

JAYMART PLC

No. 31/2022
18 March 2022

CORPORATES

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

Last Review Date: 22/09/21

Company Rating History:

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

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RATIONALE

TRIS Rating upgrades the company rating on Jaymart PLC (JMART) to “BBB+” from “BBB” and the ratings on its senior unsecured debentures to “BBB” from “BBB-”. The issue ratings are notched down from the company rating due to the structural subordination of JMART’s senior unsecured debt obligations to the debt obligations of its operating subsidiaries, in terms of priority of claims against operating assets. At the same time, TRIS Rating revises the rating outlook on JMART to “stable” from “positive”. The upgrade of ratings follows the completion of capital injection which has strengthened JMART’s capital position substantially.

The company rating reflects JMART’s improved leverage position from stronger capital, sound performance driven by the strength of its distressed debt management business operated by its core subsidiary, JMT Network Services PLC (JMT, “BBB+/Stable”), as well as its stable position in the mobile phone handset trading business.

The ratings, however, are constrained by the intense competition in the mobile handset market, revenue concentration, and the uncertain cash generation of its property business.

KEY RATING CONSIDERATIONS

Lower leverage position following capital injection

The rating upgrade follows the completion of a capital injection from BTS’s affiliates (U City and VGI) into JMART of around THB10 billion at the end of 2021, which improved JMART’s leverage position drastically.

At the end of 2021, JMART’s ratio of adjusted debt to earnings before interest, taxes, depreciation, and amortization (adjusted debt to EBITDA) improved to 1.2 times, from 3.8 times in 2020. Despite the substantial improvement, we expect the aggressive investment plan mainly from JMT will likely deplete the fund received over the next few years. We estimate the adjusted debt to EBITDA ratio to slowly rise back up above 3 times over the next three years (2022-2024). This is based on our assumption that JMT’s cash collection remains at a similar level as seen in 2021 without the additional capital injection. However, if the adjusted debt to EBITDA ratio rises above 3.5 times on a sustained basis, this will be negative for its ratings.

Enhanced synergy to support business risk profile

JMART’s business risk profile which consists of retail and finance businesses is considered to be moderate due to the company’s reliance on the strong performance of a few entities despite diverse sources of revenue. In the long run, if JMART were able to strengthen each of its diverse sources of revenue, this would be positive for the company’s ratings.

Business synergies within the JMART Group started to take shape in 2021, in our view. For example, cross sales of Jaymart Mobile Co., Ltd.’s (J-Mobile) products through the distribution network of Singer Thailand PLC (SINGER, rated “BBB/Stable”) exceeded THB500 million in 2021, an increase from around THB120 million in 2020. Consumer loans from SINGER and KBJ Capital Co., Ltd. (KB J Capital, rated “A-/Stable”) also helped boost sales of mobile phone handsets of around THB400 million in 2021, up from THB110 million in 2020.

To further strengthen the group's profitability, synergy needs to be enhanced via key strategies involving: 1) JMT's management of debt collections for KBJ Capital and SINGER; 2) JAS Asset's (J-Asset) support for JMT by renovating and selling JMT's non-performing assets (NPAs); 3) JMT and KB J Capital working together on home equity loans; and 4) expansion of synergy shops that share space between the various subsidiaries.

While we are of the view that group synergy has started to bear fruit, and the effort to add more networks or entities to the group to create greater synergy could produce a stronger business risk profile in the long run, in the medium term, sound management of the group's business transactions, cash flows, and funding will still be needed to support its business risk profile.

Reliance on JMT's performance

The distressed debt collection and management business, operated by JMT, is JMART's strongest line of business and a key earnings contributor. The strong performance of JMT supports the overall financial results of JMART. In 2021, JMT continued to be the major profit contributor for the JMART Group with around THB1.4 billion reported net profit (33.7% higher year-on-year (y-o-y)), accounting for 74% of JMART's consolidated net profit excluding one-time special profit, compared to an 80% profit contribution in 2020. This demonstrates the continuing high reliance on JMT's earnings to support the group's overall performance.

The importance of JMT to the JMART Group is also evidenced by the group's investment strategy with over 90% of capital expenditures allocated to JMT in 2021. In 2021, JMT's investment in distressed assets was THB8.5 billion. We expect the increasing trend in investments by JMT to continue in the future following the group's recently announced business plan. However, if the investment plan is achieved through joint ventures (JVs) with commercial banks, the shift of financial burden to the JVs could help alleviate a potential rise in financial leverage for JMART and JMT in the medium term.

Recovery in mobile handset trading business

In 2021, J-Mobile's performance recovered from the economic fallout from the Coronavirus Disease 2019 (COVID-19) pandemic in 2020. In 2021, revenue from the sales of mobile handsets and accessories, including income from sales promotions, increased by 14.1% y-o-y to THB8.1 billion. J-Mobile reported a net profit of THB200 million in 2021, up by 237.6% y-o-y. The performance recovery in 2021 was driven by collaborations within the group, despite some setbacks in the third quarter of 2021 due to a partial city lockdown. The strategies involve KB J Capital and SINGER as financiers for J-Mobile's customers, and the emphasis on sales through new channels, such as the SINGER network, online platform and JMART's synergy shops. We expect these strategies to continue supporting J-Mobile's sales growth over the next few years. In 2022, J-Mobile plans to open around 100 more branches which should further boost revenues.

JAS Asset's earnings improved but future remains uncertain

J-Asset's core business has been impacted by the weak economy and city lockdown induced by COVID-19 over the last two years. The revenue of J-Asset dropped by 17% y-o-y to THB434 million in 2021. The weakening in its core revenue was due to the ongoing scaling down of unprofitable retail leasing space (known as IT Junction). For community malls, occupancy rates dropped lower, and the company also reduced rental rates to assist J-Asset's customers during the difficult time. Nonetheless, the company's net income rebounded to THB161 million in 2021 from THB56 million in 2020. The recovery in 2021 was driven partly by the revaluation of investment assets and lower rental expenses, following the introduction of the new accounting standard (TFRS16) which resulted in rental expenses recognized after 2020 being lower than under the pre-TFRS16 standard.

The future performance of J-Asset remains uncertain, in our view, given the challenges currently faced by the retail sector. Widespread COVID-19 infections continue to pressure spending power and demand, while there has been a shift in customer behavior to online shopping. However, we believe that J-Asset's performance has already bottomed out. We expect new income streams from its recently opened community mall, JAS Green Village Kubon, starting in 2022. In the future, J-Asset plans to resume expanding with multiple projects in the pipeline, such as the under-construction SENERA senior wellness facility and new community mall projects. These should help generate additional cash flows, although prospects in the medium-term remain uncertain, in our view.

Funding and liquidity remain manageable

During the next 12 months, JMART's funding and liquidity are expected to be manageable. On a consolidated basis, the primary sources of funds include expected funds from operations (FFO) of THB4.5-THB5.0 billion in 2022 and a high level of available cash and equivalents of around THB13 billion at the end of 2021 from the capital injection. These should be sufficient to support the company's business operations and expansion plans. The primary uses of funds based on the company's plans include annual capital expenditure of around THB700 million and distressed asset acquisitions by JMT of about THB10 billion per year. We have no immediate concerns over JMART's liquidity in the next 12 months as the company has ample liquidity to support the payment of debentures amounting to THB1.6 billion maturing in November

2021. However, we note that the company's credit lines from financial institutions should be expanded to support liquidity needs in times of market turmoil, which could lead to heightened liquidity risk.

BASE-CASE ASSUMPTIONS

TRIS Rating makes the following assumptions for the operations of JMART over the next three years (2022-2024):

- JMART's revenues to range from THB14-THB18 billion per annum.
- Gross margin in the debt collection segment to be in the mid 70% range, a low- to mid-teens percentage in the mobile handset trading segment, and 70% in the property segment.
- Capital expenditure and investments of around THB700 million per annum. Debt-funded distressed asset acquisitions by JMT are estimated at THB10 billion per annum.

RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that JMT's strong performance in the distressed debt business will continue, and that JMART can maintain its competitive position in the mobile phone handset business while maintaining leverage at an appropriate level. We also expect that the performances of other subsidiaries will continue to improve.

RATING SENSITIVITIES

The outlook and rating could be revised upward should there be significant enhancement of JMART's business risk profile resulting from the steady expansion of business and improved profitability of its subsidiaries, while financial leverage is managed at acceptable levels. The rating downside case could occur from significant deteriorations in both JMART's or its subsidiaries' operating performance or from aggressive debt-funded investments that raise the debt to adjusted EBITDA ratio above 3.5 times on a sustained basis.

COMPANY OVERVIEW

JMART was established by Mr. Adisak Sukumvitaya in 1988 as a trading company, trading electrical home appliances. In 1992, the company added mobile phone handsets to its product line and the devices soon became its core product line. JMART was listed on the Stock Exchange of Thailand (SET) in 2009. As of 31 December 2021, Mr. Adisak and his family owned 34.7% of JMART's outstanding shares. Currently, JMART's major lines of business include mobile phone handsets and information technology (IT) product trading, debt collection and management, retail space rental, and leasing and consumer lending.

In 2015, JMART acquired 24.9% of SINGER, from Singer (Thailand) B.V. JMART aims to leverage SINGER's sales and distribution channels to boost the sales volume of mobile handsets and personal loans. However, the success of this strategy remains unproven. JMART currently owns 26.1% of SINGER.

In 2016, JMART reorganized. The company established J-Mobile as a wholly-owned subsidiary and transferred the sales of mobile phones, accessories, and IT products to J-Mobile. JMART became a holding company investing mainly in retailing and consumer finance.

J-Mobile sells its products, including mobile phones, gadgets, and other IT-related accessories, through 199 shops nationwide including "Jaymart" and "Jaymart IoT" shops as well as shops under major authorized brand names and in partnership with Advanced Info Services PLC (AIS), a leading SIM and fibre optic distributor in Thailand. JMT handles the debt collection and management business. JMART owns 53.9% of JMT. The retail space rental segment is operated by J-Asset. JMART holds 66.1% of J-Asset. The leasing and consumer lending business is operated by associated company, KB J Capital. The consumer lending business is mostly the extension of long-term instalment loans and personal loans to customers who purchase mobile phones from J-Mobile.

In January 2017, JMART set up a new subsidiary, J Ventures Co., Ltd. (J-Ventures), to develop software for the group and invest in financial technology startups. J-Ventures is in the process of developing a "decentralized digital lending platform" (DDL) for J-Fintech using blockchain technology. One objective of the new platform is to aid J-Fintech as it makes the transition from a conventional lending business to digital lending. In the future, J-Ventures will develop software for other companies within the JMART Group. In the first quarter of 2018, J-Ventures made an initial coin offering (ICO) of digital tokens called "JFin Coins". The coins were sold to raise funds for software development. J-Ventures raised THB496 million from the ICO.

In December 2021, VGI and U City (members of BTS group) acquired a stake in JMART and its affiliate company, SINGER. At the time, VGI and U City acquired 15% and 9.9% stakes in JMART, respectively, while U City acquired a 24.9% stake in SINGER.

Table 1: Business Line of JMART Group

Title	Company Name	Paid-up Capital (Mil. THB)	Shareholding (%)	Type of Business
JMART Group				
JMART	Jaymart PLC	1,382.2		Holding company investing in retail and finance business
J-Mobile	Jaymart Mobile Co., Ltd.	630.0	99.9	Mobile phones, mobile accessories and IT-related business, wholesales business, and retail business
JMT	JMT Network Services PLC	683.7	53.9	Debt tracking and collection service business and non-performing debt management business
J-Asset	JAS Asset PLC	929.0	66.1	Property development business
J-Ventures	J Ventures Co., Ltd.	120.0	66.7	Software development and investing in startup business
Bean and Brown	Bean and Brown Co., Ltd.	138.0	95.3	Food and beverage
Subsidiaries that JMART holds indirectly via JMT:				
Jaymart Insurance Broker	Jaymart Insurance Broker Co., Ltd.	15.0	99.9	Insurance broker business
Jaymart Insurance	Jaymart Insurance PLC	572.0	55.0	Non-life insurance business
JAM	J Asset Management Co., Ltd.	300.0	99.9	Debt management business
Associated companies:				
SINGER	Singer Thailand PLC	800.1	26.1	Sales and hire-purchases of various electrical products and "Car title loan"
KB J Capital	KB J Capital Co., Ltd.	1,220.0	49.9	Leasing and personal loan business

Source: JMART

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	12,316	11,696	11,835	12,888	13,224
Earnings before interest and taxes (EBIT)	2,757	2,232	1,557	507	1,167
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,616	3,860	3,519	2,299	2,682
Funds from operations (FFO)	3,670	3,009	2,699	1,473	2,070
Adjusted interest expense	702	635	626	553	393
Capital expenditures	653	502	294	379	650
Total assets	45,278	25,901	20,373	19,444	16,444
Adjusted debt	5,508	14,799	13,561	12,345	11,307
Adjusted equity	26,823	6,766	5,232	4,704	4,664
Adjusted Ratios					
EBITDA margin (%)	25.29	22.76	19.76	10.79	14.72
Pretax return on permanent capital (%)	8.27	10.28	8.18	2.88	7.78
EBITDA interest coverage** (times)	6.58	6.07	5.62	4.15	6.82
Debt to EBITDA** (times)	1.19	3.83	3.85	5.37	4.22
FFO to debt** (%)	66.63	20.33	19.90	11.93	18.31
Debt to capitalization (%)	17.04	68.62	72.16	72.41	70.80

* Consolidated financial statements

** Including investment portfolio amortization

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

JAYMART PLC (JMART)

Company Rating:	BBB+
Issue Ratings:	
JMART239A: THB1,000 million senior unsecured debentures due 2023	BBB
JMART249A: THB2,500 million senior unsecured debentures due 2024	BBB
Rating Outlook:	Stable

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