

KB J CAPITAL CO., LTD.

No. 15/2022
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FINANCIAL INSTITUTIONS

Company Rating: A-
Outlook: Stable

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RATIONALE

TRIS Rating assigns the company rating of “A-” to KB J Capital Co., Ltd. (KBJ) with a “stable” outlook. The rating incorporates a three-notch group rating enhancement from KBJ’s stand-alone credit profile (SACP) assessed at “bbb-”. The enhancement reflects our assessment of KBJ’s status as a strategically important subsidiary of KB Kookmin Card.

On a stand-alone basis, the SACP reflects KBJ’s modest business position, strong capital, moderate earnings capacity, prudent risk management policies, and sufficient funding and liquidity profile.

KEY RATING CONSIDERATIONS

Strategically important subsidiary of KB Kookmin Card

Our view on KBJ’s group status is supported by KB Kookmin Card’s control through majority voting rights. KBJ serves as a part of KB Kookmin Card’s overseas expansion strategy, focusing on the Southeast Asian region. Corporate guarantee on KBJ’s borrowings by KB Kookmin Card demonstrates KB Kookmin Card’s long-term commitment to provide financial support. KBJ is also highly integral to KB Kookmin Card in operation, aligning with the latter’s internal policies and guidelines. KBJ’s use of shared brand name, “KB”, also reinforces KBJ’s status as a strategically important subsidiary of KB Kookmin Card. In our view, for KBJ’s group status to attain a stronger assessment, the company would need to strengthen its role as a part of KB Kookmin Card’s global footprints by exhibiting stronger market presence and financial performance.

Modest franchise with potential growth

KBJ was previously operated by Jay Mart PLC (JMART) under the name J Fintech Co., Ltd. with a loan portfolio of about THB3.7 billion at end-2019 before KB Kookmin Card became the major shareholder in February 2021. Despite the difficulties in operation due to the COVID-19 pandemic in 2020-2021, the company managed to expand its loan portfolio by 7% year-on-year (yoy). At the end of December 2021, the company’s outstanding loans stood at THB3.9 billion.

KBJ’s current market presence, however, remains fairly modest compared to other non-bank lending financial institutions in our database. With business supports in terms of its operating system from KB Kookmin Card, we believe KBJ’s business growth will likely accelerate over the next few years. Moreover, the business collaboration with JMART Group to leverage JMART’s customer base and branch network should also enhance its growth potential.

Moderate business diversity

The company has a fairly diversified mix of revenue contribution from a few main business lines. Interest income on revolving personal loans remains the major revenue source, contributing 61% of total income in the first nine months of 2021 (9M21). Interest income from installment personal loans and collateralized installment loans each accounted for 5%-6% of total revenue. The company plans to diversify into more business lines. Although it is likely to take time, successful and meaningful diversification would be positive for the company’s business position.

Strong capital base and moderate earnings capacity

We expect the company's credit profile to continue to be supported by its strong capital with a risk-adjusted capital ratio (RAC) of around 18%-22% in 2022-2024. The capital injection of THB650 million by KB Kookmin Card in February 2021 helped strengthen the company's capital base and support its future growth. After the capital injection, the company's RAC ratio increased to 23.6% in 2021 from 12.0% in 2020. Its financial leverage, measured by debt-to-equity ratio, also decreased to 2.0 times in 2021 from 4.5 times in 2020.

The company's earnings capacity is considered moderate with an expected ratio of earnings before taxes to average risk-adjusted assets (EBT/ARWAs) of around 2% over the next few years. KBJ's average loan yield declined to 18.6% in 2021 from 20%-22% in the past due to the regulatory limits on yields, a higher portion of low-yielding collateralized loans, the pandemic induced debt relief programs, as well as pricing competition. Despite that, the company managed to sustain its interest spread at around 17% in 2021. This was due mainly to the lower funding costs that has markedly declined to 1.9% in 2021 from 4%-5% in the past, thanks to loan guarantees by KB Kookmin Card. We expect KBJ's funding cost to remain low over the medium term despite the rising trend in interest rates. We also expect its loan yield to be maintained at similar levels over the next few years due to diversification towards higher-yielding products.

We expect capital accretions from the company's improving profitability and zero dividend policy to help sustain its capital strength despite strong loan growth over the next few years. However, a rapid credit expansion that weakens its RAC for a sustained period could put pressure on its credit profile.

Risk position supported by prudent credit policies

The company's main business, revolving and installment-based unsecured personal loans, constituted 78% of the total loans at the end of December 2021. As its current customer base includes mid- to low-income groups, we view this as generally exposing the company to high credit risk. That said, KBJ's asset quality has shown some improvement after KB Kookmin Card became the major shareholder. We assess KBJ's risk position as adequate as we expect KBJ's asset quality to continue to strengthen. New non-performing loans (NPLs) declined by THB15 million in 2021. Absolute NPLs fell to THB190 million at the end of 2021 from THB241 million at the end of 2020. Combined with the effect of moderate loan growth, its NPL ratio dropped notably to 4.9% at the end of 2021 from 6.6% at the end of 2020. A continuous improvement in the company's debt collection process is also expected to help sustain its asset quality.

The company's medium-term plan is to focus more on higher-yielding credit-risk based lending where KB Kookmin Card has expertise and tools. Its prudent credit risk framework and refined credit underwriting models should allow for appropriate alignment of credit costs and optimum risk-based pricing in the future.

Adequate funding and liquidity

We assess the company's funding and liquidity profile as adequate due to the ongoing financial support from KB Kookmin Card in the form of loan guarantees. This is despite a certain degree of asset-liability mismatch. The company has mainly relied on short-term borrowings as its main source of funds. At the end of 2021, the company's short-term borrowing accounted for 83% of the company's total debts. This exposes the company to some duration gap as the majority of the company's loan portfolio is revolving loans, which in our view are long-term by nature. Moreover, over the past year the company has also expanded more into car for cash and home for cash lending with tenors longer than one year. Nonetheless, we view that the credit facilities from financial institutions at the end of 2021 totaling THB3.7 billion should be sufficient to support its funding and liquidity needs.

Unsecured consumer lending gradually recovers but challenges remain

Following the easing of lockdown measures and increase in the inoculation rate for the COVID-19 vaccine, economic activities and consumer confidence began to recover in 2021. As a result, the consumer loan business, mainly credit cards and personal loans, rebounded as evidenced by increased credit card spending by 1.7% in 2021 from a decrease of 11.7% in 2020. Personal loan outstanding also increased by 18% in 2021. Asset quality of both credit card and personal loans improved in 2021 due to the extensions of debt relief measures. The industry's NPL ratio for credit cards dipped to 1.8% in 2021 from 1.9% in 2020, while the NPL ratio for personal loans also dropped to 3.1% in 2021 from 3.4% in 2020. Nonetheless, over the medium term, we view that the financial performance of unsecured loan operators in the industry is likely to remain pressured by the competitive environment, reduction of interest rate ceiling, and economic uncertainty. Diversification to other business lines, while possibly helping mitigate revenue pressure, remains a challenge for operators in the industry due to fierce competition and regulatory risks.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for KBJ in 2022-2024 are as follows:

- Outstanding loans to expand by 16%-20% per year
- Interest spread to maintain around 16%-17%
- NPL ratio to be approximately 4%
- Credit cost to stay around 11%

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 position materially weakened 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 status, currently assessed 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 PCL.

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.

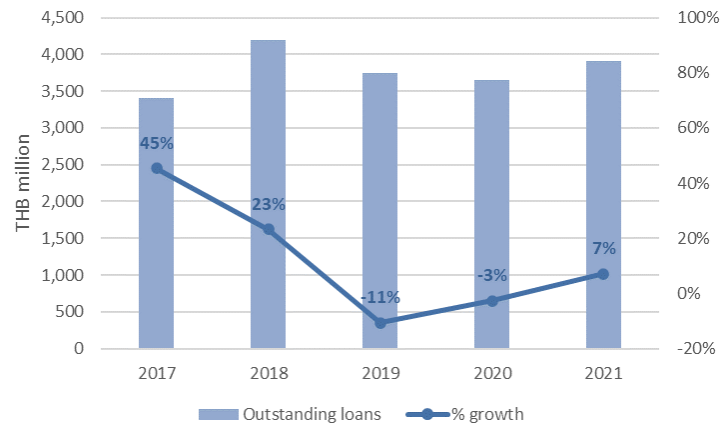
In 2016, the company received a capital injection from Jay Mart PCL (JMART), and the shareholding structure changed to JMART holding 90.16% and JMT 9.84% stake in the company. The company's name was changed to J Fintech Co., Ltd. In 2018, the company expanded its business to car for cash loan and factoring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

In April 2020, JMART's board of directors approved a joint venture with KB Kookmin Card Co., Ltd. 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 THB 556,536,900 to THB 1,112,851,210 by issuing 53,360,768 ordinary shares (having a voting right of 1 vote per share) and 2,270,663 preferred shares (having a voting right of 2 votes per share), having a par value of THB 10 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 THB 11.68 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 currently owns 49.99% of shares and 50.99% of voting rights in the company, while JMART holds a 50.01% share and 49.01% of voting rights. The company's name was changed to KB J Capital Co., Ltd. The company is operating in five major business lines: revolving loans, installment loans, installment sales, car for cash, and home for cash.

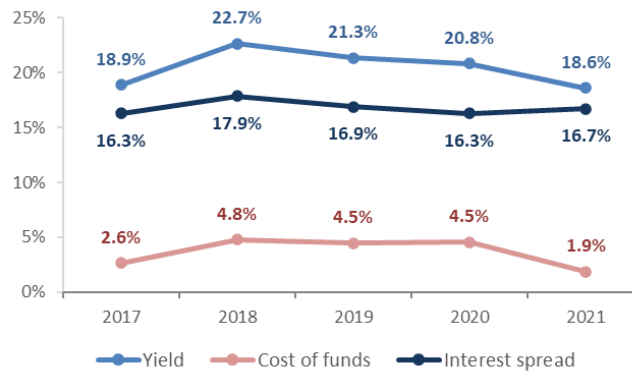
KEY OPERATING PERFORMANCE

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 -----				
	2021	2020	2019	2018	2017
Total assets	4,212	3,583	3,902	4,348	3,488
Total loans	3,906	3,646	3,744	4,190	3,401
Allowance for expected credit loss	411	546	291	348	335
Short-term debts	2,218	2,877	3,013	3,515	2,428
Long-term debts	430	0	0	0	0
Shareholders' equity	1,408	657	842	775	1,002
Net interest income	650	635	701	718	479
Expected credit loss	396	409	542	849	384
Non-interest income	267	232	149	156	17
Operating expenses	394	322	224	308	216
Earnings before taxes	129	136	84	(283)	(104)
Net income	102	100	67	(227)	(48)

Unit: %

	----- Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Profitability					
Net interest and dividend income/average assets	16.69	16.98	17.00	18.33	13.74
Non-interest income/average assets	6.86	6.19	3.61	3.97	0.49
Operating expenses/total income	40.61	32.19	22.55	30.34	38.57
Operating profit/average assets	3.30	3.64	2.03	(7.22)	(2.99)
Earnings before taxes/average risk-weighted assets	2.24	2.33	1.27	(4.48)	(3.66)
Return on average assets	2.61	2.68	1.62	(5.78)	(1.39)
Return on average equity	9.84	13.40	8.27	(25.49)	(4.84)
Asset Quality					
Non-performing loans/total loans	4.86	6.62	7.40	6.41	7.17
Expected credit loss/average loans	10.48	11.06	13.66	22.36	13.39
Allowance for expected credit loss/non-performing loans	216.51	226.47	104.88	129.68	137.27
Capitalization					
Risk-adjusted capital ratio	23.6	12.0	13.5	11.2	17.6
Debt/equity (times)	1.99	4.46	3.63	4.61	2.48
Funding and Liquidity					
Stable funding ratio	50.82	20.28	23.89	20.02	33.16
Liquidity coverage measure (times)	0.11	0.02	0.01	0.02	0.02
Short-term debts/total debts	83.77	100.00	100.00	100.00	100.00

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- 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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