

Press Release

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TRIS Rating Affirms Company Rating and Outlook of "JMT" at "BBB/Stable"

TRIS Rating has affirmed the company rating of JMT Network Services PLC (JMT) at "BBB" with "stable" outlook. The rating reflects the proven record of providing debt collection services and the extensive experience of the management team. The rating also takes into consideration the steady growth in the value of services provided, rapid expansion of the debt acquisitions segment, and impressive profitability. However, the rating is constrained by the unfavorable domestic economy, high level of household debt nationwide, and the volatile economic conditions which can affect clients' ability to repay. In addition, the ability to continuously deliver satisfactory operating performance and financial performances also need time to prove.

The "stable" outlook is based on TRIS Rating's expectation that JMT will be able to maintain its market position and operating performance. TRIS Rating also expects portfolio purchases and collections to continue to grow at a steady rate, resulting in with satisfactory operating and financial performances.

The rating and/or outlook upside case hinges on JMT's ability to expand significantly and maintain a satisfactory financial profile. On the contrary, the rating and/or outlook could be revised downward if JMT's investment portfolio does not generate as much cash as expected or, if the company makes more large aggressive, debt-funded investments.

JMT was established by Jaymart PLC (JMART) in 1994 with registered capital of Bt5 million. In 2014, JMT was listed on the Stock Exchange of Thailand (SET). Jaymart PLC (JMART) is the major shareholder, holding 56.1% of the company's outstanding shares as of 8 March 2017. The company was as an outsourcing firm, tracking and collection of debts. Later, the company expanded into the management of distressed debt. The company provides insurance broker through JAY Insurance broker (JIB), a wholly owned subsidiary. In 2016, JMT's revenues comprised collections of purchased accounts receivable (69%), services income from debt collection (13%), personal loan (18%) and other revenues (1%).

JMT offers debt collection services and debt purchase and receivables management in Thailand, with a focus on the financial services sector. Almost 20 years of expertise in debt tracking and efficient collection, plus ownership of a large database in a data-intensive industry, give JMT a competitive advantage. JMT has maintained its position as the leading debt collector. The portfolio of Its outstanding debts for collection grew sharply over six years, jumping to Bt18,291 million at the end of December 2016 from Bt12,735 million in 2010, a compound annual growth rate (CAGR) of 9%. As of December 2016, the debt collection portfolio, segmented by type of loan, covered vehicle hire-purchase loans (43% of outstanding loans), personal loans (25%), credit card receivables (18%), home mortgage loans (6%), and other loans (9%).

JMT earns services income from collecting debts, as it earns a commission on the debts it collects. Vehicle hire-purchase loans made up a large percentage of the loan portfolio during 2014 and 2015. The vehicle hire-purchase industry was affected by the Thai government's "First Car" plan implemented in 2011-2012. The plan offered a tax credit to first-time car buyers and vehicle purchases soared. The commission rate was 24% in 2012 but the rate gradually declined to 10% in 2014, 6.9% in 2015, and 7.4% in 2016. Loans in the vehicle hire-purchase portfolio are secured loans; the commissions are lower. However, the lower delinquent loan portfolio, the higher success rate in debt collection. Revenue from debt tracking and collections has held steady at approximately Bt100 million during the past few years, but increased to Bt135 million in 2016.

The recent economic slowdown resulted in an increase in non-performing loans (NPLs). Some financial institutions as a result have sold more of their distressed debt during the past few years in an effort to manage their NPL ratios. JMT has purchased more distressed debt lately, and this segment has been growing rapidly. JMT spent Bt439 million in 2013 buying in distressed debt but the expenditures rose to Bt1,606 million in 2014 and Bt1,319 million in 2015. In 2016, JMT purchased distressed debts the amount of Bt19,600 million with the expenditure of Bt906 million. The current value of the accumulated distressed debt portfolio is Bt108,283 million as of December 2016. JMT's investment to outstanding receivables was around 5%. The investment in distressed assets grew rapidly during just the past few

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years. JMT needs time to prove its ability to deliver impressive operating and financial performance, given the sizeable portfolio of distressed debt.

In the third quarter of 2015, JMT launched a new product: personal loans, was created in part to support the sale of mobile phone handsets through its parent company. JMT Plus Co., Ltd. as a subsidiary of JMT, operates the personal loan business. JMT Plus was subsequently changed its name to J Fintech Co., Ltd.(J Fintech). In November 2016, the company transferred its right to subscribe to the ordinary shares of J Fintech to JMART, the company's major shareholder. After completing the subscription right transaction, JMT's shareholding in J Fintech reduced from 99% to only 9%. J Fintech has changed from a subsidiary of JMT to long term investment.

JMT's performance has been moving into a positive direction. Funds from operations (FFO) has continued to increase, rising to Bt163 million in 2014, Bt215 million in 2015, and Bt349 million in 2016, compared with Bt92 million in 2013. The ability to generate cash flow is relatively strong, backed by a growing loan portfolio. However, the operating margin fluctuated during the past four years, as revenue depended on the revenue from debt purchasing segment. Net income jumped 60% to Bt120 million in 2014 from Bt75 million in 2013. Net income dropped to Bt94 million in 2015, mainly due to a large increase in the allowance for loan losses as the debt purchasing portfolio grew. In 2016, JMT reported a net profit of Bt290 million (including a one-time gain from change in portion of investment in a subsidiary to other long term investment). TRIS Rating's base-case scenario assumes the operating margin will stay over 30% per annum during the next three years. The key growth driver is the successful collection of the distress debt which JMT has already acquired and new portfolio acquired.

JMT's liquidity profile during 2014-2016 declined from the level in 2013 as leverage rose. The total debt level has risen considerably during the past three years to fund the expansion of the debt purchasing portfolio and personal loan business expansion. Total debt rose to Bt1,825 million in 2016 from Bt84 million in 2012. The debt to capitalization ratio increased to 66.2% in 2014 from 23.8% at the end of 2013. The debt to equity ratio increased to 2.3 times in 2014 from 0.5 times at the end of 2013. A recapitalization in 2015 improves the leverage ratios. The debt to capitalization ratio decreased to 53.6% in 2015 and 48.9% in 2016. The debt to equity ratio decreased to 1.2 times in 2015 and 2016. The adjusted FFO (including investment portfolio amortization) to total debt ratio dropped to 26.2% in 2016. The adjusted earnings before interest, tax, depreciation, and amortization (EBITDA) (including investment portfolio amortization) interest coverage ratio stayed above 13 times in 2016. Going forward, JMT plans to spend around Bt1,500 million per year buying new distress debt. As a result, leverage will increase from the current level. However, the total debt to capitalization ratio is expected to stay around 60% and the debt to equity ratio is expected to stay below 2.5 times.

TRIS rating considers regulatory and operational risks potentially negative factors. JMT is now regulated by the "Debt Collection Act B.E. 2015". The regulatory involves reputational risk issues. Under the regulation, debt collectors must meet a higher standard of professionalism. TRIS Rating expects JMT to maintain a high quality of service in tracking and collecting debt and comply with the regulatory standards.

JMT Network Services PLC (JMT)

Company Rating:

BBB

Rating Outlook:

Stable

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