

# JAYMART PLC

No. 31/2023  
13 March 2023

## CORPORATES

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

**Last Review Date:** 07/09/22

### Company Rating History:

Date	Rating	Outlook/Alert
18/03/22	BBB+	Stable
22/09/21	BBB	Positive
18/03/16	BBB	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Jaymart PLC (JMART) at “BBB+” and affirms the ratings on JMART’s existing senior unsecured debentures at “BBB”. The rating outlook remains “stable”. At the same time, we assign the rating of “BBB” to JMART’s proposed senior unsecured debentures of up to THB2 billion with a tenor of up to three years. 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 claims against operating assets.

The company rating reflects sound financial performance of JMART Group anchored mainly by the revenue strength of its three main subsidiaries, including JMT Network Services PLC (JMT, “BBB+/stable”), its core subsidiary operating distressed asset management, Jaymart Mobile Co., Ltd. (J Mobile), a mobile handset trading business, and JAS Asset PLC (J-Asset), a property development company. The ratings are constrained by JMART’s rising financial leverage.

## KEY RATING CONSIDERATIONS

### Fast-paced, diversified investments

In recent years JMART has accelerated its investments in various businesses with greater diversification. However, contribution to JMART’s earnings from the new investments is likely to remain moderate.

In 2022, the company spent THB3.2 billion on investments in various companies. Total contribution from its investments in the form of share of profit in 2022 was THB344 million or 11% of earnings before tax. For 2023, JMART set its investment budget of about THB3 billion, inclusive of the THB648 million potential investment in PRTR Group PLC, a human resource service provider, that is expected to complete its initial public offering (IPO) slated for March 2023.

A notable investment in 2022 was a 30% stake in BNN Restaurant Group Co., Ltd. (BNN), which operates restaurants under “Suki Teenoi” brand, with a total investment of THB1.2 billion, representing 37.5% of total investments made in 2022.

Other sizeable investments in 2022 include a 10% stake each in Nation International Edutainment PLC (NINE) and Buriram Sugar PLC (BRR), a sugar refinery. Also noteworthy was the THB5 billion investment in a joint venture between JMT’s subsidiary, J Asset Management Co., Ltd. (JAM), and a subsidiary of Kaisonian PLC (KBANK), Kasikorn Vision Co., Ltd., in a distressed asset management company under the name of JK Asset Management Co., Ltd. (JK AMC).

### Rising leverage position

Although in the longer term we expect JMART to reap benefits from its investments, but in the short run a rapid increase in financial leverage from active investment plans could put pressure on its ratings. In 2022, JMART’s leverage position, measured by adjusted debt to earnings before interest, taxes, depreciation, and amortization (adjusted debt to EBITDA), increased to 2.5 times from 1.2 times in 2021, in line with our expectation. The increase was driven by JMART’s investments and its subsidiaries’ business expansion.

Based on the future investment plans of both JMART and JMT and our assumption that JMT's cash collection remains at a similar level as seen in 2022 without additional capital injections, we estimate the adjusted debt to EBITDA ratio to hover above 3.5 times during the next three years, which could be negative for the credit ratings.

### **JMT remains core operating entity**

We expect the distressed debt collection and management business operated by JMT to remain the strongest line of business and a key earnings contributor to the JMART Group. In 2022, JMT reported a THB1.7 billion net profit (21.9% higher year-on-year (y-o-y)), accounting for 64% of JMART's consolidated net profit. In addition to JMT's earnings that help sustain the group's overall financial performance, investments in distressed assets of around THB8 billion per annum substantiate our view of JMT's importance as the core entity of the JMART Group.

In the past five years, JMT's contribution to JMART's consolidated assets has roughly doubled to 61% from 32% in 2017. Although in 2022 JMT's investment in distressed assets declined to THB4.6 billion, we expect its investments to be higher as more supply of non-performing assets (NPAs) are being disposed by commercial banks after the end of debt relief programs. The increased investments mean JMT's asset contribution to the group should continue to be significant.

### **Continuous synergy enhancement**

The company's business consists predominantly of retail and finance businesses. Its business risk profile is weighed down by its reliance on revenue and cash flows from a few companies despite diverse investments. That said, JMART continues to add more networks and strategic partners while strengthening the collaborations between subsidiaries and associated companies to create greater synergy. The strategy could be positive for the company's business risk profile if it leads to stronger and more diversified revenue and cashflows. Key business synergies are: 1) debt collections for KBJ Capital Co., Ltd. (rated "A-/stable") and Singer Thailand PLC (SINGER, rated "BBB/stable") by JMT; 2) renovation and sales of JMT's NPAs by J-Asset; and 3) sharing of rental space in retail shops between various subsidiaries. JMT and KBJ Capital are working together on home equity loans.

### **Recovery in mobile handset trading business**

Within the JMART Group, Jaymart Mobile Co., Ltd. (J-Mobile) has so far benefited the most from business synergies as evidenced by its improved performance. In 2022, revenue from the sales of mobile handsets and accessories, including income from sales promotions, increased by 16.9% y-o-y to THB9.6 billion. J-Mobile reported a net profit of THB354 million in 2022, up by 77% y-o-y, thanks to the emphasis on sales through SINGER's network, online platforms, and JMART's expanded synergy shops. In 2022, J-Mobile opened 78 new shops, while SINGER also added number of franchisees.

The cross sales of J-Mobile's products through the distribution network of SINGER alone reached THB1 billion in 2022, up 83.9% from 2021. Another portion of mobile sales of THB517 million, 29% higher y-o-y, was supported by financing service through the networks of SINGER and KBJ Capital. Looking forward, J-Mobile's strategy to increase the product line including gadgets and electrical appliances such as notebooks, televisions, and etc. should help increase the revenue further and slightly improve business margin.

### **J-Asset's earnings improved**

J-Asset's improved operations in 2022 helped diversify JMART's revenue sources to some extent. Continuous improvement will be positive for JMART's credit profile in a longer term. J-Asset's revenues recovered in most areas after the weak performance in 2020 and 2021 due to Coronavirus Disease 2019 (COVID-19). Total revenues rose by 28.3% y-o-y to THB558 million in 2022 due mainly to the full-year recognition of rental income of its "Jas Green Village Kubon Community Mall", and the revaluation of investment assets. The company's net income increased to THB202 million in 2022, up 25% y-o-y.

We believe that J-Asset's strategy that focuses on rental spaces of its community malls should slowly strengthen its performance in the longer term. However, we believe the company's plan to invest in more community malls upcountry over the next few years could be a challenge given that consumer behavior might be different. The launch of its community malls upcountry so far has not been well received, in our view. On the contrary, we remain hopeful for the future performance of the facility of "SENERA Senior Wellness" adjacent to the Jas Green Village Kubon as it may help generate additional cash flows starting in 2023.

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

We expect JMART's funding and liquidity to be manageable over the next 12 months. On a consolidated basis, the primary sources of funds include expected funds from operations (FFO) of THB5.0-THB5.5 billion in 2023 and a high level of available cash and equivalents of around THB9.4 billion at the end of 2022 from the capital injection at the end of 2021. These should be sufficient to support the company's business operations and expansion plans. The primary uses of funds based on our assumptions include annual capital expenditure of around THB1 billion, new investment budget of THB3 billion, and distressed asset acquisitions by JMT of about THB8 billion per year. In terms of liquidity, we have no immediate concerns as

the company will have ample liquidity in the next 12 months to support the payment of debentures amounting to THB1 billion maturing in September 2023. 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.

#### BASE-CASE ASSUMPTIONS

TRIS Rating makes the following assumptions for the operations of JMART over the next three years (2023-2025):

- JMART's revenues to range from THB16-THB20 billion per annum.
- Gross margin in the debt collection segment to be in the mid 70% range, a low- to mid-teen percentage in the mobile handset trading segment, and 25%-30% in the property segment.
- Capital expenditure and investments of around THB1 billion per annum. Debt-funded distressed asset acquisitions by JMT are estimated at THB8 billion per annum.

#### RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that JMT's strong performance in the distressed debt business will continue, and that JMART can maintain its competitive position in the mobile phone handset business while maintaining leverage at an appropriate level. We also expect the increased diversification of cash flows and revenue sources as other subsidiaries' financial performance and profit sharing from its investments continue to improve.

#### RATING SENSITIVITIES

The outlook and rating could be revised upward should there be significant enhancement of JMART's business risk profile resulting from the steady expansion of business and improved profitability of its subsidiaries, while financial leverage is managed at acceptable levels. The rating downside case could occur from significant deteriorations in both JMART's or its subsidiaries' operating performance or from aggressive debt-funded investments that raise the debt to adjusted EBITDA ratio above 3.5 times on a sustained basis.

#### COMPANY OVERVIEW

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 31 December 2021, Mr. Adisak and his family owned 34.7% of JMART's outstanding shares. Currently, JMART's major lines of business include mobile phone handsets and information technology (IT) product trading, debt collection and management, retail space rental, as well as leasing and consumer lending.

In 2015, JMART acquired 24.9% of SINGER, 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 this strategy remains unproven. JMART currently owns 26.1% of SINGER.

In 2016, JMART reorganized. The company established J-Mobile as a wholly-owned subsidiary and transferred the sales 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 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 53.9% 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 Co., Ltd. (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.

In December 2021, VGI Co., Ltd. and U City PLC (members of BTS Group) acquired a stake in JMART and its affiliate company, SINGER. At the time, VGI and U City acquired 15% and 9.9% stakes in JMART, respectively, while U City acquired a 24.9% stake in SINGER.

In 2022, J asset management (JAM), a wholly-owned subsidiary of JMT, together with KBANK has established a joint venture called JK AMC. JK AMC was set up to support the management of bad debts of KBANK with the expertise of JMT to manage the bad debts. JK AMC will have total of 15 years in lifetime operation. As of December 2022, JK AMC had a total paid-up capital of THB10 billion. In December 2022, JMART acquired 30% stake in BNN Restaurant Group Co., Ltd., a retail hotspot buffet restaurants called Suki Teenoi, with a THB1.2 billion investment amount.

**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	1,457.3		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	729.6	53.5	Debt tracking and collection service business and non-performing debt management business
J-Asset	JAS Asset PLC	929.0	66.1	Property development business
J-Ventures	J Ventures Co., Ltd.	120.0	66.7	Software development and investing in startup business
Bean and Brown	Bean and Brown Co., Ltd.	138.0	95.3	Food and beverage business
<b>Subsidiaries that JMART holds indirectly via JMT:</b>				
Jaymart Insurance Broker	Jaymart Insurance Broker Co., Ltd.	15.0	99.9	Insurance broker business
Jaymart Insurance	Jaymart Insurance PLC	955.2	73.0	Non-life insurance business
JAM	J Asset Management Co., Ltd.	300.0	99.9	Debt management business
JELITE	J ELITE Co., Ltd.	21	99.9	Customer relations management business
<b>Associated companies:</b>				
SINGER	Singer Thailand PLC	822.3	25.5	Sales and hire-purchases of home appliance, commercial appliance, and car title loan business
KB J Capital	KB J Capital Co., Ltd.	1,112.9	47.9*	Personal loan business under BOT license
JGS	JGS Synergy Power Co., Ltd.	100	40.1	Sales and distribute solar roof top
BNN	BNN Restaurant Group Co., Ltd.	117.6	30.0	Restaurant business
AVANTIS	Avantis Laboratory (Thailand) Co., Ltd.	10	41.9**	Develop financial technology platform

\* Direct and indirect ownership (JMART holds 45.09% and JMT holds 3.92%)

\*\* Direct and indirect ownership (JMART holds 31.81% and J Ventures holds 15.15%)

Source: JMART

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	14,658	12,316	11,696	11,835	12,888
Earnings before interest and taxes (EBIT)	3,137	3,987	2,232	1,557	507
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,720	4,616	3,860	3,519	2,299
Funds from operations (FFO)	4,690	3,670	3,009	2,699	1,473
Adjusted interest expense	725	702	635	626	553
Capital expenditures	939	653	502	294	379
Total assets	55,401	45,278	25,901	20,373	19,444
Adjusted debt	14,299	5,508	14,799	13,561	12,345
Adjusted equity	30,781	26,823	6,766	5,232	4,704
<b>Adjusted Ratios</b>					
EBITDA margin (%)	24.97	25.29	22.76	19.76	10.79
Pretax return on permanent capital (%)	6.54	11.97	10.28	8.18	2.88
EBITDA interest coverage** (times)	7.89	6.58	6.07	5.62	4.15
Debt to EBITDA** (times)	2.50	1.19	3.83	3.85	5.37
FFO to debt** (%)	32.80	66.63	20.33	19.90	11.93
Debt to capitalization (%)	31.72	17.04	68.62	72.16	72.41

\* Consolidated financial statements

\*\* Including investment portfolio amortization

## RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

**JAYMART PLC (JMART)**

<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
JMART250A: THB2,387.2 million senior unsecured debentures due 2025	BBB
JMART260A: THB1,612.8 million senior unsecured debentures due 2026	BBB
Up to THB2,000 million senior unsecured debentures due within 3 years	BBB
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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