

JMT Network Services Pcl (JMT TB) - BUY

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Analyst Meeting

A bold JV move

- To form Bt10bn 50:50 JV with KBANK...
- ...with target to purchase NPLs up to Bt100bn in 2025.
- Expecting profits generation from the 1st year of operation.
- We have yet included JV's contributions to our projection.

To recap, KBANK and JMT have successfully set up a 50:50 JVAMC, JK, with initial capital injection of Bt10bn. Having RO and warrant proceeds of around Bt14bn, JMT can finance the Bt5bn investment by internal cashflow. JK already acquired Bt30bn of NPLs from KBANK in June and looks to purchase another Bt20bn within this year. Over three years, says in 2025, JK aims to have NPLs under management up to Bt100bn.

- According to JVAMC regulation, the JV has 15 years to deal with the purchased NPLs. However, we don't think JMT see this as just a temporary project. It sees this to bring in the group's new J-curve with potential cross-selling opportunities to its parent holding company, JMART.
- Big picture wise, JK will acquire new NPLs mostly from KBANK who has been JMT's main customer for over 15 years. JMT will continue participating into the open auction of other banks but it is likely that new NPLs acquisitions would come mainly through JK. While JMT will continue reaping returns from its past investments. As of 1Q22, JMT has invested totaling Bt26bn and have NPLs under management of Bt243bn.
- How is this going to benefit JMT?
 - 1) Aiming to share resources of both parties, JK would incur very small fixed costs. So, JMT believes JK could make profits in the first year of operation. While JMT would also earn recurring management fees from JK.
 - 2) With KBANK's average recovery rates of its in-house management and auction of 1-9% for unsecured NPLs and 40-57% for secured ones and the fact that average vintage of these Bt30bn is not as old as what JMT won from auctions, we estimate the investment costs of Bt8bn for the first Bt30bn NPL purchase transaction. This implies acquisition costs of 27% of face value on a 33:67 mix of secured and unsecured NPLs.
 - 3) The acquisition costs are higher than what JMT has been paying previously but ROI is expected to be in line with what JMT has achieved. While we believe the cash collection pace could be faster due to newer vintage of the loans and synergies with KBANK.
 - 4) Using JMT's past revenue recognition record at its net profit margin guidance for the JV of 20-30%, we estimate profits generation of the JV for the first batch of investment of Bt30bn of Bt100-150m in 2023. And profits would be snowballing to Bt300-450m in 2026 given JMT's average payback track record of 3-5 years.

Key Valuations

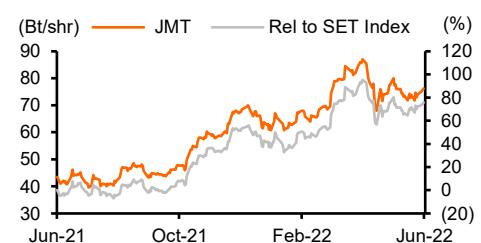
Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Total Income	3,625	4,520	6,046	7,983
Net profit	1,400	2,059	3,081	4,196
Norm profit	1,400	2,059	3,081	4,196
Norm EPS (Bt)	1.1	1.4	2.1	2.9
Norm EPS grw (%)	33.7	24.6	49.6	36.2
Norm PE (x)	67.7	54.3	36.3	26.7
EV/Net cash collection (x)	27.7	24.3	17.8	13.7
P/BV (x)	5.9	4.7	4.5	4.3
Div yield (%)	1.0	1.5	2.2	3.0
ROE (%)	11.3	9.6	12.6	16.4
Net D/E (%)	(5.5)	7.8	33.2	52.2

Source: Thanachart estimates

Stock Data

Closing price (Bt)	76.25
Target price (Bt)	100.00
Market cap (US\$ m)	3,180.4
Avg daily turnover (US\$ m)	25.7
12M H/L price (Bt)	87.00/39.56

Price Performance



Source: Bloomberg

- 5) We also expect JMT to earn management fee from the JV. On JMT's debt collection business, it charges commission on successfully collected loans. JMT's debt collection revenues was c.Bt230m last year on debt outstanding of Bt31.5bn. This implies collection fees of around 1%. We conservatively expect management fee of 0.5% on JV's Bt30bn of NPL outstanding. This would add Bt120m profits after tax in addition to Bt50-75m equity income contribution from JV. Roughly, the JV would lead to around 6-7% upside to our profits projection in 2023.
- 6) Strategic wise, the collaboration allows JMT to get better access to KBANK's debtors profile; hence, expanding its customer base from 4m currently. It also expects to cross sell other lending products of JMART group to these customers in the future.
- We continue to like JV and see upsides to our projection as we have yet incorporated the JV contribution to our numbers. Thanks to its abundant cash in hand, we see JMT being least impacted by rising interest trend. While it looks to benefit from influx of NPL sales from 2H22 due to an end of Covid-19 forbearance programs.
 - With the company's back-loaded earnings recognition, we expect more exciting earnings story in the 2H22.

Ex 1: KBANK's Past NPL Management Returns

NPL management plans	Recovery rate		Time consumption	
	Secured	Unsecured	Secured	Unsecured
1. Internal management	40-57%	1-9%	7-20 years	5 years on average
2. Open auction	47-49%	7-9%	none	none
3. Sell to JK	Fair price plus return from the JV		6-12 years	3-5 years

Sources: Company data, Thanachart estimates

Ex 2: Our Estimation Of JK's Investment Costs

	Purchased NPLs		Investment costs	
	Bt m	% Mix	Pricing	Bt m
Secured	9,900.00	33%	57.0%	5,643.00
Unsecured	20,100.00	67%	12.0%	2,412.00
Overall	30,000.00	100%	26.7%	8,000.00

Sources: Company data, Thanachart estimates

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