

JMT NETWORK SERVICES PLC

No. 78/2018
18 June 2018

FINANCIAL INSTITUTIONS

Company Rating: BBB
Outlook: Stable

Company Rating History:

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

Contacts:

Siriwan Weeramethachai
siriwan@trisrating.com

Saowanit Woradit
saowanit@trisrating.com

Taweekok Jiamsakunthum
taweekok@trisrating.com

Raithiwa Naruemol
raithiwa@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating of JMT Network Services PLC (JMT) at “BBB”. The rating reflects the proven track record of JMT’s expertise in debt collection and management services and the extensive experience of the company’s management team. The rating also takes into consideration the steady growth in revenues, active distressed debt acquisition, and strong profitability. The rating is constrained by the company’s low-income debtor group. This, coupled with the high household debt and volatile economic conditions, could affect debt serviceability of the debtors.

KEY RATING CONSIDERATIONS

Expertise in debt collection supports growth and efficiency

JMT has maintained its position as the market leader in debt collection and distressed debt management. The company’s maintenance of a database collected over 20 years supports its business growth and operational efficiency. Major clients include financial institutions, mobile phone operators, consumer lenders, and others.

The company’s outstanding principal balance has grown strongly in the past six years to Bt22,353 million at the end of December 2017, from Bt13,707 million in 2010, a compound annual growth rate (CAGR) of 12.0%. As of March 2018, the debt collection portfolio was Bt22,896 million. The portfolio mix as of the end of 2017 included: personal loans (41.0% of outstanding loans), auto hire-purchase loans (31.0%), home loans (12.0%), credit card receivables (9.0%), and other loans (8.0%).

Commission revenue from debt collections accounted for about 15.0% of total revenue in 2017. Revenue increased by 79.0% from a year earlier to Bt242 million due to the higher commission rate and the higher success rate. Revenue in the first quarter of 2018 was Bt59 million. The commission rate decreased to 10.3% in 2017 and 9.6% in the first quarter of 2018 from 15.8% in 2016. The success rate improved steadily to 8.3% in 2017 from 7.7% in 2016 compared with an average of 4.0% in 2013-2015.

Distressed debt acquisition and management is a bright spot

Apart from debt collection services, another line of business that has actively expanded and has strong growth potential is the management of non-performing loans (NPLs) purchased from financial institutions.

In 2017, JMT purchased distressed debts of Bt16,271 million with investment cost of Bt1,598 million (a 90.0% discount) and Bt3,971 million with investment cost of Bt1,018 million (a 74.0% discount) in the first quarter of 2018. The decline in discount rate was due to the purchase of secured loans. The outstanding investment of distressed debt portfolio was Bt5,143 million as of March 2018.

The revenue from NPLs purchased represented 85.0% of JMT’s total revenue in 2017, up from 70.0% in 2013. JMT reported Bt1,110 million in revenue from this segment in 2017, a 50.0% improvement from 2016. The average success rate (debt collection as a percentage of investments) is 89.0% of accumulated investment in debt acquisition.

Continual improve performance

JMT's ability to generate cash flow is relatively strong, backed by the growth in both lines of business. Funds from operations (FFO) have increased significantly, rising to Bt396 million in 2017 compared with Bt146 million in 2016. However, the operating margin fluctuated during the past few years, as revenue depended on the revenue from the debt purchasing segment. Net income jumped 37.0% to Bt396 million in 2017 from Bt290 million (including a one-time gain from changes in proportion of investment in a subsidiary to other long-term investment) in 2016. TRIS Rating's base-case scenario assumes the company's operating margin will stay around 30.0% per annum during the next three years. The key growth driver is the continuous success in debt collections and the additional portfolio acquisition of distressed debts.

Rising leverage but still within acceptable level

The total debt level has risen considerably to fund the debt purchasing portfolio expansion. Total debt rose by 52.0% to Bt2,820 million in 2017 from the end of 2016. However, due to the larger increase in FFO, the adjusted FFO (including investment portfolio amortization) to total debt ratio increased to 72.0% in 2016 from 34.1% in 2015. The adjusted FFO to total debt was 42.4% in 2017 and 50.1% in the first quarter of 2018 (annualized). The adjusted earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio stayed above 3.9 times in 2017 and 0.6 times in the first quarter of 2018 (annualized).

Going forward, JMT plans to spend around Bt4,500 million per year for buying new distressed debts. As a result, leverage will increase from the current level. However, the debt to equity ratio is expected to stay below 2 times. The interest-bearing debt to equity ratio was 1 times at the end of March 2018 which is below the 3 times according to its financial covenant.

RATING OUTLOOK

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

RATING SENSITIVITIES

A rating and/or outlook upside hinges on JMT's ability to improve financial performance while maintaining a conservative leverage profile. On the contrary, the rating and/or outlook could be revised downward if JMT's financial performance weakens to the point that it negatively affects cash flow generation, or the company's leverage rises sharply, with debt-to-equity ratio increasing above 2.5 times.

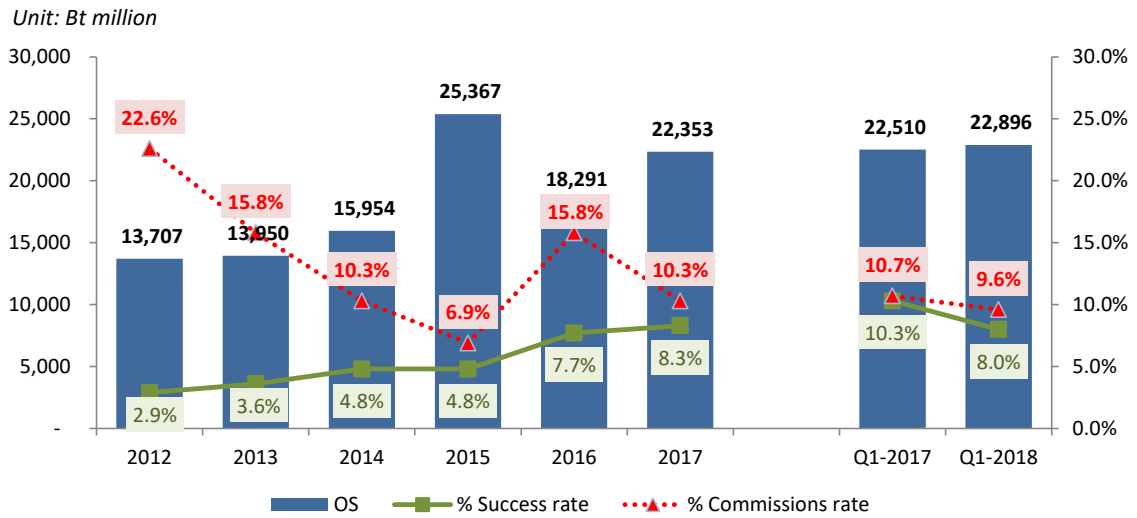
COMPANY OVERVIEW

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). JMART is the major shareholder, holding 56.6% of the company's outstanding shares as of 25 April 2018. The company was an outsourcing firm, tracking and collecting debts. Later, the company expanded into the management of distressed debts. The company provides insurance brokerage through JAY Insurance Broker Co., Ltd. (JIB), a wholly-owned subsidiary.

In the first quarter of 2018, JMT made an investment acquisition in Phoenix Insurance (Thailand) PLC (Phoenix), engaged in non-life insurance in Thailand. On 27 April 2018, Phoenix registered with the Ministry of Commerce to change the name from Phoenix Insurance (Thailand) PLC to JP Insurance PLC. The revenue contribution to JMT from premium income from the insurance business remains modest.

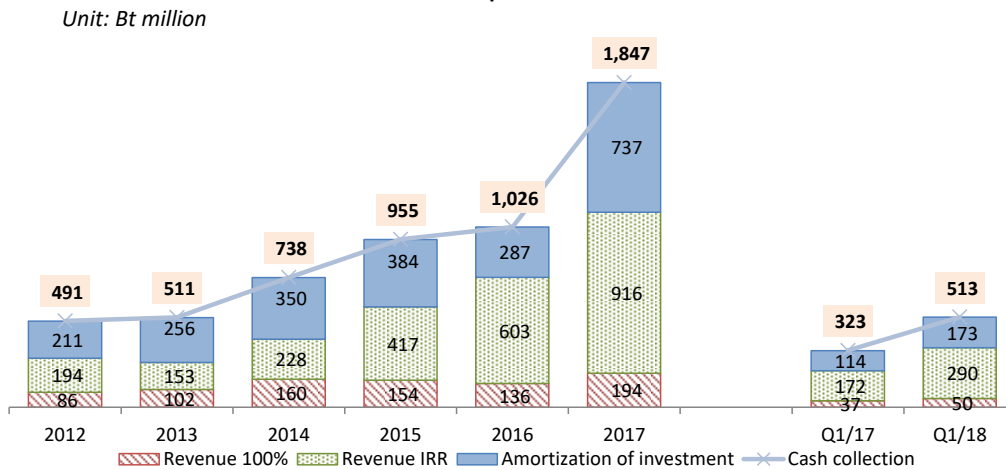
KEY OPERATING PERFORMANCE

Chart 1: Debt Collection Performance



Source: JMT

Chart 2: Debt Acquisition Performance



Source: JMT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Revenue	400	1,356	1,064	719	488
Gross interest expense	28	77	85	54	16
Net income from operations	116	396	146	95	120
Funds from operations (FFO)	174	460	349	216	163
Capital expenditures	(70)	(72)	(111)	(45)	(29)
Total assets	6,807	5,248	4,164	3,741	2,221
Total debts	2,776	2,820	1,852	1,928	1,335
Shareholders' equity	2,897	2,325	1,936	1,669	682
Operating income before depreciation and amortization as % of sales	49.16	44.87	27.92	26.92	36.90
Pretax return on permanent capital (%)	13.83 ***	12.90	7.52	6.19	11.84
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	7.12	7.99	3.61	3.62	11.13
Adjusted FFO**/total debt (%)	50.06 ***	42.35	71.95	34.07	38.44
Debt to equity (times)	1.41	1.26	1.15	1.24	2.26
IBD to equity (times)	0.96	1.21	0.96	1.16	1.96

Note: All ratios have been adjusted by operating leases.

* Consolidated financial statements

** Including investment portfolio amortization

*** Annualized

JMT Network Services PLC (JMT)

Company Rating:	BBB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000

© Copyright 2018, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria