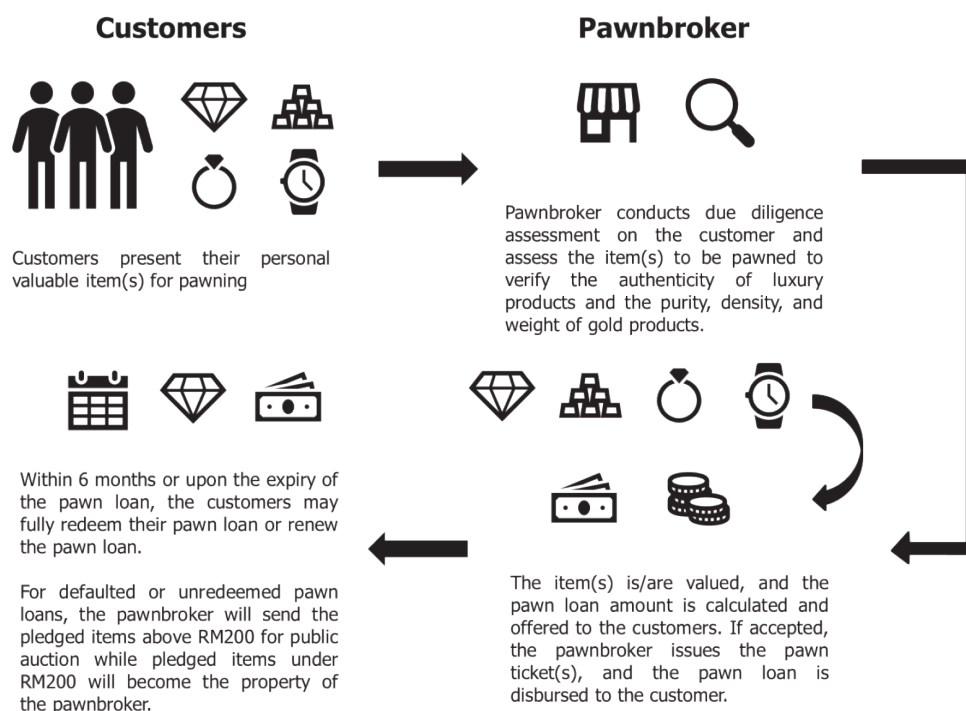
- (i) a maximum pawn loan amount of RM10,000 for each pawn ticket issued, and each pawn loan offered can comprise one or more pledges. Nevertheless, as clarified by the notice issued by the KPKT dated 22 November 2023, a pawnbroker may offer a maximum pawn loan amount of RM500,000 for each pawn ticket issued, and each pawn loan offered may comprise one or more pledges;
- (ii) maximum monthly interest of 2.0% on the pawn loan amount over a pawn loan period of 6 months; and
- (iii) maximum one-off administrative fee of RM0.50 for issuance of pawn tickets for pawn loans amounting to more than RM10.00.

## 8. INDUSTRY OVERVIEW (Cont'd)



The figure below depicts the general steps involved in a pawn loan transaction:

**Figure 2: Illustration of a pawn loan transaction**



In addition to conventional pawnbroking services, Ar-Rahnu services (Islamic pawnbroking services that comply with Shariah principles) are also provided in Malaysia. Like conventional pawnbroking services, an individual is provided with a loan in exchange for pledging valuable item(s). However, individuals are only allowed to pawn gold jewellery (without precious stones), gold coins, and gold wafers. Instead of charging interest on the loan, Ar-Rahnu service providers will charge the individuals either a service fee or a profit fee for the safekeeping of the valuable item(s). If the loan amount is not repaid within the agreed period, the Ar-Rahnu service providers have the right to seize and auction the pledged valuable item(s). In Malaysia, Ar-Rahnu services are provided by banks and NBFIs such as state-linked companies and cooperatives. Banks offering Ar-Rahnu services are governed by BNM under the Islamic Financial Services Act 2013. State-linked companies are governed by their respective state governments while cooperatives are governed by the Malaysia Co-operative Societies Commission under the Co-operative Societies Act 1993. As Ar-Rahnu services do not use the principle of interest (*riba*), Ar-Rahnu is Shariah-compliant. Thus, Ar-Rahnu services represent an alternative option to conventional pawnbroking for Muslim individuals who prefer to use financial services that are structured in accordance with Shariah principles.

### 2.0 Historical Market Performance and Growth Forecast

Protégé Associates has provided the historical performance and growth forecast of the pawnbroking industry in Malaysia based on a combination of resources, including the data from the KPKT and the annual reports of public listed pawnbroking companies. Data is also gathered from further secondary and primary research works conducted. Searches on private pawnbroking companies are also conducted with the Companies Commission of Malaysia to gather more disclosures on their business performance. Primary research works are conducted with stakeholders in the local pawnbroking industry to gather their insights on the industry. All the findings are collated, analysed and/or computed to ascertain the outlook of the pawnbroking industry in Malaysia.

**Figure 3: Historical Size (Revenue) and Growth Forecast for the Pawnbroking Industry in Malaysia, 2020-2027**

Year	Size (RM billion)	Growth Rate (%)
2020	1.82	-

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Year	Size (RM billion)	Growth Rate (%)
2021	2.22	21.3
2022	2.47	21.9
2023f	2.74	11.0
2024f	3.07	11.8
2025f	3.42	11.5
2026f	3.80	11.2
2027f	4.20	10.6

Notes:

f denotes forecast

Compound annual growth rate ("CAGR") (2022-2027) (base year of 2021) = 11.1%

Source: Protégé Associates

Due to the COVID-19 pandemic and subsequent lockdown measures implemented by the Malaysian government, non-essential businesses were required to temporarily close and suspend their operations. As a result, Malaysia's average household income decreased, as businesses responded to the pandemic's uncertainties by implementing cost-saving measures such as retrenchments and salary reductions. The adverse impact on individuals' incomes may have prompted them to utilise pawnbroking services to access funds in a time-efficient manner to support their financial needs. As a result, the pawnbroking industry in Malaysia continued to perform positively between 2020 and 2022.

Moving forward, the Malaysian pawnbroking industry is forecasted to expand at a CAGR of 11.1% from RM2.47 billion in 2022 to RM4.20 billion in 2027. Growth of the industry is expected to be driven by demand from individuals that need immediate financing and from the unserved population who do not have a bank account; uncertain economic conditions caused by weaker global economic growth, geopolitical conflict, higher inflation rate, and tightening of financial conditions; and growing number of active licenced pawnbrokers, which improves the availability and accessibility to pawnbroking services.

On the other hand, growth of the Malaysian pawnbroking industry may be affected by factors such as the availability of alternate financing services, the regulations governing the industry, and the capital requirements required for pawnbroking business.

### 3.0 Competitive Analysis

#### 3.1 Competitive Landscape

Based on the latest available statistics from the KPKT, there are 728 active licenced pawnbrokers in Malaysia in 2021. The number of active licenced pawnbrokers in Malaysia has increased at a CAGR of 7.1% from 516 active licenced pawnbrokers in 2017 to 728 active licenced pawnbrokers in 2021. With 212 active licenced pawnbrokers, Selangor had the highest number of active licenced pawnbrokers in 2021. This was followed by Johor (103) and Kuala Lumpur (77) with the second and third highest number of active licenced pawnbrokers respectively. The number of active licenced pawnbrokers in Malaysia further increased to 789 active licenced pawnbrokers in the third quarter of 2022. The states with the top three highest number of active licenced pawnbrokers in the third quarter of 2022 were Selangor (229), Johor (125), and Kuala Lumpur (80).

#### 3.2 Industry Players Analysis

For the purpose of this report, Protégé Associates has used the following criteria when selecting other industry players in Malaysia for comparison with Well Chip Group:

- own and/or operate 3 or more licensed pawnbroking outlets in Johor; and/or
- industry players that are publicly listed in Malaysia or are wholly-owned subsidiaries of public listed companies in Singapore.

It needs to be highlighted that the list of industry players used for comparison purpose is not exhaustive. The list of industry players only serves as a reference for readers.

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Figure 4: Comparison between Well Chip Group and Selected Industry Players

Company	Information from FYE	Revenue (RM'000)	Gross Profit/(Loss) (RM'000)	Profit/(Loss) before Tax (RM'000)	Profit/(Loss) after Tax (RM'000)	Gross Profit/(Loss) Margin <sup>1</sup> (%)	Profit/(Loss) before Tax Margin <sup>2</sup> (%)	Profit/(Loss) after Tax Margin <sup>3</sup> (%)	Gearing ratio <sup>7</sup>
Well Chip Group	31 December 2022	158,125 <sup>(a)</sup>	62,533	32,746	25,157	39.5	32.1	23.3	1.41
Evergreen Max Cash Capital Berhad <sup>4</sup>	31 December 2022	67,173 <sup>(b)</sup>	23,435	24,228	20,051	34.9	36.1	29.9	0.52
Pappajack Berhad <sup>4</sup>	31 December 2022	69,963 <sup>(c)</sup>	22,301	14,574	10,117	31.9	20.8	14.5	0.16
<b>Maxi Cash Group of Companies<sup>5</sup></b>									
Maxi Cash (S1) Sdn. Bhd.	31 December 2022	1,894 <sup>(d)</sup>	1,011	52	42	53.4	2.8	2.2	1.78
Maxi Cash (S2) Sdn. Bhd.	31 December 2022	1,841 <sup>(d)</sup>	1,063	277	193	57.7	15.1	10.5	1.15
Maxi Cash (S3) Sdn. Bhd.	31 December 2022	1,368 <sup>(d)</sup>	651	-187	-189	47.6	-13.6	-13.8	1.08
<b>MoneyMax Group of Companies<sup>6</sup></b>									
Pajak Gadai MoneyMax (Bandar Baru Uda) Sdn. Bhd.	31 December 2022	376 <sup>(e)</sup>	N/A	76	76	N/A	20.2	20.2	2.06
Pajak Gadai MoneyMax (Batu Pahat) Sdn. Bhd.	31 December 2022	9 <sup>(e)</sup>	N/A	-60	-60	N/A	-689.9	-689.9	0.19
Pajak Gadai MoneyMax (Kluang) Sdn. Bhd.	31 December 2022	13 <sup>(e)</sup>	N/A	-80	-80	N/A	-597.8	-597.8	0.22
Pajak Gadai MoneyMax (Kulai) Sdn. Bhd.	31 December 2022	40 <sup>(e)</sup>	N/A	-62	-62	N/A	-153.5	-153.5	0.43
Pajak Gadai MoneyMax (Larkin) Sdn. Bhd.	31 December 2022	207 <sup>(e)</sup>	N/A	-58	-58	N/A	-27.9	-27.9	1.28
Pajak Gadai MoneyMax (Masai) Sdn. Bhd.	31 December 2022	204 <sup>(e)</sup>	N/A	-61	-61	N/A	-29.8	-29.8	1.13
Pajak Gadai MoneyMax (Pandani) Sdn. Bhd.	31 December 2022	- <sup>(e)</sup>	N/A	-18	-18	N/A	N/A	N/A	N/A
Pajak Gadai MoneyMax (Senai) Sdn. Bhd.	31 December 2022	10 <sup>(e)</sup>	N/A	-72	-72	N/A	-693.5	-693.5	0.25
Pajak Gadai MoneyMax (Seri Orkid) Sdn. Bhd.	31 December 2022	- <sup>(e)</sup>	N/A	-49	-49	N/A	N/A	N/A	N/A
Pajak Gadai MoneyMax (Skudai) Sdn. Bhd.	31 December 2022	- <sup>(e)</sup>	N/A	-35	-35	N/A	N/A	N/A	N/A
Pajak Gadai MoneyMax (Taman Daya Sagu) Sdn. Bhd.	31 December 2022	100 <sup>(e)</sup>	N/A	-94	-94	N/A	-93.5	-93.5	0.61
Pajak Gadai MoneyMax (Taman Daya) Sdn. Bhd.	31 December 2022	199 <sup>(e)</sup>	N/A	-158	-158	N/A	-79.5	-79.5	4.78
Pajak Gadai MoneyMax (Tun Aminah) Sdn. Bhd.	31 December 2022	- <sup>(e)</sup>	N/A	-109	-109	N/A	N/A	N/A	N/A
<b>Maxwynn Group of Companies</b>									
Pajak Gadai Max Wynn Holdings Sdn. Bhd.	31-Dec-21	44,347 <sup>(f)</sup>	3,241	1,447	1,103	7.3	3.3	2.5	1.54
Pajak Gadai MGS Sdn. Bhd.	30-Jun-22	8,600 <sup>(f)</sup>	597	143	116	6.9	1.7	1.3	0.25
Pajak Gadai GWS Sdn. Bhd.	30-Jun-22	10,263 <sup>(f)</sup>	714	104	55	7.0	1.0	0.5	0.32
Pajak Gadai Thye Long Hup Kee Sdn. Bhd.	31-Dec-21	36,344	2,458	878	677	6.8	2.4	1.9	4.81
Pajak Gadai Maxwynn (B.Indah) Sdn. Bhd.	31-Dec-21	- <sup>(g)</sup>	N/A	-261	-265	N/A	N/A	N/A	N/A

## 8. INDUSTRY OVERVIEW (Cont'd)



Company	Information from FYE	Revenue (RM'000)	Gross Profit/(Loss) (RM'000)	Profit/(Loss) before Tax (RM'000)	Profit/(Loss) after Tax (RM'000)	Gross Profit/(Loss) Margin <sup>1</sup> (%)	Profit/(Loss) before Tax Margin <sup>2</sup> (%)	Profit/(Loss) after Tax Margin <sup>3</sup> (%)	Gearing ratio <sup>(7)</sup>
Pajak Gadai Maxwym (T-1) Sdn. Bhd.	31-Dec-21	- <sup>(6)</sup>	N/A	-73	-74	N/A	N/A	N/A	0.48
Pajak Gadai Maxwym (P. Gudang) Sdn. Bhd.	31-Dec-21	12 <sup>(6)</sup>	6	-276	-276	49.5	-2,307.4	-2,307.4	N/A
Pajak Gadai Maxwym (Kluang) Sdn. Bhd.	31-Dec-21	- <sup>(6)</sup>	N/A	-14	-14	N/A	N/A	N/A	N/A
Pajak Gadai Maxwym (BP) Sdn. Bhd.	31-Dec-21	- <sup>(6)</sup>	N/A	-168	-173	N/A	N/A	N/A	0.04

Notes:

1. Gross Profit/(Loss) Margin = Gross Profit/(Loss) / Revenue
2. Profit/(Loss) before Tax Margin = Profit/(Loss) before Tax / Revenue
3. Profit/(Loss) after Tax Margin = Profit/(Loss) after Tax / Revenue
4. EMCC Berhad and Pappajack Berhad are listed on the ACE Market of Bursa Malaysia Securities Berhad.
5. Maxi Cash Financial Services Corporation Ltd, a company listed on the Catalist Board of the Singapore Exchange Securities Trading Limited with a total turnover revenue of 319.0 million Singapore Dollars ("SGD") in 2022, of which SGD19.2 million (approximately RM61.3 million, based on the average exchange rate of SGD1 = RM3.1913 as published by BNM from 3 January 2022 to 30 December 2022) was contributed by revenue from subsidiaries in Malaysia (5 subsidiaries), Hong Kong (3 subsidiaries), and Australia (3 subsidiaries). Presented are wholly-owned subsidiaries of Maxi Cash Financial Services Corporation Ltd that are operating in Johor Bahru only.
6. MoneyMax Financial Services Ltd, a company listed on the Catalist Board of the Singapore Exchange Securities Trading Limited, with a total turnover revenue of 253.5 million SGD in 2022, of which SGD21.0 million (approximately RM67.0 million, based on the average exchange rate of SGD1 = RM3.1913 as published by BNM from 3 January 2022 to 30 December 2022) was contributed by revenue from subsidiaries in Malaysia (72 subsidiaries). Presented are wholly-owned subsidiaries of MoneyMax Financial Services Ltd, that are operating in Johor Bahru only.
7. Computed as total loans and borrowings (including other payables such as amount due to related parties, directors, and holding companies) divided by total equity.
- (a) Revenue comprises interest income and administrative fees for pawnbroking services as well as retail sales of jewellery and gold, and sales of scrap gold.
- (b) Revenue comprises interest income and administrative fees for pawnbroking services as well as retail sales of unredeemed pledges, pre-owned gold products, and new gold products.
- (c) Revenue comprises sale of jewellery and interest income from pawnbroking services as well as sale of unredeemed or bid pledges.
- (d) Revenue comprises interest income.
- (e) Revenue comprises revenue from contracts with customers.
- (f) The company has not commenced business operations during the financial period.
- (g) Revenue comprises revenue from and interest earned on redeemed pledges, sales of and interest accrued on unredeemed pledges, as well as pledge redemption fee.
- (h) Revenue comprises revenue from and interest earned on redeemed pledges, interest accrued on unredeemed pledges, as well as pledge redemption fee.
- (i) Source: Well Chip, Companies Commission of Malaysia, annual reports of Pappajack Berhad, Maxi Cash Financial Services Corporation Ltd, and MoneyMax Financial Services Ltd, Prospectus of Evergreen Max Cash Capital Berhad, and Protégé Associates

### 3.3 Estimated Market Share

Based on the total estimated market size (computed based on the revenues of pawnbroking players in the country) of the pawnbroking industry in Malaysia of RM2.47 billion in 2022 (Source: Protégé Associates), Well Chip Group's revenue of RM158.1 million for FYE 31 December 2022 represents a 6.4% market share of the pawnbroking industry in Malaysia in 2022.

Protégé Associates estimated the size of the pawnbroking industry in Johor in 2022 based on the industry players' revenue to be RM408.0 million. Accordingly, Well Chip's revenue of RM158.1 million for FYE 31 December 2022 represents a 38.8% market share of the pawnbroking industry in Johor in 2022.



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### 4.0 Demand Conditions

**Figure 8: Demand Conditions Affecting the Pawnbroking Industry in Malaysia, 2023-2027**

Impact	Demand Conditions	Short-Term	Medium-Term	Long-Term
		2023-2024	2025-2026	2027
+	Pawnbroking services provide immediate access to funds	High	High	High
+	Pawnbroking services provide financing services to the unserved or underserved population	High	High	High
+	Uncertain economic conditions	High	Medium	Medium
-	Availability of alternative financing services	Medium	Medium	Medium

Source: Protégé Associates

#### **Pawnbroking services provide immediate access to funds**

Demand for pawnbroking services in Malaysia is likely to arise from the ability of pawnbrokers to provide customers with immediate access to funds. Conventional financial institutions like banks offer financing to customers but approval of financing is subject to time-consuming stringent checks and a thorough application process which is dependent on factors such as the customer's credit score rating, income information, and background checks. Customers who are unable to meet the requisite requirements may only be offered a part of the financing or none. Thus, customers with poor credit score ratings or without proof of income would find it difficult to obtain timely financing from conventional financial institutions such as banks. In general, pawnbrokers' due diligence on customers are not as stringent compared to conventional financial institutions. Additionally, pawn loans can be processed and disbursed on immediate basis upon verification or within the same day. As such, loans provided by pawnbroking services are alternative source of immediate financing solutions to borrowers.

#### **Pawnbroking services provide financing services to the unserved population**

The pawnbroking industry in Malaysia is also expected to be driven by demand from the country's unserved population. The unserved population refers to the adult population that do not have a bank account to deposit or withdraw money. The BNM estimates that 5% of the adult population was unserved in 2020. The World Bank estimates that 11.6% of Malaysian individuals aged 15 years and above were unserved in 2021. Without a bank account, an individual would have difficulty in showing track record of their income or be able to obtain a credit score rating, which would make it difficult to meet the stringent requirements to obtain financing from conventional financial institutions. Pawnbrokers provide an alternative financing method for such customers to obtain financing as they only need to provide proof of identity and the valuable item(s) to be pawned.

#### **Uncertain Economic Conditions**

Uncertain economic conditions are likely to drive the demand for pawnbroking services. The onset of the COVID-19 pandemic and subsequent slowdown in global economic activities had led to a contraction of world output by 3.1% in 2020 before rebounding to register a growth of 6.3% in 2021. The recovery trend continued in 2022, with global output estimated to grow by 3.5% during the year. Global output is projected to expand, albeit at a slower pace, at 3.0% in 2023 and 2.9% in 2024. In Malaysia, the gross domestic product ("GDP") contracted by 5.6% in 2020 before rebounding to register growth of 3.1% in 2021 and a growth of 8.7% in 2022. BNM projects the country's GDP to expand by 4.0% to 5.0% in 2023, slowing slightly from the previous year. While BNM expects the Malaysian economy to continue growing, growth of the Malaysian economy in short-term is likely to be affected by downside risks such as weaker global growth, escalating geopolitical conflict, higher inflation rate, and tightening of financial conditions. Weaker economic growth and a high inflation environment may lead to a decrease in income and a decrease in consumer spending power. Individuals who have experienced a negative impact on their income and require additional funds may then utilise pawnbroking services to obtain immediate funds to sustain themselves.

#### **Availability of alternative financing services**

Demand for pawnbroking services in Malaysia may be affected by the availability of alternative sources of financing. As discussed above, customers may opt for loans from conventional financial institutions like banks if they have a good credit score rating, proof of steady income, or do not require funds on an immediate basis. Although these sources of financing may not be a like-for-like substitute for the immediate secured financing obtained through pawn loans, they represent an alternative to pawn loans



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that may lead to a decrease in demand for pawnbroking services. Additionally, Muslim individuals may opt for Ar-Rahnu services, a Shariah-compliant form of pawnbroking, which may also affect demand for conventional pawnbroking services.

### 5.0 Supply Conditions

**Figure 5: Supply Conditions Affecting the Pawnbroking Industry in Malaysia, 2023-2027**

Impact	Supply Conditions	Short-Term	Medium-Term	Long-Term
		2023-2024	2025-2026	2027
+	Increasing number of active licenced pawnbrokers	High	High	High
-	Regulations that govern the pawnbroking industry	Low	Low	Low
-	High capital requirements to carry out pawnbroking services	Low	Low	Low

Source: Protégé Associates

#### Increasing number of active licenced pawnbrokers

The pawnbroking industry in Malaysia is expected to be supported by the number of active licenced pawnbrokers in the country. As seen in Section 4.1, the number of active licenced pawnbrokers in Malaysia has increased at a CAGR of 7.1% from 516 active licenced pawnbrokers in 2017 to 728 active licenced pawnbrokers in 2021. The number of active licenced pawnbrokers in Malaysia further increased to 789 active licenced pawnbrokers in the third quarter of 2022. The availability of pawnbrokers in Malaysia will enable the public to access pawnbroking services easily. There is also potential for new pawnbroking outlets to be established in states where there are fewer active licenced pawnbrokers.

#### Regulations that govern the pawnbroking industry

Pawnbrokers are regulated under the PA 1972 which sets out, amongst others, the maximum prescribed interest rate, administrative fees chargeable to pawnbroking customers, and the administrative procedures related to unredeemed pledged items. In the event that changes to the regulations result in a lower maximum prescribed interest rate, pawnbrokers may experience an adverse effect on their profitability which may result in pawnbrokers ceasing operations or reconsidering their expansion plans to establish new pawnshops or may dissuade new entrants from entering the industry. Furthermore, in the event that changes to the regulations result in additional compliance requirements or stricter standards, incumbent industry players may not be able to comply with the new requirements, leading to a decrease in number of pawnbrokers in the country.

Nevertheless, larger industry players with greater capital resources may not be affected by the aforementioned changes in regulations governing the pawnbroking industry. Larger industry players with greater capital resources may be able to adjust to lower maximum interest rates by adjusting their business model to remain profitable. Similarly, they may be able to invest in the necessary infrastructure or to comply with the additional compliance requirements or stricter standards due to changes in the PA 1972. Whilst changes in the PA 1972 may increase the barrier to entry to the pawnbroking industry, it may provide opportunities for incumbent industry players to solidify their position in the market and expand their operations, thus leading to a growth in the local pawnbroking industry.

#### High capital requirements to carry out pawnbroking services

The growth of Malaysian pawnbroking industry may be constrained by the high capital requirements to undertake pawnbroking services. Pawnbrokers are required to have high cash capital in order to disburse pawn loans to their customers in exchange for valuable items such as gold jewellery, minted gold bars, or luxury items such as branded watches and gems. Limited cash capital will affect the pawnbroker's ability to scale up its operations and may adversely affect the growth of the industry. Additionally, high cash capital requirements may deter new entrants into the industry which would also negatively affect the potential for the industry to expand. On the other hand, the high capital requirements deterring new entrants into the industry may be advantageous for incumbent industry players who are then able to strengthen their position in the market and further expand their operations.

## 8. INDUSTRY OVERVIEW (Cont'd)



### **6.0 Prospect and Outlook of the Pawnbroking Industry in Malaysia**

The outlook of the pawnbroking industry in Malaysia is expected to be positive during the forecast period. Growth is expected to be supported by continued demand for pawnbroking services and a trend of growing number of active licenced pawnbrokers. Pawnbrokers are able to offer individuals financing without the checks on their credit score rating, or income information, which are usually required by banks when applying for loans. Pawn loans can also be disbursed on immediate basis upon verification or within the same day, making pawnbrokers a swift financing option. As such, pawnbroking services will likely continue to be in demand as a source of immediate financing. Additionally, demand is expected to also be driven by the unserved population. Without a bank account and proof of income or a credit score, the unserved are unlikely to be able to obtain a loan from banks, which may encourage them to approach pawnbrokers for their financing needs. The pawnbroking industry in Malaysia is also likely to benefit from the uncertain economic conditions caused by the COVID-19 pandemic, geopolitical conflict, weaker global economic growth, and inflationary environment. As a weaker economic growth and inflationary environment may lead to lower income and spending power, individuals may choose to utilise pawnbroking services to finance their needs. The local pawnbroking industry is also expected to be supported by a growing number of active licenced pawnbrokers in the country as a larger number of pawnbrokers will likely improve the availability and accessibility to pawnbroking services.

Conversely, the local pawnbroking industry may be affected by the availability of other forms of financing such as financing from banks or through unsecured loans. While such options do not represent a like-for-like alternative to pawnbroking services, they are considered alternative financing options that may reduce the demand for pawnbroking services. Muslim individuals who prefer to use financial services that are structured in accordance with Shariah principles may opt for Ar-Rahnu services rather than conventional pawnbroking. The industry may also be constrained by the regulations that govern the industry. Adverse changes to regulations may see incumbent industry players leaving the industry or new entrants deterred from joining the industry. The high capital requirements may also deter new entrants from joining the industry, thus affecting the industry's ability to expand. While changes to the regulations and high capital requirements may deter new entrants from joining the industry and limiting growth of the industry in the future, the aforementioned factors may allow incumbent industry players with sufficient capital resources and experience to strengthen their position in the industry. This may lead to expansion of their operations and a general growth in the local pawnbroking industry.

Overall, the Malaysian pawnbroking industry is expected to be resilient during the forecast period. The industry is forecast to expand at a CAGR of 11.1% from RM2.40 billion in 2022 to RM4.20 billion in 2027.

### **7.0 Overview of the Gold and Jewellery Market**

Gold is a rare and precious metal that has a range of properties such as good electrical conductivity, resistance to corrosion, does not tarnish easily, and a brilliant lustre. As such, gold is widely used, including as a raw material for manufacturing electronics and industrial products, jewellery or for investment.

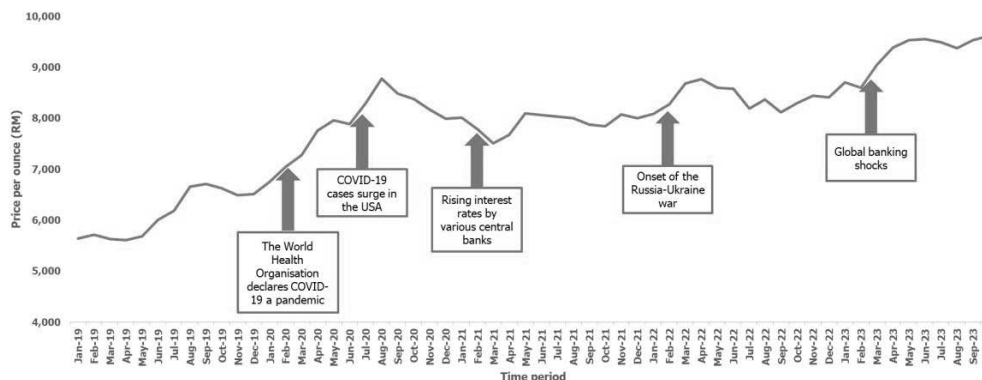
#### **7.1 Gold Price Trend**

Gold can be a type of investment, generally in the form of gold coins, gold bullions, gold bars, or minted gold bars. Gold is a commodity and as such is subject to fluctuations in global prices as a result of supply and demand conditions, inflation, and the global economic situation. The figure below shows the price of gold per ounce from January 2019 to March 2023. Gold price had increased from approximately RM5,640 per ounce in January 2019 to approximately RM9,622 per ounce in October 2023.

## 8. INDUSTRY OVERVIEW (Cont'd)



**Figure 6: Gold price, January 2019 to October 2023**



Source: BNM

*Note: Gold prices were taken from the selling price of 1 ounce of Kijang Emas, which is the Malaysian gold bullion coin*

Gold prices began to rise in the second half of 2019 as a result of a low interest rate environment, on-going geopolitical issues between the United States of America ("USA") and the People's Republic of China ("PRC"), and strong demand from central banks around the world. The onset of the COVID-19 pandemic in early 2020 led to economic uncertainty and governments around the world responded by establishing decisive fiscal and monetary policies to support their economies. The uncertainty in the economy saw the United States Dollar ("USD") and stock markets around the world weaken, leading to investors investing into gold. According to the World Gold Council, demand for gold from investments surged by 39.7% from 1,269.2 tonnes in 2019 to 1,773.2 tonnes in 2020. The significant rise in demand for gold from investments together with the weakness of the USD and ongoing trade tensions between the USA and the PRC contributed further to the rising price of gold especially in the first half of 2020.

In the second half of 2020, gold prices fell from its mid-year high, albeit still above 2019 prices. Countries began to control the spread of COVID-19 more effectively, global stock markets had begun to recover and perform well, and the news of COVID-19 vaccines prompted positive views for the global economy, which all contributed to the decrease in gold prices in the second half of 2020. In 2021, gold prices dipped slightly in the early months of the year before rising and remaining around the RM8,000 per ounce mark throughout the year. The slight decline came considering vaccine rollout and shifts from investment in gold to more high-risk forms of investment. The increase in gold prices throughout the remainder of 2021 was due to increasing inflation and growing demand for gold jewellery as economies continued to recover from COVID-19 induced slowdown. Investment in gold from retail investors also supported the price of gold for the remainder of 2021.

Gold prices rose again in beginning of 2022 and remained above RM8,000 per ounce despite a rising interest rate environment and a strong USD due to continued demand for gold as an investment and rising inflation, as well as the Russia-Ukraine war. Thereafter the gold price decreased in the middle of 2022 in response to the balance between rising interest rates announced by federal banks around the world and factors such as persistently high inflation and the Russia-Ukraine war. In the second half of 2022, gold prices initially fell as a result of the strong USD and lower investment in gold before rising again due to lower yields from other forms of investment. Gold prices further increased in 2023 resulting from fears of a global financial crisis due to global banking turmoil arising from the collapse of Silicon Valley Bank in the USA and the stressed sale of Swiss bank Credit Suisse to a fellow Swiss bank UBS.

### **7.2 Gold Production and Usage**

Gold supply comes from mine production and recycled gold production. According to the World Gold Council, there was 4,754.5 tonnes of gold supply in 2022, an increase of 1.5% from 4,682.4 tonnes in 2021. Of the 4,754.5 tonnes supplied in 2022, mine production accounted for 3,611.9 tonnes while recycled gold accounted for 1,144.1 tonnes. Mine production and recycled gold production were offset by 1.5 tonnes of gold hedged by producers during 2022. Major gold producing (mine production) countries are China, Russia, and Australia.

## 8. INDUSTRY OVERVIEW (Cont'd)



According to the World Gold Council, global gold demand was 4,740.7 tonnes in 2022, an increase of 18.1% from 4,012.8 tonnes in 2021. The largest demand came from use in jewellery, which made up 2,189.8 tonnes or 46.2% of the total demand in 2022. This was followed by demand from central banks and other institutions (1,135.7 tonnes, 24.0%), demand for gold as investment (1,106.8 tonnes, 23.3%), and demand from technology (in which gold is used in the fabrication of electronics, dental, medical, decorative and other technological applications) (308.5 tonnes, 6.5%).

In Malaysia, 1,781kg of gold was mined in 2021, representing a slight increase from 1,716kg of gold mined in 2020. According to the World Gold Council, Malaysia recorded demand for gold for jewellery of 9.1 tonnes in 2022, an increase from 7.0 tonnes in 2021. The demand for investment (in terms of bar and coin) also increased from 4.4 tonnes in 2021 to 5.5 tonnes in 2022.

As mentioned above, there is strong demand for gold to be used in jewellery. Jewellery refers to ornamental piece such as rings, necklaces, earrings, and bracelets made of materials which may or may not be precious such as gold, silver, glass, and plastic and are often set with genuine or imitation gems. Jewellery can be segmented into fine jewellery and costume jewellery. Fine jewellery refers to jewellery that is mainly made from precious metals such as gold, silver, or platinum and gemstones such as diamonds, jade, pearls, and sapphires. Costume jewellery on the other hand refers to jewellery that is made of base metals such as brass and copper and imitation gems such as cubic zirconia and plastic stones. In Malaysia, the sales value of manufactured jewellery products (including bijouterie and other related articles) amounted to RM5.65 billion in 2022, an increase of 25.6% from RM4.50 billion in 2021.

### **7.3 Demand and Supply Conditions**

Demand for gold and jewellery products is expected to be driven by growing consumer disposable income. The growth of the Malaysian economy over the years has resulted in greater affluence of the population. The per capita income of Malaysia rebounded from RM42,598 in 2020 to RM46,051 in 2021. More recently, the per capita income surged to RM53,043 in 2022. As the population grows more affluent and their disposable income increases, it is likely to lead to an increase in the population purchasing gold products.

The value of gold products as a stable and reliable form of investment is also likely to support the local market. Gold has a history of maintaining its value and people view gold as something that can be used to preserve their wealth. Gold can be used to hedge against inflation when prices rise and the purchasing power of paper currency declines. Gold is a more stable asset compared to stock, whose prices may decline during periods of market downturn. Accordingly, people may choose to purchase gold products such as gold coins, minted gold bars, and gold jewellery as a way to preserve their wealth. Although the Malaysian and global economy are on a recovery trend after the COVID-19 induced economic slowdown, there are still downside risks to the economy including escalating geopolitical conflict and continued disruption to supply chains. With such volatility, it is likely that people will invest in gold due to its reliability and strong value.

The demand for gold and jewellery is also expected to arise from affinity for fine jewellery (including gold jewellery). In various Asian cultures, gold and jewellery are prized and often given as gifts during special occasions such as weddings and the birth of a new baby. Together with the growing affluence of the Malaysian population, the preciousness of gold jewellery is expected to continue driving the growth of the gold jewellery market in Malaysia.

On the supply side, the gold jewellery market may be affected by the availability and price of gold. While there are gold mines in Malaysia, Malaysia only mines a small amount of gold. In 2021, 1,781kg of gold was mined in Malaysia, a slight increase from 1,716kg of gold mined in 2020. The gold mined in 2020 and 2021 declined compared to 3,151kg of gold mined in 2019. The lack of raw materials may adversely affect the ability of local gold jewellery manufacturers to manufacture their wares. Nevertheless, gold used to manufacture gold jewellery may be obtained through imports. Malaysia imported 73.4 tonnes of gold valued at RM17.4 million in 2021 (2020: approximately 39.8 tonnes valued at RM9.4 million).

Overall, the gold and jewellery market in Malaysia is expected to be resilient in the next 5 years from 2023 to 2027 despite the limited local raw material supply. The growth of the Malaysian economy has resulted in growing affluence of the population which is expected to drive demand for gold and jewellery products as more people can afford such items. Additionally, gold and jewellery products are viewed as reliable forms of investment that can be used to preserve wealth which makes it attractive as investments against economic uncertainty. Furthermore, affinity for gold jewellery as gifts for special occasions will also likely support the local market in future.