

JAYMART PLC

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CORPORATES

Company Rating: BBB
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
18/03/16	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating of Jaymart PLC (JMART) at “BBB”. The rating reflects JMART’s relatively strong competitive position in its core business, the trading of mobile phone handsets and related products, operated by its subsidiary, Jaymart Mobile Co., Ltd. The rating takes into consideration the company’s improving revenues from business diversification, mainly debt collection and management. The rating is partly offset by the competitive mobile handset market, a potential rise in JMART’s leverage to support further diversification, increased credit risk from its consumer lending business, and unproven success in the retail space rental business.

KEY RATING CONSIDERATIONS

Stable market share and revenue improvement for core business

Jaymart Mobile is a major wholesale and retail trader of mobile phones in Thailand. The company is ranked No. 1 by GFK, an international research company, with a stable market share at 9.0% in 2017. Total revenue for mobile handsets and accessories excluding sales promotion income was Bt10,073 million in 2017, an 11.0% increase from 2016. The growth was driven mainly by increased sales of mobile handsets and cameras through the Group’s distribution channels.

Profitable debt management business supports Group’s performance

The mobile phone handset business is the largest revenue contributor, at 80.0% of the Group’s total revenue of Bt12,634 million in 2017. However, due to the lower margin, in the range of 16.0%-17.0%, this segment contributed 58.0% of consolidated net profit. The debt collection and management business and other related business operated by JMT Network Services PLC (JMT), provided only 15.0% of total revenue in 2017 but contributed 48.0% of net profit. This was due to JMT’s higher gross margin, in the range of 50.0%-60.0%.

The revenue from the debt collection and management business and other related business was Bt1,356 million in 2017, a 27.0% increase from 2016. The revenue contribution was from its two main businesses, acquisition and management of non-performing loans (NPLs) and debt collection services, which accounted for 82.0% and 18.0% of total revenue, respectively, in 2017.

The NPL acquisition business has grown rapidly in the past four years. The outstanding investment of distressed debt portfolio was Bt5,143 million as of March 2018. Based on 2006-2017 data, JMT purchased the NPLs at a 94.0% discount on average, while the success rate of loan collections was at 89.0% of accumulated investment in debt acquisition. The business generated 3.0% of return on average asset (ROAA) and 13.0% of return on average equity (ROAE) for the Group in 2017. Revenue from debt collection service also showed strong growth of 79.0%, to Bt242 million, in 2017.

Increased credit risk from lending business weakened overall performance

J Fintech Co., Ltd., which mainly operates a personal loan business under the Bank of Thailand’s (BOT) supervision, contributed net losses of Bt48 million in 2017 and Bt187 million in the first quarter of 2018 to the group. The losses were due to increased loan loss provisions following rapid portfolio expansion

since 2016. Outstanding loans increased to Bt3,475 million at the end of March 2018 from Bt2,209 million as of December 2016. The loans extended by J Fintech are primarily for personal loan in terms of revolving loan and installment purchase for mobile phone sold by Jaymart Mobile .

The ratio of non-performing loans (NPLs or loans overdue for more than three months) to total loans increased to 7.5% as of March 2018 from 5.0% at the end of 2016. The company set aside a huge provision expense of Bt389 million in the first quarter of 2018. The provision expenses were recognized as part of selling and administrative expenses (SG&A), which increased by 44.0% to Bt756 million in the first quarter of 2018 from the same period last year.

TRIS Rating is of the view that J Fintech's weak loan underwriting standard may lead to rising credit risk and provisioning burden if active expansion continues. NPL coverage also remains moderate. Loan loss reserves to NPL ratio is around 100% at the end of the first quarter of 2018. With most target customers being in the low-income group, the company should maintain a high NPL coverage ratio to help absorb a potential rise in credit risk.

JAS Asset needs time to prove its success

JAS Asset PLC (J) is a subsidiary of JMART with a growth potential in the management of retail spaces for long-term lease. J leases large retail spaces in the hypermarket chain, Big C Supercenters, and sub-leases the area to small retailers of IT accessories and mobile handsets. Collectively, the leased area is branded as "IT Junction". There were 52 IT Junction branches nationwide with a total leasable area of 11,168 square meters (sq.m.) and average occupancy rate (OR) of 84.0% at the end of 2017. The company plans to add eight more branches in 2018 in hypermarkets. The company also invests in the construction and management of rental space for three community malls in Bangkok with total rental space of around 35,500 sq.m., branded as "JAS Urban". The weighted average OR was 87.0% at the end of 2017. Other businesses include condominium projects (Newera), and the management of coffee shops (Casa Lapin) and coffee kiosks (Rabb Coffee).

The revenue and net profit contribution from J remained modest, at 5.0% of total revenue and 1.0% of net profit, in 2017. Continuous business expansion, if well managed, could result in larger revenue contribution to the Group in the future. However, aggressive expansion could be a concern as it may rapidly increase leverage. Moreover, pricing competition in the retail space rental business could put pressure on profitability further. J generated a low ROAA of 0.3% in 2017 due to high operating costs.

Rising leverage

JMART's leverage increased due to its business expansions via subsidiaries during the past two years. Total debt increased 40.0% to Bt11,231 million as of March 2018 from Bt7,996 million as of December 2016. Debt will remain high because JMT, J, and J Fintech are growing. The adjusted ratio of funds from operations (FFO) to total debt, including amortization of JMT's investment portfolio, increased to 32.5% at the end of December 2017 from 27.3% at the end of December 2016.

According to its financial covenant, JMART has to keep its interest-bearing debt to equity ratio below 4 times. The company's interest-bearing debt to equity ratio increased to 2.4 times at the end of March 2018, from 2 times at the end of December 2016. TRIS rating expects JMART will not pursue aggressive debt funding from its investment plans. Its interest-bearing debt to equity ratio is expected to stay below 4 times over the next three years.

RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that JMART will maintain its market position in its core business of mobile phone handset trading and that the performances of its two major subsidiaries, JMT and J, will continue to improve.

RATING SENSITIVITIES

A rating and/or outlook upside case is unlikely to materialize in the near term, unless JMART's overall financial profile can grow significantly stronger and the new investments generate substantial, sustainable cash flows. A downside pressure on the rating could be from an aggressive expansion which will push the leverage higher than expectations. A significant deterioration in operating performance of JMART or its subsidiaries, especially J Fintech, could also affect the rating and/or outlook.

COMPANY OVERVIEW

JMART was established by Mr. Adisak Sukumvitaya in 1988 as a trading company of electrical home appliances. In 1992, the company added mobile phone handsets into its product line and the devices soon became its core product line. JMART was listed on the Stock Exchange of Thailand (SET) in 2009. As of 16 March 2017, Mr. Adisak and his family owned 43.9% of JMART's outstanding shares. JMART's major lines of business include mobile phone handsets and IT product trading, debt

collection and management, retail space rental, and leasing and consumer lending.

In 2015, JMART acquired 24.9% of Singer Thailand PLC (SINGER, “BBB-/Stable”) from Singer (Thailand) B.V. JMART aims to leverage SINGER’s sales and distribution channels to boost the sales volume of mobile handsets and personal loans. However, the success of the business has not yet been proven.

In 2016, JMART reorganized its group. JMART established JMART Mobile as a wholly-owned subsidiary and transferred the business relating to the sale of mobile phones, accessories, and information technology (IT) products to Jaymart Mobile. JMART itself became a holding company investing mainly in retail and finance business. Jaymart Mobile sells its products, including mobile phones, cameras, and other IT-related accessories, through 301 shops nationwide including “Jaymart” and “Jaycamera” shops as well as shops under the major authorized brand names and telecom providers.

The debt collection and management is operated by 56.1%-owned JMT. The retail space rental segment is operated by J. JMART holds 67.5% of J. The leasing and consumer lending business is operated by a 95.8%-owned J Fintech (previously known as JMT Plus). The lending business involves mainly an extension of long-term installment loans and personal loans to customers who purchase mobile phones from JMART Mobile.

In January 2017, JMART set up a new subsidiary, J Ventures Co., Ltd. (JVC), to develop software for the Group and invest in financial technology started-ups. JVC is in the process of developing a “decentralized digital lending platform” (DDL) using blockchain technology for J Fintech that aims to help transition its conventional lending business to digital lending. In the future, JVC will also be developing software for other companies within the JMART Group. In the first quarter of 2018, JVC made an initial coin offering (ICO) of digital tokens called “JFin Coins” to source funding for software development. JVC raised Bt496 million from the ICO.

KEY OPERATING PERFORMANCE

Table 1: JMART Group Holding: Business Line

Title	Company Name	Paid-up Capital (Bt Mil.)	Shareholding (%)	Type of Business
JMART Group Holding				Holding company
Jaymart Mobile	Jaymart Mobile Co., Ltd.	480.00	99.99%	mobile phones, mobile accessories and itrelated business, wholesales business and retail business
JMT	JMT Network Services PLC	390.90	67.51%	Debt tracking and collection service business and non-performing debt management business
J	JAS Asset PLC	480.85	67.50%	Property development business
J Fintech	J Fintech Co., Ltd.	1,220.00	90.16%	Leasing and personal loan business
J Capital	J Capital Co., Ltd.	81.00	99.99%	Business related to investment
J Ventures	J Ventures Co., Ltd.	75.25	80.00%	Software development and investing in Started-up business
Smart Item	Smart Item Co., Ltd.	3.00	99.99%	E-commerce business
Subsidiary that JMART holds indirectly via JMT				
J Insurance broker	J Insurance Broker Co., Ltd.	5.00	99.99%	Insurance broker
JAM	J Asset Management Co.,Ltd.	25.00	99.99%	Debt management business
JMT Cambodia	JMT Cambodia Co.,Ltd.	100.00	100.00%	Debt collection in Cambodia
Subsidiary that JMART holds indirectly via J				
Bean and Brown	Bean and Brown Co.,Ltd	42.00	40.00%	Selling food and beverage and runs coffee shop branded “Casa Lapin” and “Rabb Coffee”
Associated Company				
SINGER	Singer Thailand PLC	270.00	24.99%	Sales and hire-purchases of various electric products

Source: JMART

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Revenue	3,113	12,634	10,715	9,511	8,957
Gross interest expense	99	297	176	136	72
Net income from operations	(187)	490	438	323	329
Funds from operations (FFO)	418	1,596	1,107	557	537
Capital expenditures	(280)	(1,913)	(581)	(1,284)	(1,533)
Total assets	18,785	16,444	13,003	9,351	6,169
Total debts	11,231	10,785	7,996	5,007	3,403
Shareholders' equity	4,705	4,664	3,990	3,778	2,078
Operating income before depreciation and amortization as % of sales	1.97	7.06	5.59	4.07	4.91
Pretax return on permanent capital (%)	(0.20) ***	7.89	7.64	8.11	10.49
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	0.61	3.92	4.43	4.27	5.88
Adjusted FFO**/total debt (%)	43.05 ***	32.51	27.28	22.99	29.54
IBD/Equity (times)	2.39	2.31	2.00	1.33	1.64

Note: All ratios have been adjusted by operating leases.

* Consolidated financial statements

** Including investment portfolio amortization and instalment receivables from personal loans business

*** Annualized

Jaymart PLC (JMART)

Company Rating:	BBB
Rating Outlook:	Stable

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