

KB J CAPITAL CO., LTD.

No. 16/2024
23 February 2024

FINANCIAL INSTITUTIONS

Company Rating: A-
Outlook: Stable

Last Review Date: 22/02/23

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

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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).

KBJ’s SACP reflects its modest market presence and earnings capacity. The rating also considers the company’s strong capital position, prudent risk management policies, and adequate 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 bank holding company in South Korea. In 2023, KB Kookmin Card injected capital of THB1.3 billion into KBJ, increasing KB Kookmin Card’s ownership to 77.40% from 50.99%. In our view, the capital injection signifies the long-term commitment of KB Kookmin Card to KBJ.

KBJ fulfills KB Kookmin Card’s strategic expansion in Southeast Asia. In terms of financial support, KB Kookmin Card provides corporate guarantee on KBJ’s bank borrowings. KBJ’s operations are also highly integrated with those of KB Kookmin Card.

KBJ adopts a comprehensive set of policies and guidelines established by KB Kookmin Card for its overseas subsidiaries, which encompasses corporate governance, risk management, financial management, internal controls, human resource management, and information technology (IT) security. KBJ shares the group’s “KB” brand, which also reinforces KBJ’s status as a strategically important subsidiary of KB Kookmin Card.

Modest business position

KBJ’s current market presence remains modest compared with other non-bank financial institutions (NBFIs) rated by TRIS Rating. This is despite the rapid growth of the new financing program, “Samsung Finance Plus” (SF+), launched in October 2022. The program, a collaboration between KBJ and Thai Samsung Electronics Co., Ltd., is designed to support sales of Samsung mobile phones via hire purchase financing. The program’s outstanding loans surged to THB3.8 billion at the end of 2023 from THB183 million at the end of 2022, a 95% growth year-on-year (y-o-y), contributing 38% to KBJ’s overall loan of THB9.9 billion.

The company’s medium-term strategy focuses on expansion of SF+ along with its core product, revolving loans, while scaling down its car title loans and home equity loans. Following the success of SF+ for Samsung mobile phones, KBJ further expanded the program to include Samsung televisions (TV) in July 2023.

In terms of revenue structure, interest income from revolving personal loans remains the leading contributor, generating 58% of KBJ’s total income in 2023. Revenue from the newly launched SF+ program has increased rapidly, and now

accounts for 18% of the total. Collateralized installment loans remain small, contributing 8% of total revenue.

Looking ahead, with business support from KB Kookmin Card in the forms of an operating system and financial guarantees, as well as collaboration with JMART Group with regards to sales channel, we expect KBJ's business growth to accelerate over the next few years.

While we acknowledge these improvements, the overall strength of the company's business position will also depend on achieving quality growth in terms of market presence and more diversified sources of revenue, both of which may take time to materialize.

Strong capital position

We maintain our assessment of KBJ's capital position, measured by the risk-adjusted capital (RAC) ratio, as "strong". At the end of 2023, the company's RAC ratio had increased to 21.3% from 19.2% at the end of 2022, despite a strong loan expansion of 95% y-o-y. The rise is attributable to a capital injection of THB1.3 billion by KB Kookmin Card in July 2023. With our projection of 11%-30% loan growth in 2024-2026, we anticipate the company's RAC ratio will decline to the 17%-18% range. Prolonged capital weakening beyond our base-case projection due to rapid credit expansion could exert pressure on the company's credit rating. Meanwhile, financial leverage, as measured by the debt-to-equity ratio, has increased moderately reaching 2.7 times at the end of 2023 from 2.6 times at the end of 2022.

Modest earnings capacity despite strong loan expansion

We determine earnings capacity of KBJ, measured by the ratio of earnings before taxes to average risk-adjusted assets (EBT/ARWAs), as "modest". The company's EBT/ARWA ratio deteriorated to 0.4% in 2023 from 1.4% in 2022. This decline stemmed from two key factors: the compression of loan spreads due to increased funding costs (rising to 2.7% in 2023 from 1.7% in 2022) and rising credit costs (increasing to 6.9% in 2023 from 6.0% in 2022). With our expectation of increased credit cost this year, we anticipate a further decline in KBJ's EBT/ARWA ratio to 0.1% in 2024, followed by a strong improvement to approximately 2.0% over the subsequent two years.

In 2024-2026, we expect KBJ's loan yield to improve to approximately 16% following the end of the debt relief program, which will likely be partially offset by the expansion of lower-yielding SF+ loans. As most investments in IT systems and human resources were recognized in 2023, we expect a slower growth in KBJ's operating expenses from 2024 to 2026. Furthermore, the company has outlined plans to enhance efficiency and control costs, including limiting new staff recruitments and rationalization of the number of Points of Sales (POS).

Manageable asset quality with prudent credit policies

KBJ demonstrates manageable levels of risk, in our view. The company has adopted its parent's established risk management and underwriting standards, as well as provisioning practices. Furthermore, KBJ has proactively strengthened its internal collection team to actively manage asset quality amidst its ongoing business expansion.

While asset quality showed a slight deterioration in 2023, with the non-performing loan (NPL) ratio rising to 2.0% from 1.7%, it has significantly improved from the level of 6.6% seen in 2020. However, credit risk remains because of weakening customer credit profiles and the expiration of debt relief programs. Despite these challenges, we believe KBJ's asset quality should remain manageable due to two key factors. First, KBJ plans to transition its target customer base toward higher income segments, aiming for more resilient borrowers. Second, the company's new flagship product, SF+, utilizes the Knox Guard system to automatically lock phones with late payments, potentially leading to better asset quality compared with traditional revolving loans.

Adequate funding and liquidity profile

We assess KBJ's funding and liquidity profile as adequate. KBJ receives financial support from KB Kookmin Card in the form of corporate guarantee and receives standby letter of credit from KB Kookmin Bank on its bank borrowings. KBJ also has available credit facilities of close to THB1.5 billion from financial institutions, which can be drawn down on a timely basis. The credit facilities together with additional bank loans guaranteed by KB Kookmin Bank in 2024 should be sufficient to support the company's funding and liquidity needs.

That said, KBJ has a slight asset-liability mismatch. At the end of 2023, 43% of the company's total debt portfolio consisted of short-term financing, which could expose it to potential liquidity risk in the event of tightened funding conditions. However, KBJ proactively manages this risk by reducing its reliance on short-term debt (from 60% in 2022), diversifying its funding sources, and planning bond issuance in 2024.

Economic pressure slows consumer loan growth

The slower-than-expected recovery of the Thai economy, coupled with high household debt, has led to a slowdown in the growth of both credit card and personal loan consumer lending compared with the previous year. In 2023, personal loans

declined by 1.9% y-o-y, compared with a growth rates of 14.0% in 2022. This is because operators tend to become more cautious in approving loans as asset quality deteriorates. The NPL ratio for personal loans, excluding car registration loans, increased to 5.5% at the end of 2023 from 3.4% at the end of 2022. We believe that asset quality could deteriorate further once the debt relief measures end. In addition, NBFIs continue to be pressured by the competitive environment, rising financing costs, and economic uncertainty. Diversifying into other businesses to generate revenue and relieve pressure from rising costs remains a challenge.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for KBJ in 2024-2026 are as follows:

- Outstanding loans to expand by 10%-30% per year.
- Interest spread to be maintained at around 13%-14%.
- NPL ratio to be approximately 3%.
- Credit cost to stay at around 8%-10%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that KBJ will gradually improve its market position and financial performance, while maintaining strong capital position and retaining acceptable levels of leverage. We also expect the company to keep its asset quality under control and RAC ratio above 15%

RATING SENSITIVITIES

KBJ's credit upside would materialize if the company's market position improved 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 in KBJ's current group 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 a 99.99% ownership held 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 Bank of Thailand (BOT) and expanded into the personal loan business with Shinsei Financial Group as a partner.

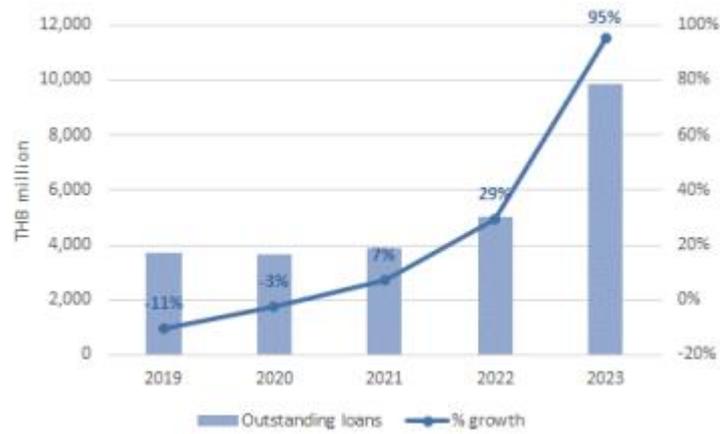
In 2016, the company received a capital injection from Jay Mart PLC (JMART), and the shareholding structure was changed to JMART holding 90.16% and JMT holding 9.84% stake in the company. The company's name was also changed to J Fintech Co., Ltd. In 2018, the company expanded its business to car for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

In February 2021, JMART completed a joint-venture agreement with KB Kookmin Card in J Fintech. KB Kookmin Card owned 49.99% of shares and 50.99% of voting rights in the company, while JMART held a 50.01% of shares 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.

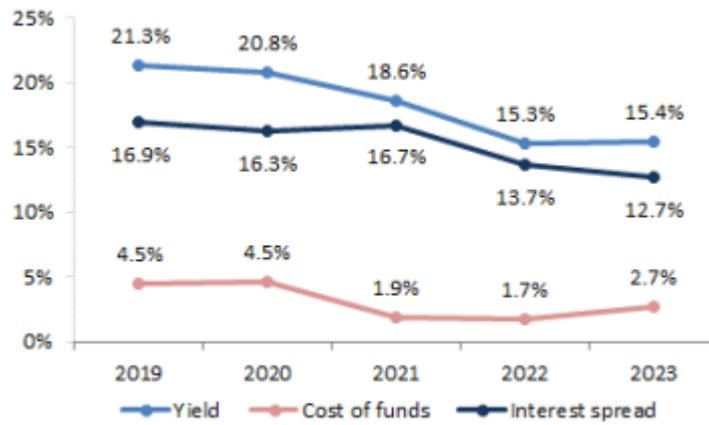
In July 2023, the company received a capital injection of THB1.3 billion from KB Kookmin Card, and the shareholding structure was changed to Kookmin Card holding 77.40%, JMART holding 20.80%, and JMT holding 1.81% of shares in the company.

Chart 1: Outstanding Loans



Source: KBJ

Chart 2: Interest Spread



Source: KBJ

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total assets	10,341	5,406	4,212	3,583	3,902
Total loans	9,861	5,045	3,906	3,646	3,744
Allowance for expected credit loss	420	288	411	546	291
Short-term debts	3,255	2,340	2,588	2,877	3,013
Long-term debts	4,067	1,440	60	0	0
Shareholders' equity	2,815	1,484	1,408	657	842
Net interest income	995	633	650	635	701
Expected credit loss	516	267	396	409	542
Non-interest income	178	206	268	232	149
Operating expenses	615	478	394	322	224
Earnings before taxes	43	94	129	136	84
Net income	36	75	102	100	67

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Profitability					
Net interest and dividend income/average assets	12.64	13.16	16.69	16.98	17.00
Non-interest income/average assets	2.26	4.28	6.86	6.19	3.61
Operating expenses/total income	46.45	53.55	40.60	32.19	22.55
Operating profit/average assets	0.54	1.95	3.30	3.64	2.03
Earnings before taxes/average risk-weighted assets	0.41	1.37	2.24	2.33	1.27
Return on average assets	0.46	1.56	2.61	2.68	1.62
Return on average equity	1.67	5.18	9.84	13.40	8.27
Asset Quality					
Non-performing loans/total loans	1.98	1.73	4.86	6.62	7.40
Expected credit loss/average loans	6.92	5.96	10.48	11.06	13.66
Allowance for expected credit loss/non-performing loans	214.90	328.84	216.41	226.47	104.88
Capitalization					
Risk-adjusted capital ratio	21.3	19.2	23.6	12.0	13.5
Debt/equity (times)	2.67	2.64	1.99	4.46	3.63
Funding and Liquidity					
Stable funding ratio	115.36	60.81	40.48	20.28	23.89
Liquidity coverage measure (times)	0.08	0.09	0.09	0.02	0.01
Short-term debts/total debts	44.45	61.90	97.74	100.00	100.00

RELATED CRITERIA

- Financial Institution Rating Methodology, 24 November 2023
- Group Rating Methodology, 7 September 2022

KB J Capital Co., Ltd. (KBJ)

Company Rating:

A-

Rating Outlook:

Stable

TRIS Rating Co., Ltd.

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