

JAYMART PLC

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CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 18/06/18

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on Jaymart PLC (JMART) at “BBB”. The rating reflects JMART’s strong performance in the acquisition and management of distressed debt and the competitive position in mobile phone handset trading business. The rating also takes into consideration the intense competition in the mobile handset market, the company’s high leverage, and the risks associated with its lending business and commercial retail property rental business.

KEY RATING CONSIDERATIONS

Fair business risk profile

JMART’s business risk profile is fair. Its risk profile is supported by the profits of the debt management business and a competitive market position in the mobile phone handset segment. JMART has taken a number of steps to diversify its offerings of products and services. Despite these diversification efforts, other lines of business, such as lending and consumer finance, property business, and financial technology startups, still need time to prove the success record.

One of JMART’s key strategies is to maximize the benefits from synergy with its subsidiaries and affiliates (JMART Group or the Group). The synergies will come as JMART leverages operations across its lines of business. For example, JMART can provide personal loans using its financial technology platform, coupled with its experience in debt collection and management services. Another example is the mobile handset segment. JMART sells mobile phone handsets through the sales channel of Singer Thailand PLC (SINGER). If the JMART Group can implement the strategy efficiently and successfully, its business risk profile will be strengthened.

Debt management business bolsters performance

The debt collection and management business, operated by JMT Network Services PLC (JMT), is JMART’s strongest line of business and a key earnings contributor.

The strong performance of JMT supports the overall financial result of JMART. In 2018, JMT was the only profitable unit of the JMART Group. JMT reported Bt480 million in net profit while JMART reported a consolidated net loss of Bt105 million in 2018.

JMT’s performance is driven mainly by the healthy profit margin of its distressed debt business. JMT buys and manages non-performing loans (NPLs). The distressed debt business has grown rapidly over the past few years. The outstanding investment of the distressed debt portfolio was Bt5,927 million as of March 2019. Based on 2006-2018 data, JMT purchased the NPLs at a 94.0% discount on average, while the success rate of loan collections was at 94.0% of accumulated investment in debt acquisition.

Our forecast for 2019-2021 assumes JMT’s revenue will be Bt2,000-Bt2,200 million per annum. The gross profit margin is expected to stay in the 40%-50% range. Our forecast is based on assumptions that JMT will grow its portfolio of distressed debt and its successful record of debt collections will continue.

Slow mobile handset trading business

Jaymart Mobile Co., Ltd.’s performance has been affected by the current

economic slowdown and intense competition in the industry. In 2018, revenue from the sales of mobile handsets and accessories, including income from sales promotions, declined by 13% year-on-year (y-o-y) to Bt9,203 million. In the first quarter of 2019, revenue slipped by 24% y-o-y to Bt1,874 million.

Jaymart Mobile reported a net loss of Bt110 million in 2018. After the loss, Jaymart Mobile shifted the focus to improving efficiency and profitability. Unprofitable branches were closed as part of its cost control efforts. The company also actively manages its inventory to avoid the risk of product obsolescence. The company targets to keep inventory below Bt1,000 million this year, compared with the levels of Bt1,328 million in 2018 and Bt2,006 million in 2017.

For the period of 2019-2021, our base case forecast is built on the assumption that revenue from mobile handsets and accessories, including sales promotions income, will be Bt7,900-Bt8,700 million per annum for Jaymart Mobile. With the ongoing pressure from competition and a weaker economy, the gross profit margin will stay at 11%-16% during the forecast period.

Rising credit risk from lending business

JMART operates a personal loan business under the Bank of Thailand's (BOT) supervision through J Fintech Co., Ltd. (J Fintech). J Fintech continued to report net losses over the past few years. The losses came because loan loss provisions increased, the direct result of a rapid increase in the size of the loan portfolio since 2016. Outstanding loans increased to Bt3,901 million at the end of March 2019 from Bt2,209 million as of December 2016. The loans extended by J Fintech are primarily revolving personal loans.

For the first three months of 2019, the ratio of NPLs (loans with more than three months overdue) to total loans declined to 5.7%, compared with 8.1% in 2017 and 7.0% in 2018. The ratio declined primarily because J Fintech tightened its lending criteria. J Fintech set aside a provision expense of Bt268 million in the first quarter of 2019, slightly less than the amount set aside in the same period last year. The loan loss provisions made by J Fintech are recognized as selling and administrative (SG&A) expenses on the consolidated financial statements of JMART. TRIS Rating is of the view that J Fintech's loan underwriting standards, though improved, remain weak. Credit risk may rise and loan loss provisions may rise as well if the loan portfolio continues to expand.

Loan loss coverage is sound. The loan loss reserves to NPL ratio was 131% at the end of the first quarter of 2019. J Fintech should maintain a high NPL coverage ratio to help absorb a potential rise in credit risk because most of its target customers are in the low-income segment.

For the forecast period of 2019-2021, TRIS Rating's base case forecast assumes J Fintech will post revenue of Bt800-Bt900 million per annum. The NPLs to total loans ratio will be 7%-8%. We estimate the value of the loan portfolio will range around Bt4,000-Bt5,000 million during the forecast period.

JAS Asset needs time to prove its success

JAS Asset PLC (J) is a subsidiary of JMART, operating retail space rental, property for sales, and coffee shop businesses. J leases large retail spaces from hypermarkets, such as 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 46 IT Junction spaces nationwide with a total leasable area of 9,308 square meters (sq.m.). The average occupancy rate (OR) was 85.0% at the end of March 2019.

The company also builds and manages rental space. J owns three community malls in Bangkok with a total rental space of around 35,500 sq.m. The malls are branded as "JAS Urban". The weighted average occupancy rate (OR) was 90.0% at the end of March 2019. J has a number of other businesses, such as building condominiums like the "New Era" project. J also manages a chain of coffee shops (Casa Lapin) and coffee kiosks (Rabb Coffee).

The revenue contribution from J remains modest, making up just 5%-6% of the JMART Group's total revenue yearly over the past three years. We believe the revenue contribution will rise during the next two years because several projects will come to fruition. For instance, a new condominium project will be completed, and a new community mall in the Amata Nakorn area will open. J also plans to open more coffee shops.

Our base case forecast assumes J's revenue will be Bt800-Bt1,000 million annually during 2019-2021. The gross margin is projected at 15%-19% during the forecast period, underpinned by the high margin J earns on the condominiums it sells. J does face a number of key risks that could squeeze profitability. One significant risk is the price-based competition in the retail space rental segment. A second factor is the risk that the transfers of finished condominiums to customers could be slower than expected. The transfer rate could be affected by a weaker economy and stricter mortgage loan requirements for home buyers. If J can execute its growth plans, it will make a larger revenue contribution to the Group in the future. However, if the expansion plans are too aggressive, leverage may increase rapidly.

Performance turns profitable

During 2019-2021, TRIS Rating's base case forecast assumes JMART's revenue will be Bt12,000-Bt13,000 million per annum. The majority of revenue will be from the mobile handset trading business. We estimate adjusted earnings before interest, taxes, depreciation, and amortization (adjusted EBITDA; including the amortization of JMT's investment portfolio) will range at Bt3,100-Bt3,900 million per annum over the forecast period. JMT will continue to be the largest contributor to earnings.

TRIS Rating expects that JMART will report a net profit this year, after a loss of Bt105 million in 2018. Our forecast is built on a number of important assumptions about the profitability of several key lines of business. Cost control efforts and lower inventory write-offs are the main reasons for the turnaround. In the personal loan business, stricter lending measures will help improve asset quality and cut provision expenses. The same focus on asset quality and cost control efforts will apply to the hire purchase business operated by SINGER. JMART holds a 30.3% stake in SINGER and shares any income or loss on an equity basis. Profits in the property segment will be driven by the transfer of condominium units to buyers. The sign of performance turnaround showed in the first quarter of 2019 when JMART reported Bt179 million in net profits.

Leverage remains high

Leverage increased as JMART expanded via subsidiaries in the past few years. At the end of March 2019, adjusted debt increased to Bt11,991 million, up from Bt8,401 million as of December 2016. We believe the company's debt will remain high, given the ambitious growth plans of its subsidiaries like JMT, J Fintech, and J. During 2019-2021, capital expenditures and investments are estimated at Bt600-Bt1,000 million per annum. We also forecast JMT will make debt-funded distressed asset acquisitions of Bt3,000-Bt4,000 million per annum during the period.

During 2019-2021, our base case forecast shows the ratio of adjusted debt to EBITDA will range at 3.5-4.5 times while the adjusted debt to equity will range at 2-3 times. We also assume JMART's investment plans will not cause it to make an overly aggressive use of new debt.

The ratio of adjusted debt to EBITDA was 5.4 times in 2018 and 6 times (annualized; from the trailing 12 months) for the first three months of 2019. Adjusted debt to equity was 2.6 times at the end of 2018 and 2.4 times at the end of March 2019.

Liquidity remains manageable

During the next 12 months, liquidity is expected to be manageable. On a consolidated basis, the primary sources of liquidity are funds from operations (FFO) of Bt2,700-Bt3,000 million yearly, and available cash and cash equivalents of about Bt1,400 million on hand at the end of March 2019. The primary uses of liquidity are: capital expenditures of about Bt600-Bt700 million yearly, plus debt-funded distressed asset acquisitions by JMT of about Bt4,000 million per year. In addition, JMART will have about Bt5,000 million in debt maturities and financial obligations. Of the debt coming due, almost all are short-term loans which will need to be refinanced. JMART will need to borrow more to fund its growth plans.

BASE-CASE ASSUMPTIONS

- JMART's revenues will be Bt12,000-Bt13,000 million per annum during 2019-2021.
- The gross margin in the debt collection segment will range at 40%-50%, a low to mid-teens percentage in the mobile handset trading segment, and a mid- to high-teens percentage in the property segment.
- During 2019-2021, capital expenditures and investments are estimated at Bt600-Bt1,000 million per annum. Debt-funded distressed asset acquisitions by JMT are estimated at Bt3,000-Bt4,000 million per annum.

RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that the strong performance in the debt collection services will continue, and JMART's competitive position in the mobile phone handset segment will remain strong. We also assume the performances of the other subsidiaries, J Fintech and J, will continue to improve.

RATING SENSITIVITIES

The rating upside case is unlikely to arise in the near term, given JMART's current business and financial position. The rating downside case could occur from a significant deterioration in operating performance or from an aggressive investment which pushes the adjusted debt to equity ratio over 4 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 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 13 March 2019, Mr. Adisak and his family owned 45.2% 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 Jaymart Mobile as a wholly-owned subsidiary and transferred the sale of mobile phones, accessories, and IT products to Jaymart Mobile. JMART became a holding company investing mainly in retailing and consumer finance.

Jaymart Mobile sells its products, including mobile phones, cameras, and other IT-related accessories, through 199 shops nationwide including “JMART” and “Jaycamera” shops as well as shops under the major authorized brand names and telecom providers. JMT handles the debt collection and management business. JMART owns 56.1% of 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 J Fintech (previously known as JMT Plus). JMART owns nearly all (90.2%) of J Fintech. The consumer lending business is mostly the extension of long-term installment loans and personal loans to customers who purchase mobile phones from Jaymart 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 startups. JVC is in the process of developing for J Fintech a “decentralized digital lending platform” (DDL) 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, JVC will develop 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”. The coins were sold to raise funds for software development. JVC raised Bt496 million from the ICO.

Table 1: JMART Group Holding: Business Line

| Title | Company Name | Paid-up Capital (Bt Mil.) | Shareholding (%) | Type of Business |
|---|------------------------------|---------------------------|------------------|---|
| JMART Group holding | | | | |
| Jaymart Mobile | Jaymart Mobile Co., Ltd. | 480.00 | 99.99 | Holding company |
| JMT | JMT Network Services PLC | 443.99 | 55.81 | Mobile phones, mobile accessories and IT-related business, wholesales business, and retail business |
| J | JAS Asset PLC | 480.85 | 67.51 | Debt tracking and collection service business and non-performing debt management business |
| J Fintech | J Fintech Co., Ltd. | 1,220.00 | 90.16 | Property development business |
| J Ventures | J Ventures Co., Ltd. | 75.25 | 80.00 | Leasing and personal loan business |
| Subsidiaries that JMART holds indirectly via JMT | | | | |
| J Insurance broker | J Insurance Broker Co., Ltd. | 5.00 | 99.99 | Software development and investing in startup business |
| JP Insurance | JP Insurance PLC | 572.00 | 55.00 | Insurance broker |
| JAM | J Asset Management Co., Ltd. | 25.00 | 99.99 | Non-life insurance business |
| JMT Cambodia | JMT Cambodia Co., Ltd. | 100.00 | 100.00 | Debt management business |
| Subsidiary that JMART holds indirectly via J | | | | |
| Bean and Brown | Bean and Brown Co., Ltd. | 42.00 | 40.00 | Debt collection in Cambodia |
| Associated company | | | | |
| SINGER | Singer Thailand PLC | 270.00 | 30.30 | Selling food and beverage and running coffee shop branded “Casa Lapin” and “Rabb Coffee” |
| Sales and hire-purchases of various electric products | | | | |

Source: JMART

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

| | Jan-Mar 2019 | -----Year Ended 31 December ----- | | | |
|---|-----------------|-----------------------------------|--------|--------|-------|
| | | 2018 | 2017 | 2016 | 2015 |
| Total operating revenues | 2,862 | 12,888 | 13,224 | 11,212 | 9,949 |
| Operating income | 562 | 1,384 | 1,929 | 1,520 | 1,162 |
| Earnings before interest and taxes (EBIT) | 365 | 507 | 1,167 | 886 | 626 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 852 | 2,310 | 2,682 | 1,828 | 1,545 |
| Funds from operations (FFO) | 654 | 1,707 | 2,155 | 1,450 | 1,251 |
| Adjusted interest expense | 144 | 553 | 393 | 258 | 203 |
| Capital expenditures | 103 | 379 | 650 | 1,079 | 547 |
| Total assets | 19,214 | 19,444 | 16,444 | 13,003 | 9,350 |
| Adjusted debt | 11,991 | 12,345 | 11,307 | 8,401 | 5,704 |
| Adjusted equity | 4,896 | 4,704 | 4,664 | 3,990 | 3,778 |
| Adjusted Ratios | | | | | |
| Operating income as % of total operating revenues (%) | 19.63 | 10.74 | 14.59 | 13.55 | 11.67 |
| Pretax return on permanent capital (%) | 4.93 | 2.88 | 7.78 | 7.69 | 7.80 |
| EBITDA interest coverage (times) | 5.90 | 4.17 | 6.82 | 7.09 | 7.60 |
| Debt to EBITDA (times) | 5.95 | 5.35 | 4.22 | 4.60 | 3.69 |
| FFO to debt (%) | 11.30 | 13.83 | 19.06 | 17.26 | 21.92 |
| Debt to equity (times) | 2.45 | 2.62 | 2.42 | 2.11 | 1.51 |

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

Jaymart PLC (JMART)

| | |
|------------------------|--------|
| Company Rating: | BBB |
| Rating Outlook: | Stable |

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