

JMT NETWORK SERVICES PLC

No. 91/2019
21 June 2019

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 18/06/18

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on JMT Network Services PLC (JMT) at “BBB”. The company rating on JMT is linked to the company rating on Jaymart PLC (JMART) due to JMT’s status as a core subsidiary of JMART, evidenced by a strong profit contribution and management closely linked to JMART.

The company rating on JMT also reflects 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 high household debt and volatile economic conditions, could affect debt serviceability of the debtors. JMT recently entered a new business, insurance. The success of the new segment remains unproven.

KEY RATING CONSIDERATIONS

A core subsidiary of JMART Group

TRIS Rating considers JMT as an important core business of the JMART Group due debt collecting functions which are important and integral to the JMART Group’s strategy.

JMT is also successfully operating, contributing a significant proportion to JMART’s net profit over the past few years. JMT contributed 46% of JMART’s consolidated net profit for the first quarter of 2019.

As a 56% subsidiary of JMART, JMT has been supporting JMART’s overall group business in terms of debt collecting services. JMT has also been expanding its services and client base by leveraging JMART Group’s client base.

Continually improving performance

TRIS Rating expects JMT’s profitability will remain strong over the next three years. In 2018, JMT’s revenues from key businesses rose by 38% year-on-year (y-o-y) to Bt1,884 million, due mainly to contribution of revenue from the debt acquisition business (79%), revenue from the debt collection business (15%), and revenue from the insurance business (5%).

Net income jumped 21% to Bt480 million in 2018, from Bt396 million in 2017. Net income increased 28% y-o-y to Bt142 million for the first quarter of 2019. JMT’s ability to generate cash flow is relatively strong, supported by the growth in debt collection and debt acquisition. The adjusted funds from operations (FFO), including investment portfolio amortization, have increased significantly, rising to Bt1,470 million in 2018 compared with Bt1,190 million in 2017. However, the operating margin fluctuated during the past few years, as revenue depended on collections from the debt purchasing segment.

TRIS Rating’s base-case scenario assumes the company’s operating margin will stay above 40% 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.

Distressed debt acquisition and management support overall growth

We expect JMT to continue to actively expand its distressed debt businesses. It has strong growth potential in the management of non-performing loans (NPLs) purchased from financial institutions. JMT purchased distressed debts of Bt21,003 million (face amount) with investment cost of Bt2,583 million (an 88.0% discount) in 2018 and Bt687 million with investment cost of Bt341

million (a 50.0% discount) in the first quarter of 2019. The decline in discount rate was due to higher investment in distressed secured loans. The outstanding investment in the distressed debt portfolio was Bt5,927 million as of March 2019.

JMT reported Bt1,480 million in revenue from distressed debt business in 2018, a 33% increase from 2017 and Bt419 million in revenue from this businesses for the first quarter of 2019. As of March 2019, the average success rate (debt collection as a percentage of investments) of JMT was 94% of accumulated investment in debt acquisition.

Expertise in debt collection supports growth and efficiency

In TRIS Rating's view, JMT's revenues from debt collection services should remain stable over the next three years. The company's database collected over 20 years supports its business growth and operational competence. JMT has maintained its position as the market leader in debt collection services. The company has provided debt collection services for an outstanding principal balance of around Bt20,000 million over the past few years.

Major clients include financial institutions, mobile phone operators, consumer lenders, and others. The major contributor to the portfolio was unsecured loans for which JMT has expertise and a proven track record. The portfolio mix as of the end of 2018 included: personal loans (39% of outstanding loans), auto hire-purchase loans (25%), home loans (14%), credit card receivables (12%), and other loans (10%).

JMT's commission revenue from debt collections accounted for about 15% of total revenue in 2018. Debt collection revenue increased by 19% from a year earlier to Bt289 million, due to the higher commission rate and the higher success rate. Revenue in the first quarter of 2019 was Bt90 million. The success rate improved steadily to 9.3% in 2018 and 10.6% for the first quarter of 2019, from 8.3% in 2017, because of lower aging of debt. However, the commission rate also increased to 10.4% in 2017-2018 and 11.4% in the first quarter of 2019, compared with 7.4% in 2016.

Rising leverage but still at an acceptable level

The company's total debt of JMT may rise considerably to fund distressed assets portfolio expansion. Total debt rose by 41% to Bt3,340 million in 2018, from the end of 2017. However, due to the larger increase in FFO, the adjusted FFO (including investment portfolio amortization) to total debt ratio decreased to 44% in 2018, from 50% in 2017, and increased to 56% in the first quarter of 2019 (annualized). The adjusted earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio stayed above 13-14 times in 2018 and in the first quarter of 2019 (annualized).

Going forward, JMT plans to invest around Bt4,500 million per year for purchasing 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 1.4 times at the end of March 2019, well below the ceiling of 3 times imposed by a financial covenant.

BASE-CASE ASSUMPTIONS

Over the next three years, TRIS Rating has assumptions for the operation of JMT as follows:

- JMT's outstanding principal of debt collection services will be maintained around Bt20,000 million per annum.
- Distressed debt acquisition portfolio will be maintained at Bt15,000-Bt20,000 million per annum.
- Operating cost will be in a range of 36%-42%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that JMT will maintain its status as a core subsidiary of JMART and continue its integral debt collecting functions to the overall group strategy. In addition, the outlook reflects our expectation that JMT will be able to maintain its market position and continue to improve operating performance. TRIS Rating also expects distressed portfolio purchases and collection services to continue to grow at steady rates, resulting in satisfactory operating and financial performances.

RATING SENSITIVITIES

The rating and/or outlook of JMT could be revised upward or downward should there be any changes in JMART's credit profile or if there are any changes in JMT's status relative to JMART.

COMPANY OVERVIEW

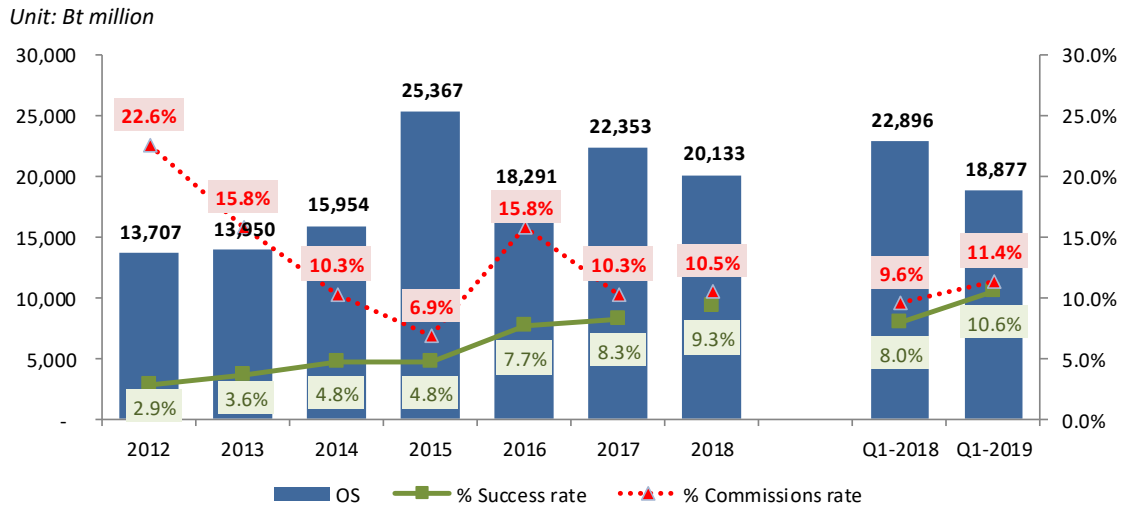
JMT was established by JMART in 1994 with registered capital of Bt5 million. In 2014, JMT was listed on the Stock Exchange of Thailand (SET). JMART is the major shareholder, holding 56% of the company's outstanding shares as of 23 April 2019.

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 JAYMART 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.

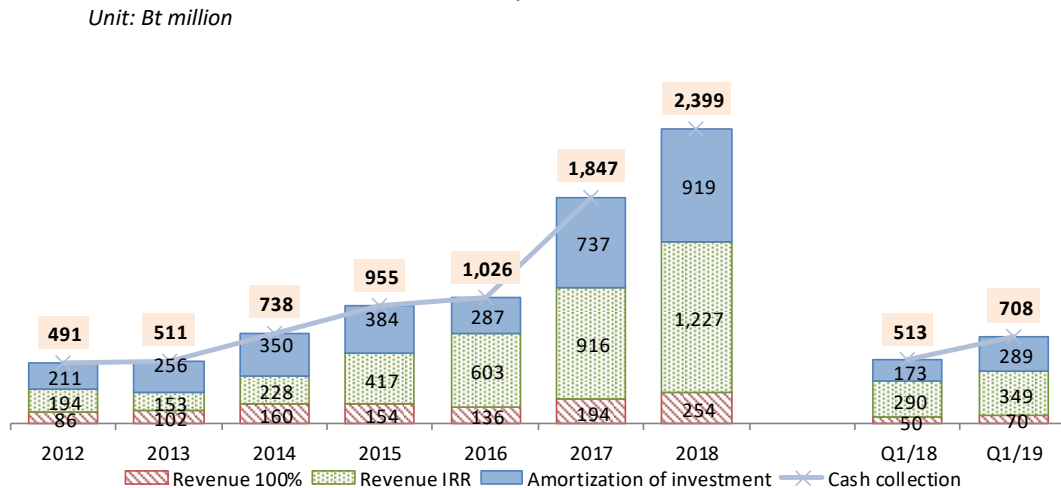
KEY OPERATING PERFORMANCE

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 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	552	1,886	1,362	1,072	720
Operating income	253	876	636	324	210
Earnings before interest and taxes (EBIT)	230	806	579	280	176
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	542	1,795	1,373	611	594
Funds from operations (FFO)	447	1,470	1,190	477	512
Adjusted interest expense	43	139	80	87	56
Real estate development investments	35	128	72	111	40
Total assets	8,457	8,363	5,248	4,164	3,741
Adjusted debt	3,167	3,340	2,360	1,787	1,927
Adjusted equity	3,621	3,467	2,325	1,936	1,669
Adjusted Ratios					
Operating income as % of total operating revenues (%)	45.85	46.43	46.72	30.20	29.11
Pretax return on permanent capital (%)	12.59	12.63	12.82	7.50	6.18
EBITDA interest coverage (times)	12.65	12.93	17.20	7.00	10.54
Debt to EBITDA (times)	1.49	1.86	1.72	2.93	3.25
FFO to debt (%)	56.40	44.03	50.42	26.69	29.59
Debt to equity (times)	0.87	0.96	1.02	0.92	1.15

Note: All ratios have been adjusted by operating leases.

* *Consolidated financial statements*

** *Including investment portfolio amortization*

*** *Annualized*

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Nonbank Lending Company, 7 May 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

JMT Network Services PLC (JMT)

Company Rating:	BBB
Rating Outlook:	Stable

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