

# JMT NETWORK SERVICES PLC

No. 98/2020  
30 June 2020

## 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 JMT Network Services PLC (JMT) at “BBB” with a “stable” outlook. The company rating on JMT is aligned with the company rating on Jaymart PLC (JMART), JMT’s major shareholder. As a core subsidiary of JMART, JMT is the largest profit contributor among companies within the JMART Group. The management and board members of JMT and JMART are also closely linked.

The company rating on JMT also reflects its steady growth in revenues and market position as well as strong profitability supported by expertise in debt collection and management. The rating is, however, constrained by the company’s focus on subprime debtors who are generally susceptible to weak economic environment. Fallout from the coronavirus (COVID-19) pandemic could exacerbate the already low debt serviceability of its debtors. JMT recently entered into the non-life insurance business, the success of which remains to be proven.

## KEY RATING CONSIDERATIONS

### A core subsidiary of JMART Group

TRIS Rating considers JMT to be a core subsidiary within the JMART Group. The company plays a vital role in the Group’s financial business, which constitutes an important element of the Group’s diversified business. JMT is Thailand’s leading investor and manager of unsecured distressed loans disposed by financial institutions (FIs). It is also a major provider of debt collection services for various corporates and FIs. JMT expands its services and client base by leveraging JMART Group’s client base. JMT contributed 81% of JMART’s consolidated net profit in 2019.

### Weak economy to drive debt acquisition and revenue

JMT plans to further expand its distressed debt businesses with a budget for investment of over THB4 billion per year for the next three years. We believe the sharp decline of the economy in the near term could increase the supply of distressed debts in the market as many FIs are likely to accelerate asset disposals as part of their non-performing loan (NPL) management. JMT purchased distressed debts of THB28.93 billion (face amount) with an investment cost of THB3.32 billion (an 88.5% discount) in 2019 and THB5.81 billion with an investment cost of THB657 million (a 88.7% discount) in the first quarter of 2020. JMT reported THB1.89 billion in revenue from the distressed debt business in 2019, a 29% increase from 2018. In the first quarter of 2020, revenue rose by 25% to THB525 million.

### Expertise in debt collection supports performance and efficiency

TRIS Rating expects JMT’s revenues from debt collection services to steadily increase over the next three years. JMT has maintained its position as the market leader in debt collection services. This was underpinned by over 20 years of database, which helps sustain business growth and operational efficiency. The outstanding principal balance under the service has remained above THB20 billion for the past few years.

JMT’s major clients include FIs, mobile phone operators, consumer lenders, and others. The portfolio mix as of the end of 2019 included: personal loans (13% of outstanding loans), auto hire-purchase loans (50%), home loans (7%), credit card receivables (18%), and other loans (12%).

JMT's commission revenue from debt collections accounted for about 15% of total revenue in 2019. Debt collection revenue increased by 26% from a year earlier to THB364 million. Revenue in the first quarter of 2020 was THB97 million. However, the success rate dropped to 4.8% in 2019 from 9.3% in 2018 due to the longer aging of debt and also the slower economy. As for the first quarter of 2020, the success rate has returned to 10.1%. The commission rate decreased slightly in 2019 to 10.3% from 10.4% in 2018.

### Challenging years for business performance

The COVID-19 pandemic has aggravated Thailand's weak economy. The fragile economic condition will pose a challenge to JMT over the next few years. Its ability to manage cash flows will be the key to JMT's performance and capacity to invest in newly disposed distressed debts to support future growth. Thus far, the impacts from COVID-19 are still manageable with cash collection declining by 10%. For JMT, the impact is less than that of the major floods experienced in 2011.

TRIS Rating expects JMT's profit to grow by more than 10% over the next three years. Continuous acquisition of distressed assets should provide JMT with higher revenue. In 2019, JMT's revenue from the debt acquisition business contributed 76% of total revenue, 15% from debt collection services, and 9% from non-life insurance underwriting and brokerage.

### Rising leverage

The aggressive expansion of the distressed assets portfolio has increased the company's leverage, given that asset acquisitions are generally funded by debts. The interest-bearing debt to equity ratio (D/E) increased to 1.7 times at the end of 2019 from 1.1 times at the end of 2018. Over the next few years, JMT plans to invest around THB4-THB5 billion per year to acquire distressed debts. This could further increase its leverage from the current level. Nonetheless, we expect the D/E ratio to stay below 3 times as stipulated by the company's financial covenant. At the same time, the ratio of adjusted debt to earnings before interest, tax, depreciation, and amortization (EBITDA) has also increased to 2.3 times in 2019 from 1.7 times in 2018. The deterioration of cash collection performance may raise the company's debt to EBITDA ratio further, which could put pressure on its rating.

### BASE-CASE ASSUMPTIONS

TRIS Rating makes the following assumptions for the operations of JMT over the next three years as follows:

- Outstanding principal of debt collection services will be around THB30 billion per annum.
- Investment in distressed debt acquisition portfolio will be around THB4.5-THB5 billion per annum.
- EBITDA margin will be in the range of 45%-50%.

### 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.

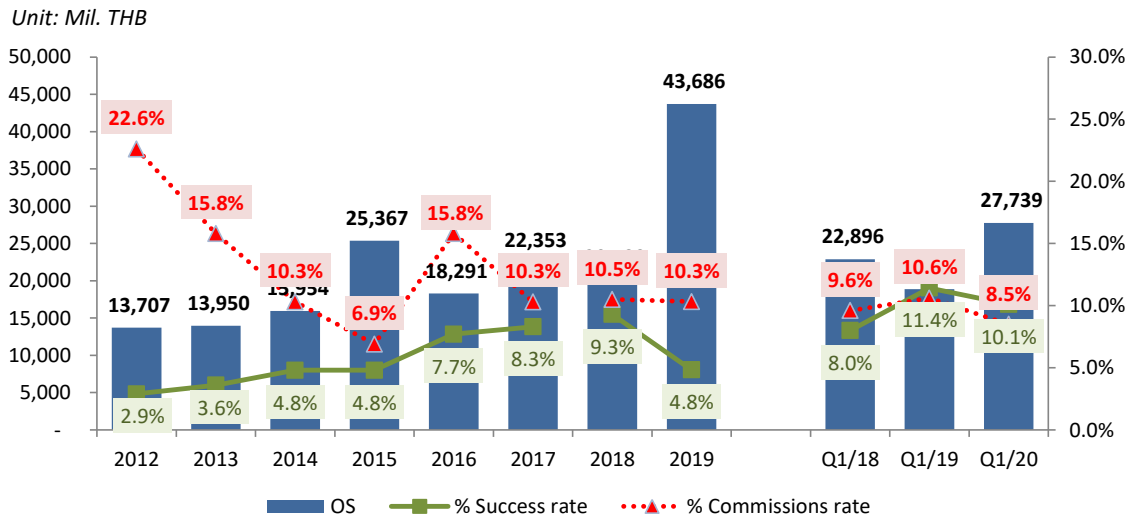
### COMPANY OVERVIEW

JMT was established by JMART in 1994 with registered capital of THB5 million. In 2014, JMT was listed on the Stock Exchange of Thailand (SET). JMART is the major shareholder, holding 52.9% of the company's outstanding shares as of 31 March 2020. 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 its name from Phoenix Insurance (Thailand) PLC to JP Insurance PLC. The revenue contribution to JMT from premium income of the insurance business remains modest.

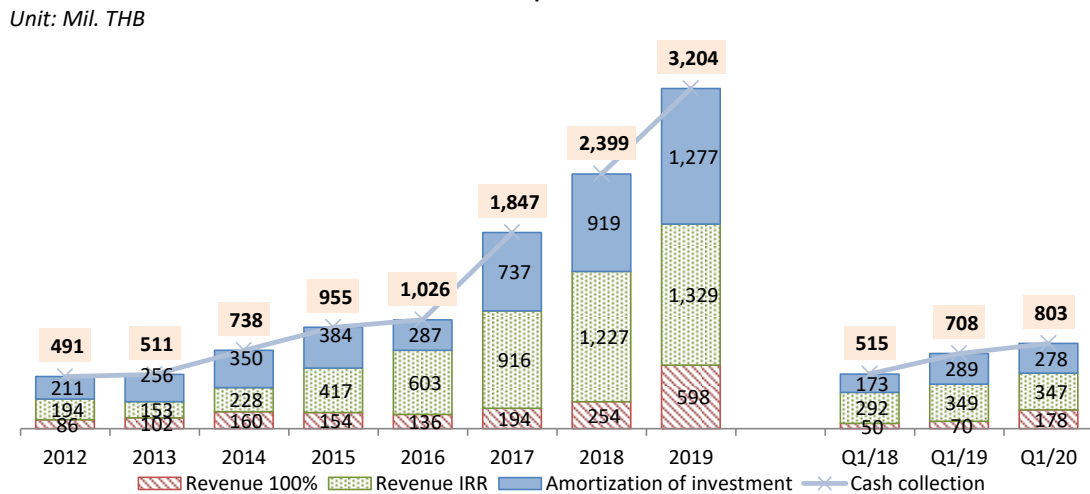
**KEY OPERATING PERFORMANCE**

**Chart 1: Debt Collection Performance**



Source: JMT

**Chart 2: Debt Acquisition Performance**



Source: JMT

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	Jan-Mar 2020 ***	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	403	2,536	1,890	1,362	1,072
Operating income	368	1,136	879	636	324
Earnings before interest and taxes (EBIT)	336	1,038	810	579	280
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	646	2,316	1,787	1,373	611
Funds from operations (FFO)	524	1,913	1,463	1,190	477
Adjusted interest expense	69	213	139	80	87
Capital expenditures	5	80	128	72	111
Total assets	12,089	10,142	8,363	5,248	4,164
Adjusted debt	5,479	5,429	3,340	2,360	1,787
Adjusted equity	3,317	3,433	3,467	2,325	1,936
<b>Adjusted Ratios</b>					
EBITDA margin (%)	48.0	44.8	46.5	46.7	30.2
Pretax return on permanent capital (%)	12.50	12.27	12.69	12.82	7.50
EBITDA interest coverage** (times)	9.34	10.85	12.88	17.20	7.00
Debt to EBITDA** (times)	2.27	2.34	1.87	1.72	2.93
FFO to debt** (%)	36.29	35.23	43.81	50.14	26.71
Debt to capitalization (%)	62.29	61.26	49.06	50.38	48.01

Note: All financial ratios were adjusted by operating lease.

\* Consolidated financial statements

\*\* Including investment portfolio amortization

\*\*\* Annualized

**RELATED CRITERIA**

- Nonbank Financial Institution Rating Methodology, 17 February 2020
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

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**JMT Network Services PLC (JMT)**

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<b>Company Rating:</b>	BBB
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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