

KB J CAPITAL CO., LTD.

No. 16/2023
22 February 2023

FINANCIAL INSTITUTIONS

Company Rating: A-
Outlook: Stable

Last Review Date: 25/02/22

Company Rating History:		
Date	Rating	Outlook/Alert
25/02/22	A-	Stable

RATIONALE

TRIS Rating affirms the company rating on KB J Capital Co., Ltd. (KBJ) at “A-” with a “stable” outlook. The rating incorporates a three-notch rating enhancement from KBJ’s stand-alone credit profile (SACP) at “bbb-”. The enhancement reflects our assessment of KBJ’s status as a strategically important subsidiary of KB Kookmin Card Co., Ltd., a credit card subsidiary of KB Financial Group (rated “A/stable” by S&P Global Ratings).

The company’s SACP reflects its modest market position in the consumer lending business and moderate earnings capacity. The rating also takes into account its strong capital position, prudent risk management policies, as well as sufficient funding and liquidity profile.

KEY RATING CONSIDERATIONS

Strategically important subsidiary of KB Kookmin Card

We assess KBJ as a strategically important subsidiary of KB Kookmin Card, a credit card subsidiary of KB Financial Group, a leading financial services provider in South Korea. KB Kookmin Card currently holds 50.99% of KBJ’s shares. KBJ serves as a part of KB Kookmin Card’s global business expansion arm in the Southeast Asian region.

In terms of financial support, KB Kookmin Card provides a corporate guarantee on KBJ’s bank loans which demonstrates its long-term commitment. KBJ’s operation is also highly integrated with KB Kookmin Card. KBJ implements KB Kookmin Card’s integrated global core financial system. The company also adopts the group’s policies and guidelines for corporate governance, risk management, financial management, internal control, human resource (HR), and information technology (IT) security designed for KB Kookmin Card’s overseas subsidiaries. KBJ shares the group’s “KB” brand, which also reinforces KBJ’s status as a strategically important subsidiary of KB Kookmin Card.

Modest franchise with potential growth

KBJ’s current market presence is still modest compared to other non-bank financial institutions (NBFIs) under our coverage as KB Kookmin Card only took control of the company in late 2021. With business support from KB Kookmin Card in terms of operating system as well as financial guarantee and collaboration with JMART Group, we believe KBJ’s business growth will likely accelerate over the next few years.

At the end of December 2022, KBJ’s outstanding loans stood at THB5.0 billion, a 29% growth year-on-year (y-o-y) from the end of December 2021. This was attributed to the strong demand for personal loans that expanded by 26% y-o-y to THB3.3 billion. Part of this was also driven by increased personal loans secured by property (home for cash), which rose by 53% y-o-y to THB1.2 billion.

Business diversification likely gradual

Currently, KBJ’s revenue continues to primarily stem from a few main business lines. Interest income on revolving personal loans remains the major revenue source, at 60% of total income in 2022, with collateralized installment loans at 9% and installment personal loans at 7%.

The company’s medium-term plan is to focus on its core revolving loan product while diversifying into new product offerings. In October 2022, KBJ launched

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“Samsung Finance Plus” (SF+), a fully digitalized hire purchase loan program for Samsung mobile phones via collaboration with Thai Samsung Electronics Co., Ltd. In the next phase, the company plans to expand the program to cover other Samsung electrical appliances. While we view KBJ’s active loan growth and more diversified sources of revenue favorably, it will likely take some time before this has materially positive impact on the company’s business position.

Capital position under pressure due to strong credit growth

We maintain our assessment of KBJ’s capital position as strong despite a decline in risk-adjusted capital (RAC) ratio. At the end of 2022, the company’s RAC ratio declined to 19.2% from 23.6% at the end of 2021 due to a strong loan expansion of 29% y-o-y. With our projection of the company’s loan growth of 18%-24% in 2023-2025, we estimate the RAC ratio to likely fall to the 14%-16% range. A rapid credit expansion resulting in the further weakening of capital for a sustained period could put pressure on the company’s credit rating. As for financial leverage, measured by debt-to-equity ratio, this increased moderately to 2.6 times at the end of 2022 from 2.0 times at the end of 2021.

Expect earnings capacity to stay moderate

In terms of earnings, the company’s earnings capacity, measured by ratio of earnings before taxes to average risk-adjusted assets (EBT/ARWAs), has weakened to 1.4% in 2022 from 2.2% in 2021. The decline resulted from an average loan yield that fell materially to 15.4% in 2022 from 18.6% in 2021. This was attributed mainly to lower interest income as a result of the debt relief program and a higher portion of low-yielding collateralized loans, as well as pricing competition. Interest spread therefore dropped to 14% in 2022 from 17% in 2021.

We estimate KBJ’s EBT/ARWA to remain at around 1.5% over the next few years. The loan yield is likely to rise back to 17%-18% given the ending of the debt relief program and its focus on higher-yielding unsecured personal loans. As for operating expense, major investments in IT systems and HRs have already been accounted for in 2022. Any incremental increase in operating expenses over 2023-2025 is likely to be at a slower pace, mainly to support ongoing branch and sales network expansion.

Asset quality improvement supported by prudent credit policies

We assess KBJ’s risk position as adequate. KBJ’s asset quality has shown an improving trend during 2020-2022 with a non-performing loan (NPL) ratio of 2.1% at the end of 2022, down sharply from 6.6% at the end of 2020. New NPL formation declined to 6.9% of average loans at the end of in 2022 from 12.7% at the end of 2021.

This is attributable to KBJ’s adoption of parent’s prudent risk management and underwriting standards, improved debt collection, debt relief program, and strong loan base expansion. KBJ also implemented the group’s global core financial system used by all subsidiaries of Kookmin Bank Card which supports real-time loan processing. The company is also recruiting more in-house collection staff to help manage asset quality as it actively expands business. While there is risk of asset quality deterioration given the weakening credit profile of its target customers, we believe KBJ’s prudent credit risk framework will allow for optimum credit cost and risk-based pricing in the future.

Adequate funding and liquidity profile

We assess KBJ’s funding and liquidity profile as adequate. This is mainly due to the company receiving financial support from KB Kookmin Card in the form of corporate guarantees on its bank loans. KBJ also has credit facilities from local financial institutions, which can be drawn down on a timely basis. The credit facilities together with additional bank loan guaranteed to be provided by KB Kookmin Bank in 2023 in the form of a standby letter of credit should be sufficient to support its funding and liquidity needs.

However, we have slight concerns over its limited funding sources and asset-liability mismatch. At the end of 2022, the company’s short-term borrowing accounted for 63% of its total debts, while the majority of its loan portfolio consisted of revolving loan and home for cash loan which are long-term in nature.

Unsecured personal loan operators face rising credit risk and intense competition

Since the easing of Coronavirus Disease 2019 (COVID-19) restrictive measures in late 2021, the Thai economy has steadily recovered, and consumer spending has normalized to a great extent. Consumer loans, particularly unsecured personal loans, have increased relatively strong by 14% y-o-y to THB601 billion at the end of 2022 as demand for loans to support household liquidity needs remained strong. However, the asset quality of unsecured personal loans has weakened. The NPL ratio of unsecured personal loans for banks and NBFIs reported by the Bank of Thailand (BOT) rose to 5.3% at the end of December 2022 from 3.1% at the end of 2021. We expect overall asset quality to remain fragile, potentially deteriorating further after the debt relief measures expired. Moreover, unsecured loan operators are likely to remain pressured by fierce competition, interest rate caps, potential rises in funding costs, and economic uncertainty. Diversification to other business lines, while possibly helping to mitigate revenue pressure, remains a challenge.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for KBJ in 2023-2025 are as follows:

- Outstanding loans to expand by 15%-20% per year.
- Interest spread to be maintained at around 15%-16%.
- NPL ratio to be approximately 3%.
- Credit cost to stay at around 8%-9%.

RATING OUTLOOK

The "stable" outlook reflects the expectation that KBJ will maintain its market position, financial performance, and leverage level while keeping its asset quality under control.

RATING SENSITIVITIES

KBJ's credit upside would materialize if the company's market position were to improve over an extended period while asset quality and capital are strengthened further. Conversely, the rating and/or outlook could be revised downward if the company's capital and leverage positions materially weaken with RAC falling below 15%.

The company's rating and/or outlook could also be revised upward or downward should there be a change to KBJ's group current status as a strategically important subsidiary of KB Kookmin Card.

COMPANY OVERVIEW

In March 2011, the company was established as JMT Plus Co., Ltd. with THB1 million of capital and 99.99% owned by JMT Network Services PLC.

In 2015, The company's paid-up capital increased to THB120 million. The company also obtained a personal loan license from the BOT and expanded into the personal loan business with Shinsei Financial Group as a partner.

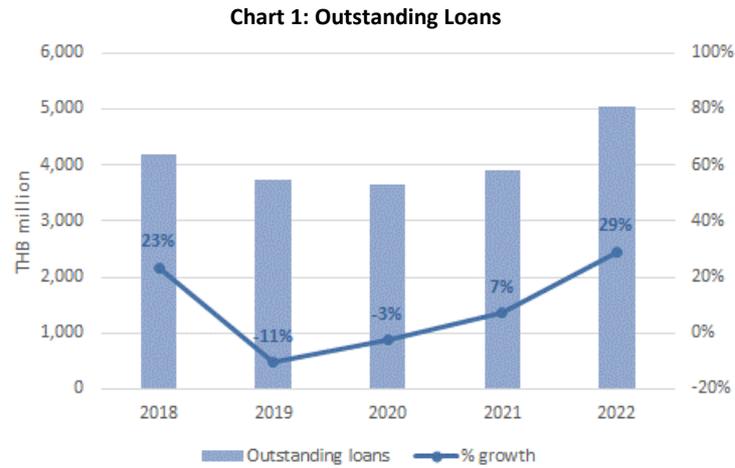
In 2016, the company received a capital injection from Jay Mart PLC (JMART), and the shareholding structure changed to JMART holding 90.16% and JMT holding 9.84% stake in the company. The company's name was changed to J Fintech Co., Ltd. In 2018, the company expanded its business to car for cash loan and factoring loans.

In April 2020, JMART's board of directors approved a joint venture with KB Kookmin Card in J Fintech. The following was approved: entering into the Master Transaction Agreement and the Shareholders Agreement; and the capital increase of J Fintech from THB556,536,900 to THB1,112,851,210 by issuing 53,360,768 ordinary shares (having a voting right of one vote per share) and 2,270,663 preferred shares (having a voting right of two votes per share), having a par value of THB10 per share and offering the newly issued shares to all shareholders of the company in proportion to their shareholding (both ordinary and preferred shares) at THB11.68 per share, whereby JMART would waive the right to subscribe the newly issued shares in proportion to its shareholding in JMART (either ordinary or preferred shares) with JMART entitled to subscribe to 48,112,168 ordinary shares and 2,047,319 preferred shares in order for KB Kookmin Card to be able to subscribe to the total of 50,159,487 newly issued shares in J Fintech.

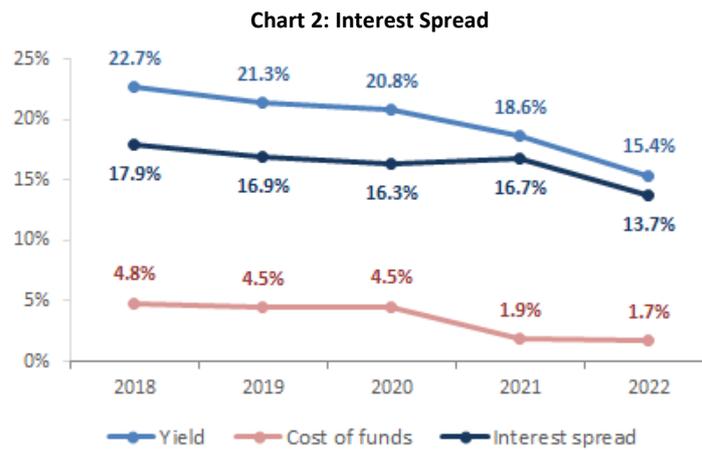
In February 2021, the joint venture was completed with KB Kookmin Card becoming the company's major shareholder. KB Kookmin Card owned 49.99% of shares and 50.99% of voting rights in the company, while JMART held a 50.01% share and 49.01% of voting rights. The company's name was changed to KB J Capital Co., Ltd. (KBJ). The company operates in five major business lines: revolving loans, installment loans, installment sales, car for cash, and home for cash.

In June 2022, the company obtained a foreign business license from the BOT, after KB Kookmin Card increased its stakes to 50.99% of shares by receiving a 1% share from JMT Network Services in March 2022.

KEY OPERATING PERFORMANCE



Source: KBI



Source: KBI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	----- Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total assets	5,406	4,212	3,583	3,902	4,348
Total loans	5,039	3,906	3,646	3,744	4,190
Allowance for expected credit loss	285	411	546	291	348
Short-term debts	2,340	2,588	2,877	3,013	3,515
Long-term debts	1,440	60	0	0	0
Shareholders' equity	1,484	1,408	657	842	775
Net interest income	633	650	635	701	718
Expected credit loss	267	396	409	542	849
Non-interest income	206	268	232	149	156
Operating expenses	477	394	322	224	308
Earnings before taxes	95	129	136	84	(283)
Net income	76	102	100	67	(227)

Unit: %

	----- Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Profitability					
Net interest and dividend income/average assets	13.16	16.69	16.98	17.00	18.33
Non-interest income/average assets	4.28	6.86	6.19	3.61	3.97
Operating expenses/total income	53.47	40.60	32.19	22.55	30.34
Operating profit/average assets	1.97	3.30	3.64	2.03	(7.22)
Earnings before taxes/average risk-weighted assets	1.38	2.24	2.33	1.27	(4.48)
Return on average assets	1.57	2.61	2.68	1.62	(5.78)
Return on average equity	5.23	9.84	13.40	8.27	(25.49)
Asset Quality					
Non-performing loans/total loans	2.06	4.86	6.62	7.40	6.41
Expected credit loss/average loans	5.97	10.48	11.06	13.66	22.36
Allowance for expected credit loss/non-performing loans	274.51	216.41	226.47	104.88	129.68
Capitalization					
Risk-adjusted capital ratio	19.2	23.6	12.0	13.5	11.2
Debt/equity (times)	2.64	1.99	4.46	3.63	4.61
Funding and Liquidity					
Stable funding ratio	60.74	40.48	20.28	23.89	20.02
Liquidity coverage measure (times)	0.09	0.09	0.02	0.01	0.02
Short-term debts/total debts	61.90	97.74	100.00	100.00	100.00

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Nonbank Financial Institution Methodology, 17 February 2020

KB J Capital Co., Ltd. (KBJ)

Company Rating:	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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