

# JAYMART PLC

No. 102/2021  
30 June 2021

## CORPORATES

<b>Company Rating:</b>	BBB
<b>Issue Rating:</b>	
Senior unsecured	BBB-
<b>Outlook:</b>	Stable

Last Review Date: 16/02/21

### Company Rating History:

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

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## RATIONALE

TRIS Rating affirms the company rating on Jaymart PLC (JMART) at “BBB”, and the issue ratings on JMART’s senior unsecured debentures at “BBB-”. The rating outlook remains “stable”. The issue ratings are notched down from the company rating due to the structural subordination of JMART’s senior unsecured debt obligations to the debt obligations of its operating subsidiaries, in terms of priority of claim against operating assets.

The company rating reflects JMART’s strong performance, driven by the strength of its distressed debt management business, the competitive operations of its core subsidiary, JMT Network Services PLC (JMT), as well as its strong position in the mobile phone handset trading business.

The ratings are constrained by the intense competition in the mobile handset market, lack of revenue diversification, and the risks associated with its property business.

## KEY RATING CONSIDERATIONS

### Stronger synergy needed to support diversified business platform

JMART’s business risk profile reflects the JMART Group’s moderate level of revenue diversity, which focuses primarily on retail and finance businesses. JMART’s consolidated revenue in 2020 derived mainly from Jaymart Mobile’s (J-Mobile) cell phone and gadgets distribution (61% of total in 2020), JMT’s distressed debt management and collection (27%), KB J Capital Co., Ltd.’s (KB J Capital) formerly known as J Fintech (J-Fintech) retail lending (7%), and JAS Asset’s (J-Asset) property business (4%). Other companies within the Group include Beans and Brown Co., Ltd., Singer Thailand Co., Ltd. (SINGER), and J Ventures Co., Ltd. (J-Ventures). Despite the diverse sources of revenue, the group’s net profit is contributed by only a few subsidiaries, primarily JMT.

To strengthen group profitability, one of the key strategies is to promote synergy among the group members, particularly via cross-selling among businesses. One example is the cross-sale of J-Mobile’s products through SINGER’s distribution network. At the same time, KB J Capital provides financing to the buyers of J-Mobile’s products by offering instalment payments and personal loans. JMT, meanwhile, manages debt collections for KB J Capital and SINGER and purchases distressed debts from the two companies. J-Asset also supports JMT by helping renovate and sell JMT’s non-performing assets (NPAs).

While we are of the view that the group synergy can be further enhanced, it may take time to scale up each business to achieve cost efficiency in the currently weak economic environment. In the meantime, sound management of the group’s business flows and funding requirements will still be needed to support its business risk profile.

### Reliance on JMT’s performance

The distressed debt collection and management business, operated by JMT, is JMART’s strongest line of business and a key earnings contributor. The strong performance of JMT supports the overall financial results of JMART. In 2020, JMT continued to be the major profit contributor for the JMART Group with around THB1 billion reported net profit (59.6% higher year-on-year (y-o-y)), accounting for 80% of JMART’s consolidated net profit. This,

however, demonstrated the high reliance on JMT's earnings to support the group's overall performance.

The importance of JMT to the JMART Group is also evidenced by the group's investment strategy where over 85% of capital expenditures were allocated to JMT in 2020. This investment trend is expected to continue in the future under the group's recently announced business plan.

#### **Modest mobile handset trading business**

J-Mobile's performance last year was sluggish due to the economic fallout from the Coronavirus Disease 2019 (COVID-19) pandemic, coupled with intense competition in the industry. In 2020, revenue from the sales of mobile handsets and accessories, including income from sales promotions, declined by 5.5% y-o-y to THB7.1 billion. J-Mobile reported a net profit of THB84 million in 2020, down by 7.7% y-o-y. However, we saw an improvement in the first quarter of 2021, with revenue improving by 32.7% y-o-y to THB3.9 billion. The improvement came mainly from increased synergy within the group where SINGER uses its network to help distribute products, while SINGER and KB J Capital provide financing to buyers.

#### **New partner helps relieve burdens**

In early 2021, KB Kookmin Card Co., Ltd. from South Korea completed the acquisition of a 51% stake in J-Fintech from JMART, with JMART holding the remainder. Following the divestment, J-Fintech was renamed as KB J Capital and has been deconsolidated from the JMART Group. As KB Kookmin Card has the controlling stake and can access low-cost funding thanks to its strong credit profile, the company will provide funding support for KB J Capital's lending business. This should relieve JMART from the need to provide funding support to KB J Capital. KB Kookmin Card's capital injection also enabled KB J Capital to repay intercompany loans of THB2.9 billion back to JMART. This has helped improve JMART's leverage position. In addition, the deconsolidation removes the burden of KB J Capital's provisioning for expected credit loss (ECL) from JMART. We believe this should help stabilize JMART's performance in the long run. KB J Capital, if it performs well, could provide a meaningful share of profits for JMART in the future.

#### **JAS Asset's earnings improved but future remains uncertain**

The revenue contribution from J-Asset remains modest, at around 4% of total revenue and 4% net profit for JMART in 2020. The company was impacted by the weak economy and city lockdown induced by COVID-19. The company was compelled to close down some of its unprofitable retail leasing space (IT Junction) and lower the rental rates at community malls to support J-Asset's customers during the difficult time. These measures resulted in a 41% drop in J-Asset's revenue to THB522 million in 2020. Nonetheless, the company's net income increased to THB56 million from THB17 million in 2019. The increase in net income was driven by the reclassification of assets and rental expense following the introduction of the new accounting standard TFRS16. The closure of unprofitable leasing space and the rental reduction achieved through negotiations with landlords also helped save costs. The future performance of J-Asset remains uncertain, in our view, given the challenges faced by the retail sector amid continuing waves of COVID-19 outbreaks.

#### **JMART's lower leverage**

The deconsolidation of KB J Capital and capital injection through the exercise of JMART's warrants have helped improve the company's leverage position. At the end of 2020, the ratio of adjusted debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) improved to 3.4 times from 3.9 times in 2019. We expect the next three-year (2021-2023) adjusted debt to EBITDA ratio to range from 3.0-3.3 times. This is based on our assumption that JMT's cash collection remains at a similar level. However, aggressive growth in newly acquired distressed assets and major investments could pressure its leverage position and credit profile in the medium term.

#### **Funding and liquidity remain manageable**

During the next 12 months, JMART's funding and liquidity are expected to be manageable. On a consolidated basis, the primary sources of fund, which include funds from operations (FFO) of THB3.5-THB5 billion yearly and available cash of about THB4.9 billion at the end of March 2021, should be sufficient to support its business operation. The primary uses of fund are: yearly capital expenditure of around THB580 million and debt-funded distressed asset acquisitions by JMT of about THB4-THB6 billion per year. We have no immediate concerns over JMART's liquidity in the next 12 months as there are no debt maturing during the period. However, we note that the company's credit lines from financial institutions should be expanded to support liquidity needs in times of market turmoil, which could lead to heightened liquidity risk.

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## BASE-CASE ASSUMPTIONS

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TRIS Rating makes the following assumptions for the operations of JMART over the next three years (2021-2023):

- JMART's revenues to range from THB11-THB14 billion per annum.
- The gross margin in the debt collection segment to be in the range of 70%, a low- to mid-teens percentage in the mobile handset trading segment, and 25% in the property segment.
- Capital expenditure and investments of around THB580 million per annum. Debt-funded distressed asset acquisitions by JMT are estimated at THB4-THB6 billion per annum.

## RATING OUTLOOK

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The "stable" outlook is based on TRIS Rating's expectation that JMT's strong performance in distressed debt business will continue, and that JMART can maintain its competitive position in the mobile phone handset business. We also expect that the performances of other subsidiaries will continue to improve.

## RATING SENSITIVITIES

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The rating upside case is possible if the company were able to strengthen its cash flow while maintaining its leverage level. The rating downside case could occur from significant deteriorations in both JMART's or its subsidiaries' operating performances or from aggressive investment which pushes the debt to adjusted EBITDA ratio over 5 times on a sustained basis.

## COMPANY OVERVIEW

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JMART was established by Mr. Adisak Sukumvitaya in 1988 as a trading company, trading electrical home appliances. In 1992, the company added mobile phone handsets to 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 27 May 2021, Mr. Adisak and his family owned 48.45% of JMART's outstanding shares. JMART's major lines of business include mobile phone handsets and information technology (IT) product trading, debt collection and management, retail space rental, and leasing and consumer lending.

In 2015, JMART acquired 24.9% of 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, success remains unproven. JMART currently owns 30.3% of SINGER.

In 2016, JMART reorganized. The company established J-Mobile as a wholly-owned subsidiary and transferred the sale of mobile phones, accessories, and IT products to J-Mobile. JMART became a holding company investing mainly in retailing and consumer finance.

J-Mobile sells its products, including mobile phones, gadgets, and other IT-related accessories, through 199 shops nationwide including "Jaymart" and "Jaymart IoT" shops as well as shops under the major authorized brand names and in partnership with Advanced Info Services PLC (AIS), a leading SIM and fibre optic distributor in Thailand. JMT handles the debt collection and management business. JMART owns 54.2% of JMT. The retail space rental segment is operated by J-Asset. JMART holds 66.1% of J-Asset. The leasing and consumer lending business is operated by associated company, KB J Capital. The consumer lending business is mostly the extension of long-term instalment loans and personal loans to customers who purchase mobile phones from J-Mobile.

In January 2017, JMART set up a new subsidiary, J Ventures Co., Ltd. (J-Ventures), to develop software for the group and invest in financial technology startups. J-Ventures is in the process of developing a "decentralized digital lending platform" (DDL) for J-Fintech using blockchain technology. One objective of the new platform is to aid J-Fintech as it makes the transition from a conventional lending business to digital lending. In the future, J-Ventures will develop software for other companies within the JMART Group. In the first quarter of 2018, J-Ventures made an initial coin offering (ICO) of digital tokens called "JFin Coins". The coins were sold to raise funds for software development. J-Ventures raised THB496 million from the ICO.

**Table 1: Business Line of JMART Group**

Title	Company Name	Paid-up Capital (Mil. THB)	Shareholding (%)	Type of Business
<b>JMART Group</b>				
JMART	Jaymart PLC	1,024.0		Holding company investing in retail and finance business
J-Mobile	Jaymart Mobile Co., Ltd.	630.0	99.9	Mobile phones, mobile accessories and IT-related business, wholesales business, and retail business
JMT	JMT Network Services PLC	545.0	54.2	Debt tracking and collection service business and non-performing debt management business
J-Asset	JAS Asset PLC	929.0	66.0	Property development business
J-Ventures	J Ventures Co., Ltd.	75.3	66.7	Software development and investing in startup business
Bean and Brown	Bean and Brown Co., Ltd.	138.0	87.5	Software development and investing in startup business
<b>Subsidiaries that JMART holds indirectly via JMT:</b>				
J Insurance Broker	J Insurance Broker Co., Ltd.	15.0	99.9	Insurance broker business
JP Insurance	JP Insurance PLC	572.0	55.0	Non-life insurance business
JAM	J Asset Management Co., Ltd.	300.0	99.9	Debt management business
<b>Associated companies:</b>				
SINGER	Singer Thailand PLC	494.7	35.5	Sales and hire-purchases of various electrical products and "Car for Cash"
KB J Capital	KB J Capital Co., Ltd.	1,220.0	49.9	Leasing and personal loan business

Source: JMART

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Mar 2021 ***	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	3,005	11,696	11,838	12,888	13,224
Earnings before interest and taxes (EBIT)	635	2,275	1,557	507	1,167
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,045	4,401	3,519	2,299	2,682
Funds from operations (FFO)	808	3,512	2,715	1,696	2,155
Adjusted interest expense	175	690	626	553	393
Capital expenditures	146	502	294	379	650
Total assets	27,637	25,901	20,373	19,444	16,444
Adjusted debt	11,292	14,799	13,561	12,345	11,307
Adjusted equity	9,577	6,766	5,232	4,704	4,664
<b>Adjusted Ratios</b>					
EBITDA margin (%)	23.19	27.38	19.76	10.79	14.72
Pretax return on permanent capital (%)	10.64	10.48	8.18	2.88	7.78
EBITDA interest coverage** (times)	5.98	6.38	5.62	4.15	6.82
Debt to EBITDA** (times)	2.53	3.36	3.85	5.35	4.22
FFO to debt** (%)	31.52	23.73	20.02	13.83	19.06
Debt to capitalization (%)	54.11	68.62	72.16	72.41	70.80

\* Consolidated financial statements

\*\* Including investment portfolio amortization

\*\*\* Annualized

## RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

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**Jaymart PLC (JMART)**

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<b>Company Rating:</b>	BBB
<b>Issue Ratings:</b>	
JMART239A: THB1,000 million senior unsecured debentures due 2023	BBB-
JMART249A: THB2,500 million senior unsecured debentures due 2024	BBB-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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