

JMT NETWORK SERVICES PLC

No. 32/2022
18 March 2022

FINANCIAL INSTITUTIONS

Company Rating:	BBB+
Issue Rating:	
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 and the rating on senior unsecured debentures of JMT Network Services PLC (JMT) to “BBB+” from “BBB”. At the same time, TRIS Rating revises the rating outlook on JMT to “stable” from “positive”. The upgrade of ratings follows the upgrade of ratings on Jaymart PLC (JMART) (rated “BBB+/Stable” by TRIS Rating). The company’s ratings mainly reflect its status as a core subsidiary of JMART. According to TRIS Rating’s “Group Rating Methodology”, the company rating on JMT is equivalent to the company rating on JMART.

KEY RATING CONSIDERATIONS

Strengthening leverage position following BTS Group transactions

The upgrade of ratings on JMT follows the upgrade of ratings on JMART that reflects the strengthening of JMART’s leverage position after the completion of a capital injection from the BTS Group through its affiliates (U City and VGI) into JMART of around THB10 billion at the end of 2021. At the same time, JMT completed its rights offering which brought in fresh capital of THB10 billion, with about half of the proceeds from JMART and the other half from other existing shareholders. The leverage position of both JMART and JMT has drastically improved.

At the end of 2021, JMT’s ratio of adjusted debt to earnings before interest, taxes, depreciation, and amortization (adjusted debt to EBITDA) improved to 0.2 times from 1.9 times in 2020. Despite the substantial improvement, we expect the aggressive investment plan of the company will likely deplete the fund received over the next few years. We expect the adjusted debt to EBITDA ratio to rise back up above 2.5 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.

A core subsidiary of JMART Group

TRIS Rating views JMT as a core subsidiary of the JMART Group. JMART is the largest shareholder and holds a controlling power in JMT. At the end of 2021, JMART held 53.9% stake in JMT. The company plays a vital role in the group’s financial business, which has been the backbone of the group’s diversified operations. The management team and board members of JMT and JMART are closely linked. Its business direction and financial targets are influenced by JMART through the board of directors. Although there are no available credit lines provided directly to JMT from JMART, funding support could come from a capital injection via JMART’s exercise of JMT’s warrants and rights offering which was executed recently. We also view that JMT is closely linked to JMART’s reputation due to the shared brand name.

Significant net income contribution to the group

JMT is the largest profit contributor among entities within the JMART Group, substantiating its status as a core entity. The company consistently delivers satisfactory operating results. In 2021, the company’s total revenue and net income accounted for 31% and 74% of JMART’s consolidated total revenue and net income, respectively. We expect JMT’s earnings and contribution to remain strong thanks to the substantial expansion plan, with THB10 billion annual budget to be deployed for the acquisition of distressed assets. For the year 2021, the company’s earnings before interest, taxes, depreciation, and

amortization (EBITDA) margin was 57.9%, an improvement from 51.1% in 2020. The improvement came from an increased proportion of the fully amortized portfolios and better expense management which can be observed from a steadily increasing gross margin to 71.7% in 2021 from 67.8% and 58.6% in 2020 and 2019, respectively.

Strong franchise in unsecured distressed asset management

JMT continues to maintain a solid market position in unsecured distressed asset management (DAM), underpinned by a database of over 20 years, which helps sustain business growth and operational efficiency. The company ranks as one of the largest non-financial institutions in unsecured DAM. In 2021, JMT had an outstanding claim balance of distressed assets of THB238.2 billion, of which THB49.9 billion was fully amortized, up from THB43.3 billion in 2020. In terms of asset size, the company's total assets stood at THB28 billion, an increase of 196% y-o-y, thanks to the capital injection through a right offering and more acquisitions of distressed assets in 2021. In 2021, the company spent around THB8.5 billion for distressed asset acquisitions which exceeded its planned budget of around THB4-THB5 billion. In 2022, the company has budgeted THB10 billion for distressed debt acquisitions. We expect the company's total assets to rise above THB40 billion in the next 3 years based on our current assumptions of asset acquisitions of THB10 billion per annum.

Over the last five years, JMT has slowly expanded into the secured DAM market. In 2021, about 40% of total acquisitions were secured distressed assets. We believe that the company will take at least three to five years before the secured distressed assets can provide a sizable contribution to JMT's revenues. Normally, secured distressed asset management would take a longer time to reach breakeven due to the lengthy process of liquidating foreclosed assets and higher acquisition costs. Although the proportion of secured debts has increased, it remains small compared with the overall asset base. We expect the company to maintain its focus on unsecured DAM in the medium term, where its expertise lies.

Synergy and support for group finance business

Debt collection services are another area of strength for JMT. JMT's major clients include financial institutions (FIs), mobile phone operators, consumer lenders, and other corporates. The outstanding principal balance under the service has remained above THB30 billion for the past few years. In the recent years, the business volume from financial institutions has declined due to a lower supply of non-performing loans (NPL) resulting from the Bank of Thailand (BOT)'s debt forbearance programs. JMT's commission revenue from debt collections was THB301 million, accounting for about 8% of total revenue in 2021, down from THB362 million in 2020 or 11% of total revenue.

In addition to its own business operations, JMT has demonstrated increased 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. JMT also works with KB J Capital which provides financing for home equity loans to JMT's customers. Besides, JMT advertises its non-performing asset (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.

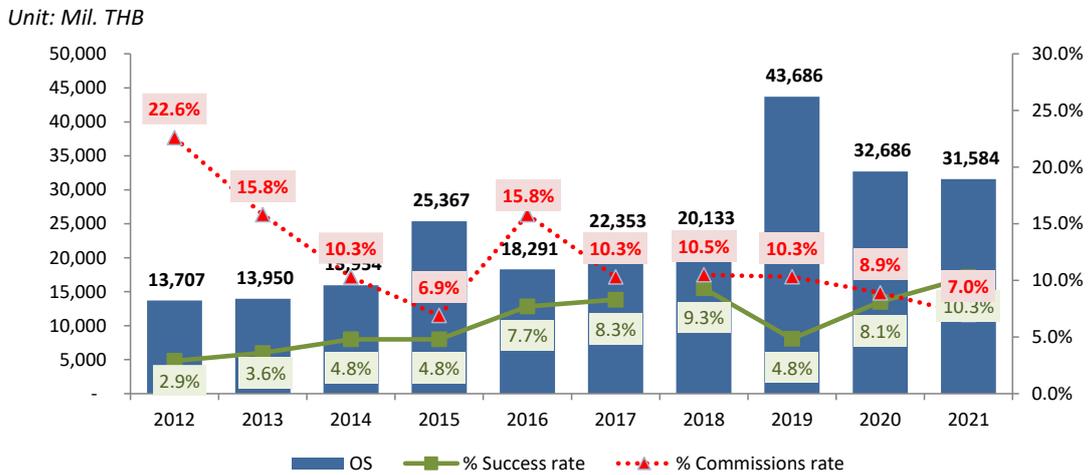
COMPANY OVERVIEW

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 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.

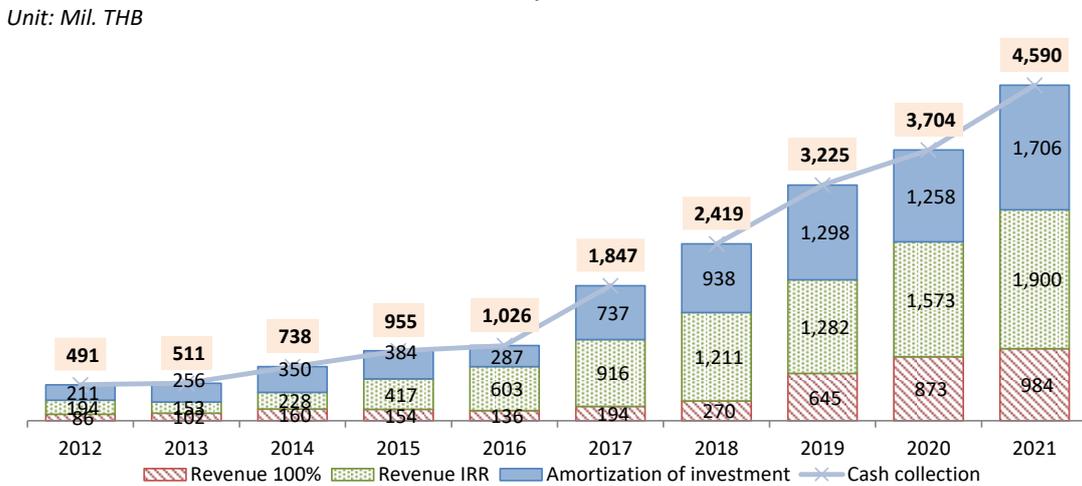
KEY OPERATING PERFORMANCE

Chart 1: Debt Collection Performance



Source: JMT

Chart 2: Debt Acquisition Performance



Source: JMT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	3,650	3,206	2,535	1,890	1,362
Earnings before interest and taxes (EBIT)	1,959	1,530	1,038	810	579
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,585	2,838	2,316	1,787	1,367
Funds from operations (FFO)	3,001	2,350	1,913	1,463	1,183
Adjusted interest expense	345	314	213	139	80
Capital expenditures	151	155	80	128	72
Total assets	28,036	14,270	10,142	8,363	5,248
Adjusted debt	683	5,477	5,429	3,340	2,360
Adjusted equity	19,078	5,755	3,433	3,467	2,325
Adjusted Ratios					
EBITDA margin (%)	57.1	51.1	44.8	46.5	46.7
Pretax return on permanent capital (%)	9.87	13.63	12.27	12.69	12.82
EBITDA interest coverage** (times)	10.39	9.04	10.85	12.88	17.20
Debt to EBITDA (times)	0.19	1.93	2.34	1.87	1.72
FFO to debt** (%)	439.07	42.91	35.23	43.81	50.14
Debt to capitalization (%)	3.46	48.76	61.26	49.06	50.38

Note: All financial ratios were adjusted by operating lease.

* 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
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

JMT Network Services PLC (JMT)

Company Rating:	BBB+
Issue Rating:	
JMT239B: THB500 million senior unsecured debentures due 2023	BBB+
Rating Outlook:	Stable

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