JAYMART PLC

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CORPORATES

Company Rating:	BBB
Outlook:	Stable

Last Review Date: 21/06/19

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” with a “stable” outlook. The rating reflects JMART’s strong performance, driven by the acquisition and management of distressed debt and the competitive operations of its core subsidiary, JMT Network Services PLC (JMT), as well as JMART’s relatively strong position in the 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 retail lending and property business.

KEY RATING CONSIDERATIONS

Stronger synergy needed to support diversified business platform

JMART’s business risk profile is underpinned by the JMART Group’s moderate level of revenue diversity, which focuses primarily on retail and finance businesses. JMART’s consolidated revenue in 2019 derived mainly from Jaymart Mobile Co., Ltd.’s (J-Mobile) cell phone and gadgets distribution (64% of total revenue as of the end of 2019), JMT’s distressed debt management and collection (21%), J Fintech Co., Ltd.’s (J-Fintech) retail lending (7.5%), and JAS Asset PLC’s (J) property business (7.5%). 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 profits are contributed by only a few subsidiaries, primarily JMT.

To strengthen JMART Group’s profitability, one of JMART’s key strategies is to promote synergy among the Group members. Currently, their collaborations take various forms. One example is the cross-sale of J-Mobile’s products through SINGER’s distribution network. At the same time, J-Fintech provides financing services to the buyers of J-Mobile’s products via installment loans and personal loans. JMT, meanwhile, manages debt collections for J-Fintech 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’s synergy can be further enhanced, it may take time to scale up each business to achieve cost efficiency in the current weak economic environment. In the meantime, sound management of the Group’s business flows and funding requirements will still be needed to underpin its business risk profile.

Debt management business bolsters performance

The 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 2019, JMT continued to be the major profit contributor for the JMART Group with THB649 million reported net profit, accounting for 82% of JMART’s consolidated net profit.

Additionally, the importance of JMT to the JMART Group can also be seen through the Group’s investment strategy where over 90% of capital expenditures were allocated to JMT in 2019. This investment trend is expected to continue in 2020 under the Group’s recent announced business plan.

The fragile economy in the aftermath of the coronavirus (COVID-19) pandemic poses a challenge for the JMART Group. Thus far, the impact are still manageable for JMT given that cash collection has declined by approximately 10%, which is still lower than that of the previous crisis experienced during Thailand's major floods in 2011.

Modest mobile handset trading business

J-Mobile's performance has been sluggish due to the economic slowdown and intense competition in the industry. In 2019, revenue from the sales of mobile handsets and accessories, including income from sales promotions, declined by 28% year-on-year (y-o-y) to THB6.78 billion. In the first quarter of 2020, revenue slipped by 20% y-o-y to THB1.44 billion.

Despite the decline in revenue, J-Mobile reported a net profit of THB91 million in 2019. After the loss reported in 2018, J-Mobile shifted its 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 low margin wholesale segment has also been de-emphasized.

New partner in lending business

JMART has recently welcomed a new strategic partner, KB Kookmin Card Co., Ltd., to its lending business operated by J-Fintech. KB Kookmin Card is the Korean credit card arm of KB Financial Group. KB Kookmin Card has agreed to acquire a 51% stake in J-Fintech within 2020. The transaction is under the process of approval by the Bank of Thailand (BOT) and Korea's Financial Supervisory Service. After the acquisition, J-Fintech will no longer be consolidated with the JMART Group. This should help improve JMART's overall profitability as J-Fintech's revenues made up 7.4% of JMART's consolidated revenue, while its loan loss provisions accounted for 38.8% of JMART's selling and administrative expenses in 2019. The transaction would also help improve the Group's leverage position in the short term as JMART will receive the related parties loans back from J-Fintech of approximately THB2--THB3 billion.

TRIS Rating expects the joint venture (JV) to help improve the financial position of J-Fintech gradually. Firstly, we expect J-Fintech to benefit from lower funding costs due to KB Kookmin Card's agreement to guarantee J-Fintech's borrowings supported by KB Kookmin Card's strong credit rating (rated "A2" by Moody's Investors Service). Moreover, we expect KB Kookmin Card's risk management knowhow to help improve the asset quality of both existing and new portfolios. At the same time, the JV provides KB Kookmin Card with an opportunity to tap into Thailand's consumer lending market. However, we currently do not anticipate meaningful profit contributions from the JV in the short term as business collaborations, system adjustments, and product launches are likely to be at a measured pace.

JAS Asset's revenue contribution remains uncertain

The revenue contribution from J-remains modest, contributing around 8% and 2% of the JMART Group's total revenue and net profit in 2019. The future performance of J remains uncertain, in our view, given the challenges faced by the retail sector in the wake of the COVID-19 pandemic. Currently J operates retail leasing space (community malls and "IT Junction" in hypermarkets) and small condominiums for sale ("Newera"). The partial transfer of Newera condominium units in 2019 helped improve J's performance. The management expects the remaining units to be transferred in 2020. As no new condominium projects have been developed so far, J's future revenues will be supported by rental income, mainly from community malls and IT Junction. Apart from the existing three projects, with a weighted average occupancy rate (OR) of 94% at the end of 2019, we expect new projects branded as "JAS Village" at Amata Nakorn Industrial Estate (scheduled to open in the third quarter of 2020) and Kubon-Ramintra (the third quarter of 2021) to provide additional revenues for J in the future. This is based on our base-case assumption that economic activities resume in the second half of this year.

Meanwhile, for the IT Junction, the total leasable area being sub-leased to small retailers of IT accessories and mobile handsets has declined to 7,907 square meters (sq.m.) in 2019 from 9,848 sq.m. in 2018. As of March 2020, the number of branches of the IT Junction was 36, falling from 46 at the end of March 2019. The reduction in the IT Junction branches was due to an increased focus on profitable units. The average OR was 85% at the end of March 2020, similar to the same period in the previous year.

Leverage remains high

TRIS Rating expects the company's leverage to remain high given the ambitious growth plans for its major subsidiaries, particularly JMT. The company plans to acquire distressed assets of THB4-THB5 billion per year. On the positive side, the de-consolidation of J-Fintech will help improve the company's leverage position in the short term. At the end of 2019, the ratio of adjusted debt to earnings before interest, tax, depreciation and amortization (EBITDA) stood at 3.9 times. We expect the three-year average (2020-2022) adjusted debt to EBITDA ratio to hover between 3.5-4.5 times. This is based on our assumption that JMT's cash collection remains at a similar level.

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 THB3.5-THB4 billion yearly and available cash of about THB2.25 billion at the end of March 2020. The primary uses of liquidity are: capital expenditure of around THB500 million yearly, plus debt-funded distressed asset acquisitions by JMT of about THB4-THB5 billion per year. In addition, the JMART Group has maturing debentures totaling THB1.83 billion within 2020. The debts coming due are expected to be refinanced by bank loans and new debenture issuance. In 2020, J-Fintech will repay inter-company borrowings of THB2.70 billion to JMART. This will help enhance JMART's liquidity position in the short term.

BASE-CASE ASSUMPTIONS

TRIS Rating makes the following assumptions for the operations of JMART over the next three years:

- JMART's revenues will be THB10-THB12 billion per annum.
- The gross margin in the debt collection segment will be in a range of 50%-60%, a low- to mid-teens percentage in the mobile handset trading segment, and a mid- to high-teens percentage in the property segment.
- Capital expenditure and investments are estimated to be around THB500 million per annum. Debt-funded distressed asset acquisitions by JMT are estimated at THB4-THB5 billion 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 maintain competitive position in the mobile phone handset segment. 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 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

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 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 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 52.9% of JMT. The retail space rental segment is operated by J. JMART holds 74.9% 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 J-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 a "decentralized digital lending platform" (DDLP) 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, 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 THB496 million from the ICO.

Table 1: JMART Group Holding: Business Line

Title	Company Name	Paid-up Capital (THB Mil.)	Shareholding (%)	Type of Business
JMART Group holding				Holding company
J-Mobile	Jaymart Mobile Co., Ltd.	480.0	99.99	Mobile phones, mobile accessories and IT-related business, wholesales business, and retail business
JMT	JMT Network Services PLC	444.3	52.85	Debt tracking and collection service business and non-performing debt management business
J	JAS Asset PLC	793.8	74.97	Property development business
J-Fintech	J Fintech Co., Ltd.	1,220.0	90.16	Leasing and personal loan business
J-Ventures	J Ventures Co., Ltd.	75.3	80.00	Software development and investing in startup business
Bean and Brown	Bean and Brown Co., Ltd.	58.0	70.00	Software development and investing in startup business
Subsidiaries that JMART holds indirectly via JMT				
J Insurance broker	J Insurance Broker Co., Ltd.	15.0	99.99	Insurance broker
JP Insurance	JP Insurance PLC	572.0	55.00	Non-life insurance business
JAM	J Asset Management Co., Ltd.	300.0	99.99	Debt management business
Associated company				
SINGER	Singer Thailand PLC	401.5	30.26	Sales and hire-purchases of various electric products and "Car for Cash"

Source: JMART

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2020 ***	--------------Year Ended 31 December			------------
		2019	2018	2017	2016
Total operating revenues	2,774	11,838	12,888	13,224	11,212
Operating income	705	2,326	1,384	1,929	1,520
Earnings before interest and taxes (EBIT)	365	1,556	507	1,167	886
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	708	3,518	2,299	2,682	1,828
Funds from operations (FFO)	483	2,714	1,696	2,155	1,450
Adjusted interest expense	187	626	553	393	258
Capital expenditures	102	294	379	650	1,079
Total assets	23,074	20,373	19,444	16,444	13,003
Adjusted debt	13,145	13,561	12,345	11,307	8,401
Adjusted equity	5,152	5,232	4,704	4,664	3,990
Adjusted Ratios					
EBITDA margin (%)	25.52	19.75	10.79	14.72	13.74
Pretax return on permanent capital (%)	8.55	8.18	2.88	7.78	7.69
EBITDA interest coverage** (times)	3.79	5.62	4.15	6.82	7.09
Debt to EBITDA** (times)	3.89	3.86	5.35	4.22	4.60
FFO to debt** (%)	19.39	20.01	13.83	19.06	17.26
Debt to capitalization (%)	71.84	72.16	72.41	70.80	67.80

* *Consolidated financial statements*
** *Including investment portfolio amortization*
*** *Annualized*

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Company Rating:	BBB
Rating Outlook:	Stable

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