

JMT NETWORK SERVICES PLC

No. 32/2023
13 March 2023

FINANCIAL INSTITUTIONS

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 07/09/22

Company Rating History:

Date	Rating	Outlook/Alert
18/03/22	BBB+	Stable
22/09/21	BBB	Positive
18/03/16	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating and the rating on senior unsecured debentures of JMT Network Services PLC (JMT) at “BBB+” with “stable” outlook. The ratings mainly reflect the company’s status as a core subsidiary of Jaymart PLC (JMART, rated “BBB+/stable”). According to TRIS Rating’s “Group Rating Methodology”, the company rating on JMT is equivalent to the company rating on JMART.

KEY RATING CONSIDERATIONS

A core subsidiary of JMART Group

TRIS Rating views JMT as a core subsidiary of the JMART Group. At the end of 2022, JMART held a controlling stake of 53.4% in JMT and remains the company’s largest shareholder. Half of the board members were representatives from the JMART Group and have closely linked relationship with JMT’s management team.

JMART oversees JMT’s business direction and financial targets through the board of directors. JMART continues to show a strong commitment to maintain its shareholding in JMT by participating in series of capital injection through warrant exercises and rights offerings. Furthermore, due to the shared brand name, JMT’s reputation is closely linked with that of JMART.

JMT plays a vital role in the JMART Group especially in the financial business. The company serves as a backbone that has helped underpin performance of other finance businesses in the group for the last few years. The company’s performance has been solid and, in our view, in line with JMART’s expectation. JMT’s continuous asset acquisitions are also supporting JMART’s balance sheet expansion.

Significant net income and asset contribution to the group

TRIS rating believes that JMT will maintain its position as the largest profit contributor among entities within the JMART Group. This helps solidify its status as a core entity. The company has demonstrated a consistent track record of satisfactory operational performance. In 2022, the company’s total revenue and net income contributed around 30% and 64% of JMART’s consolidated total revenue and net income, respectively. In the past five years, JMT’s contribution to JMART’s consolidated assets has roughly doubled to 61% from 32% in 2017. This reinforces our view that JMT is an important part of the group.

In our base-case forecast, we expect JMT’s earnings and asset contribution to remain strong thanks to the substantial annual budget of THB8 billion to be deployed for the acquisition of distressed assets. For the year 2022, the company’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin dropped to 49.7%, from 57.1% in 2021. The decline was caused by less revenue recognition from fully amortized portfolios, slowdown of cash collection in the fourth quarter, and higher legal expenses in 2022.

Strong franchise in unsecured distressed asset management

JMT is one of the leading and largest unsecured distressed asset management (DAM) company. It has long experience and robust database over 20 years, both of which help sustain business growth and operational efficiency. The

rapid growth over the last two years has helped the company expand its market share in total assets among peers to around 14% in 2022 from 6% and 2% in 2020 and 2019.

In 2022, JMT had an outstanding claim balance of distressed assets of THB261.4 billion, of which THB50.3 billion were fully amortized, up from THB49.9 billion in 2021. In terms of asset size, the company's total assets stood at THB33.8 billion, an increase of 20.8% year-on-year (y-o-y). In 2022, the company spent around THB4.6 billion for distressed asset acquisitions, below its planned budget of around THB10 billion. Looking ahead, the company's total assets could exceed THB50 billion by 2025, considering the ambitious annual budget of THB8 billion for distressed assets acquisition.

Expanding into secured assets while staying focused on unsecured assets

We believe that while JMT will likely continue to focus on unsecured distressed assets where its expertise lies, it also expands more into secured distressed assets. The company's performance therefore should still be mainly driven by unsecured distressed assets in the medium term. Since 2017, JMT has started expanding into secured assets, which represent over 40% of total non-performing loan (NPL) acquisitions over the last two years. Although this should add value to its business, one caveat is that the increased acquisition of secured distressed assets could extend the payback period due to the lengthy process of liquidation of foreclosed assets and higher acquisition costs. This is evidenced by the first-year cash collections of newly acquired NPLs that have slowed down in the past three years.

Joint ventures in distressed asset management support group's earnings

Following the Bank of Thailand's (BOT) granting of licenses for joint ventures between asset management companies (JV-AMC) and financial institutions to support management of NPLs in the system, Kasikornbank PLC (KBANK) and JMT has established JK Asset Management Co., Ltd. (JK AMC) in 2022. JK AMC started its operation in the middle of 2022 with total paid-up capital of THB10 billion, which were equally contributed by both parties. Since its inception, JK AMC has acquired THB70 billion worth of NPLs from KBANK, and the financial performance has exceeded our expectation. In 2022, JK AMC already reported the contribution of net profit of THB196 million and share of profit of THB98 million to JMT. In 2023, we estimate JK AMC will have NPLs under management of over THB100 billion and a contribution of share of profit of over THB200 million to JMT.

Expected higher volume of debt collection service

Debt collection service is one of the core businesses of JMT. The service is provided to numerous types of customers including commercial banks, non-bank lenders, mobile phone operators, and other corporates. Outstanding principal balance under the collection service has remained above THB30 billion for the past few years. We believe that the performance of debt collection should slowly rebound as the BOT's debt forbearance programs ended in 2022. Moreover, the relaxation of loan staging for commercial banks that will cease at the end of 2023 should result in increased business volume in the future. JMT's commission revenue from debt collections was reported at THB328 million, accounting for about 7% of total revenues in 2022, up from THB301 million in 2021 or 8% of total revenues.

Synergy within JMART Group continues

In addition to its own business operations, JMT has demonstrated collaboration with other affiliates in the JMART Group by providing debt collection services to lending entities in the group, including Jaymart Mobile Co., Ltd. (J-Mobile), SINGER Thailand PLC (SINGER, rated "BBB/Stable"), as well as KB J Capital Co., Ltd. (KB J Capital, rated "A-/Stable") and J Ventures Co., Ltd. (J-Ventures). Another significant collaboration is with JAS Asset PLC (J-Asset), a property-related subsidiary of JMART, where J-Asset helps with renovation and disposal of JMT's non-performing assets (NPAs). JMT also works with KB J Capital which provides financing for home equity loans to JMT's customers. Besides, JMT advertises its NPA sales through JMART's synergy shops.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumption is that JMT will remain a core subsidiary of the JMART Group.

RATING OUTLOOK

The "stable" outlook reflects our expectation that JMT will maintain its status as a core subsidiary of the JMART Group and continue to collaborate with other entities within the JMART Group as an integral part of the overall group strategy.

RATING SENSITIVITIES

The ratings and/or outlook on JMT move in tandem with the ratings and/or outlook on JMART. Weakening of JMT's status to JMART could also result in a rating downgrade.

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 53.9% of the company's outstanding shares as of December 2021. The company was initially 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. Currently, JMT is Thailand's leading investor and manager of unsecured distressed loans disposed of by financial institutions (FIs). It is also a major provider of debt collection services for various corporates and FIs.

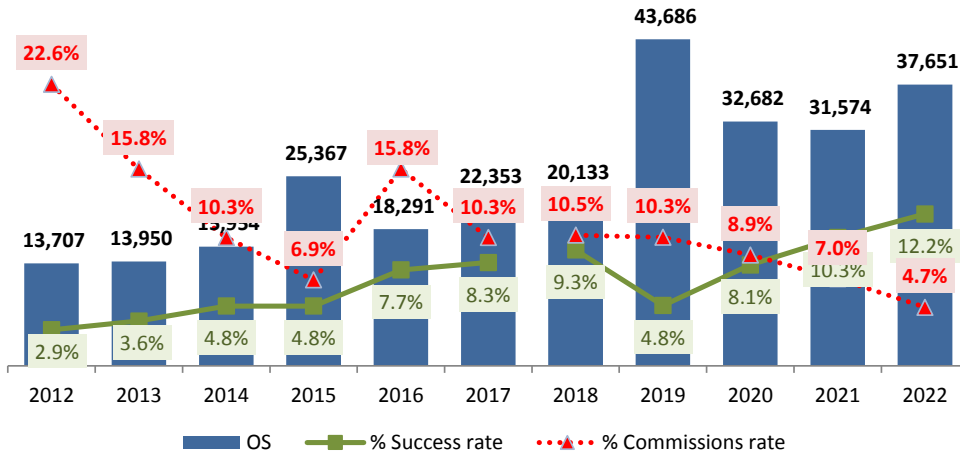
In the first quarter of 2018, JMT made an investment acquisition in Phoenix Insurance (Thailand) PLC (Phoenix), engaged in non-life insurance in Thailand. Phoenix registered with the Ministry of Commerce to change its name from Phoenix Insurance (Thailand) PLC to JP Insurance PLC and finally to Jaymart Insurance PLC. The revenue contribution to JMT from premium income of the insurance business remains modest.

In 2022, JAM, wholly-owned subsidiary of JMT, together with KBANK has established a joint venture called JK AMC. JK AMC was set up to support the management of bad debts of KBANK with the expertise of JMT to manage the bad debts. JK AMC will have total of 15 years in lifetime operation. As of December 2022, JK AMC had a total paid-up capital of THB10 billion.

KEY OPERATING PERFORMANCE

Chart 1: Debt Collection Performance

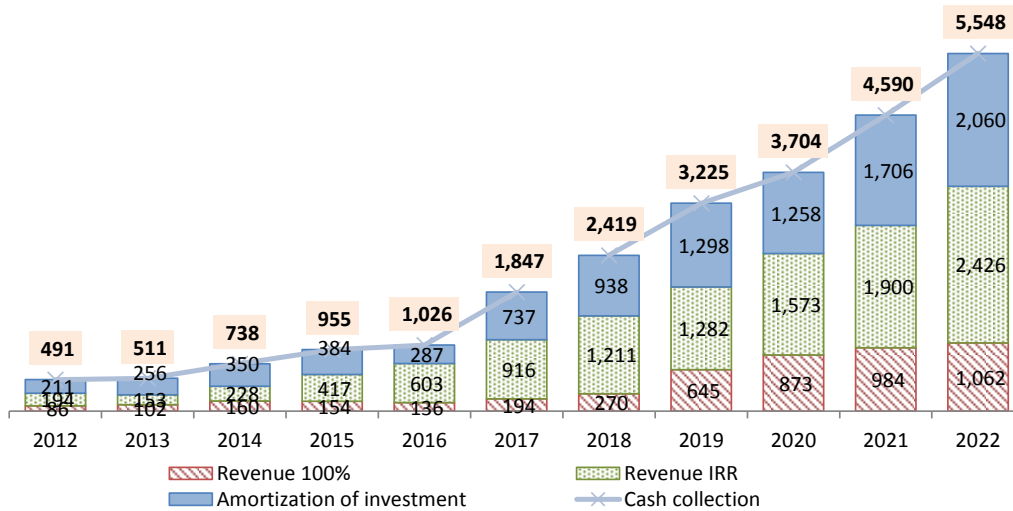
Unit: Mil. THB



Source: JMT

Chart 2: Debt Acquisition Performance

Unit: Mil. THB



Source: JMT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	4,453	3,650	3,206	2,535	1,890
Earnings before interest and taxes (EBIT)	2,159	1,959	1,530	1,038	810
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,275	3,585	2,838	2,316	1,787
Funds from operations (FFO)	3,777	3,001	2,339	1,909	1,468
Adjusted interest expense	238	345	314	213	139
Capital expenditures	81	151	155	80	128
Total assets	33,862	28,036	14,270	10,142	8,363
Adjusted debt	4,600	683	5,477	5,429	3,340
Adjusted equity	23,088	19,078	5,755	3,433	3,467
Adjusted Ratios					
EBITDA margin (%)	49.7	57.1	51.1	44.8	46.5
Pretax return on permanent capital (%)	7.30	9.87	13.63	12.27	12.69
EBITDA interest coverage** (times)	15.10	10.39	9.04	10.85	12.88
Debt to EBITDA (times)	1.08	0.19	1.93	2.34	1.87
FFO to debt** (%)	82.10	439.07	42.91	35.23	43.81
Debt to capitalization (%)	16.61	3.46	48.76	61.26	49.06

Note: All financial ratios were adjusted by operating lease.

* Consolidated financial statements

** Including investment portfolio amortization

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

JMT Network Services PLC (JMT)

Company Rating:	BBB+
Issue Ratings:	
JMT239B: THB500 million senior unsecured debentures due 2023	BBB+
JMT249A: THB625 million senior unsecured debentures due 2024	BBB+
JMT250A: THB3,375 million senior unsecured debentures due 2025	BBB+
Rating Outlook:	Stable

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