

Press Release

No. 82/2017
3 May 2017

TRIS Rating Affirms Company Rating and Outlook of "JMART" at "BBB/Stable"

TRIS Rating has affirmed the company rating of Jaymart PLC (JMART) at "BBB" with "stable" outlook. The rating reflects JMART's relatively strong competitive position in its main line of business, the sale of mobile phone handsets and related products. The rating takes into consideration the company's diversified range of businesses and cash flow from its two major subsidiaries, JMT Network Services PLC (JMT), a debt collector, and JAS Asset PLC (J), a retail space rental. The rating is partly offset by intense competition in the mobile handset industry, the rapidly-evolving mobile handset market, and a potential rise in JMART's leverage as it expands. In addition, the company's new business, personal loans, needs time to prove efficiency.

The "stable" outlook is based on TRIS Rating's expectation that JMART will maintain its market position in its core business of mobile phone handset trading and the expectation that performances of its major two subsidiaries will continue to improve.

The rating and/or outlook upside case is unlikely to materialize in the near term, unless JMART's overall financial profile can grow significantly stronger and the new investments generate substantial, sustainable cash flows. The downside pressure on the rating could be from an aggressive expansion which will push leverage higher than expectations. A significant deterioration in operating performance at JMART or its subsidiaries, could also affect the rating and/or outlook.

JMART was established by Mr. Adisak Sukumvitaya in 1988 as a trading company of 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. At the end of 16 March 2017, Mr. Adisak and his family owned 43.9% of JMART's outstanding shares. JMART has three major lines of business: the sale of mobile phone handset, debt collection and management, and retail space rental. The debt collection and management segment is operated by JMT. JMART holds 56.1% of JMT. The retail space rental segment is operated by J. JMART holds 67.5% of J. In 2015, JMART acquired 24.9% of Singer Thailand PLC (SINGER). JMART has leveraged SINGER's sales and distribution channel to boost the sales volume of mobile handsets and personal loans. However, the success of profits has not yet been demonstrated.

JMART made several major changes in late 2016. A reorganization meant the responsibility for the sale of mobile phones, accessories, and IT products was transferred to JMART Mobile Co., Ltd. (JMART Mobile). JMART Mobile is a newly incorporated subsidiary and JMART holds 99.99% percent. After the transfer, JMART became a holding company. Moreover, JMT waived the rights to subscribe to the ordinary shares of J Fintech Co., Ltd: J-Fintech (previously known as JMT Plus) to JMART. J-Fintech was subsidiary of JMT, operating personal loans. After completing the waived right, JMART became J Fintech's major shareholders, owning 95.7% both direct and indirect.

In terms of total revenue, mobile phone handsets is still the largest product line, contributed 85% of JMART's consolidated revenue of Bt11,205 million in 2016. The debt collection and management segment and the retail space rental segment contributed only 8% and 5%, respectively. Revenues from personal loan business are comprised 2%. However, due to the low-margin nature of the mobile phone handsets, this segment contributed 70% of consolidated net profit, in terms of net profit. The debt collection and management segment and the retail space rental segment contributed 60% and 2%, respectively, and personal loan segment reported a loss equal to 30% of consolidated net profit.

JMART is one of major traders of mobile phone devices in Thailand. JMART's market share was 9% by value in 2016. JMART's strength is the strong brand name of "JMART", which is well-known among its target customers and competitors. In addition, JMART is a retailer of popular brands of mobile phone handsets. The on-shelf availability of many products and brands means JMART can meet customers' needs but inventory and working capital levels are higher. JMART sells its products through a nationwide branch network, under the name of "JMART" shops and shops under of the major authorized brand names. At the end of 2016, JMART had 301 shops, of which 161 shops were "JMART" shops. During the past three years, annual revenues from the mobile phone handset segment (not include promotion income) were around Bt8,500 million. Revenues increased 9% from 2015 to Bt9,082 million in 2016. The

(Continue on page 2)

transition from 3G to 4G cellular phone networks is expected to boost sales of mobile phone handsets. Although, intense competition among mobile phone handset trades and retailers will still constrain margins, JMART's gross profit margin of the mobile handset segment maintained at 15%-16% during the past three years.

JMART's business and financial profile is supported by two other lines of business which generate margins higher than the core business of selling mobile phone handsets. JMT, JMART's subsidiary, has a proven track record in debt collection services. JMT provides collection services for various types of debts such as personal loans, credit card receivables, and auto hire-purchase loans. The amount of outstanding debts for collection nearly doubled by rising to around Bt19,600-Bt25,000 million in 2015 - 2016 from Bt13,000-Bt15,000 million during 2012-2014. Revenue from debt tracking and collection rose from Bt100 million during the past few years to Bt135 million in 2016. During 2014-2016, JMT leveraged its tracking and collection system by buying more debt to collect. JMT invested Bt3,831 million in distressed assets during the past three years, accounting for 71% of total debt acquiring business since 2006.

J, another subsidiary of JMART, was established in 2012 to handle retail space rental business. J has 52 sites of IT for selling products nationwide. Most sites are located in BIG C Supercenters. J rents retail space to individuals who sell mobile phone handsets and related products, thus supporting JMART's mobile phone handset business. As of December 2016, J opened three community malls: the JAS-Wanghin, which has an occupancy rate 87%, the JAS-Ram-intra (94% occupancy), and The JAS Urban Srinakarin opened in November 2016 (99% occupancy). The community malls have rental space of around 35,500 square meters (sq.m.).

The two subsidiaries are expected to strengthen JMART's operating and financial performance. Although the track record of debt collection business is acceptable, the investment in distressed assets has grown rapidly during the past two years. JMT needs time to prove its ability to handle its sizeable debt portfolio it invested in and deliver impressive operating and financial performance. J faces similar challenges. The foray into community malls is new and highly capital intensive. J also needs time to demonstrate the success of this new business. In addition, J Fintech which operates personal loans reported a huge loss because it is just starting up and the loan loss reserves are sizable. This business also needs time to demonstrate success.

JMART reported Bt11,205 million in total consolidated revenue in 2016, an increase of 12% from Bt9,966 million in 2015. TRIS Rating forecasts revenue of at least Bt10,000 million during 2017-2019, as all three major lines of business grow. The sizable investments in JMT and J made in 2014-2016 are expected to begin to pay off soon. The gross margin is expected to improve to around 20% from 18% in 2016. The main driver is the higher margins at JMT and J compared with the mobile phone handset business of JMART. JMART's operating margin (operating income before depreciation and amortization as a percentage of sales) continuously improved from 4.6% in 2011 to 5.4% in 2016. TRIS Rating expects JMART to lift its operating margin above 5.4% during 2017-2019 with the supports from JMT and J.

Funds from operations (FFO) was around Bt500 million in 2014-2015, and increased to Bt1,107 million in 2016. JMART will borrow more to expand JMT, J, and J Fintech. The adjusted FFO to total debt ratio, including amortization of JMT's investment portfolio, is forecast to hold at 15%-20% in 2017-2019, down from more than 40% in 2013. JMART's debt to capitalization ratio was around 50% during 2013. The ratio rose to 80% over the past few years and will hold at this level during 2017-2019. The ratio will remain high because JMT and J are growing.

Jaymart PLC (JMART)

Company Rating:

BBB

Rating Outlook:

Stable

TRIS Rating Co., Ltd./www.trisrating.com

Contact: santaya@trisrating.com, Tel: 0-2231-3011 ext 500/Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand

© Copyright 2017, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at http://www.trisrating.com/en/rating_information/rating_criteria.html.