MAJOR CINEPLEX GROUP PLC

No. 214/2019
26 December 2019

CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Outlook:	Stable

Last Review Date: 20/12/18

Company Rating History:

Date	Rating	Outlook/Alert
08/12/16	A	Stable
25/03/09	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating and senior unsecured debenture ratings on Major Cineplex Group PLC (MAJOR) at "A" with a "stable" rating outlook. The ratings reflect the company's leading position in the Thai movie exhibition industry, the prime locations of its properties throughout the country, and the good performance of the advertising media segment. These strengths are partially offset by the exposure to uncontrollable factors, such as the number of films released, film popularity, and the increased competition from the proliferation of entertainment alternatives.

KEY RATING CONSIDERATIONS

Leading position in Thai movie exhibition industry

MAJOR is the largest movie exhibitor in Thailand. Its market share is estimated at 70%, in terms of first-week gross box office receipts. Its dominant market position gives it significant negotiating power with movie distributors, film studios, and suppliers. TRIS Rating expects the company to retain its leading position as it continues to aggressively expand new cinemas. MAJOR plans to increase the number of cinema screens to 1,200 by 2025, compared with 796 screens as of September 2019. Most of the new screens will be located upcountry.

MAJOR has cinemas in 60 provinces in Thailand, plus Cambodia and the Lao People's Democratic Republic (Lao PDR). MAJOR typically situates its theaters in good locations in densely populated urban areas, such as places adjacent to department stores and hypermarkets.

Reliance on the number of films released and film popularity

Admission revenue hinges on the number of films released as well as the quality and popularity of the films, especially foreign films. During the past three years, foreign films accounted for over 80% of MAJOR's gross box office receipts. The movie theater remains the best channel for a film studio to generate income in view of the large investment required to produce a movie. TRIS Rating believes Hollywood film studios will continue to launch blockbuster films which will support the company's revenue, especially during the summer and year-end holiday seasons.

The success of Thai films not only mitigates the reliance on foreign films but is also a key driver for the company to boost revenue. Over 50% of MAJOR's screens are located upcountry, and most patrons outside of the Bangkok metropolitan area prefer Thai movies. MAJOR has joined with several partners to produce and release at least 10 Thai movies per year. More Thai film releases will boost admission revenue at the upcountry locations and reduce the reliance on content from Hollywood. Moreover, Thai films can be programmed during times when there are fewer releases of new Hollywood blockbusters. MAJOR expects revenues from Thai films and international films to be roughly equal in the future. However, the success of its in-house movie production efforts remains to be proven.

Threats from entertainment alternatives

Movie exhibitors face threats from many other forms of recreation. For example, the wide availability of entertainment on the Internet and mobile devices has created more options for consumers. In response, MAJOR continues to upgrade its theaters with high-quality digital screens, sound systems, and other premium amenities. The company also introduces innovative theater formats that will help MAJOR maintain its competitiveness, differentiate itself from in-home viewing, and improve the quality of the movie-going experience. TRIS Rating believes no other form of entertainment as yet offers a perfect substitute for the movie-going experience. Hence, the habits of moviegoers are not expected to change greatly, despite the proliferation of other forms of entertainment.

Advertising media segment is a key cash flow contributor

The advertising media segment continues to be a significant source of MAJOR's cash flow. As the advertising media business incurs minimal additional costs to theater operations, it makes a substantial contribution to the company's bottom line. During the past five years, EBITDA (earnings before interest, taxes, depreciation, and amortization) of the advertising media segment accounted for around 50% of total EBITDA.

Advertisers are attracted to MAJOR because it has a large number of theaters, in a number of locations, and it has a high volume of customers. MAJOR can offer advertisers a variety of media platforms, such as movie screens, video walls, and plasma screens, in and around theater areas. The advertisers can also use MAJOR's theaters as part of their advertising campaigns or as places in which to organize marketing events. We forecast MAJOR's advertising revenue growth of around 15% in 2019 and 5% annually during 2020-2021.

Leverage improving

We expect MAJOR's leverage to decline in the next few years. In the first nine months of 2019, the adjusted debt to EBITDA ratio stayed at 3.2 times (annualized with the trailing 12 months). Over the next three years, capital expenditures are projected to range from Bt600 million to Bt800 million per annum. As a result, the debt to EBITDA ratio is forecast to gradually improve to around 2.5 times in 2021.

Satisfactory liquidity profile

We assess the company to have adequate liquidity over the next 12 months. Its sources of funds comprised cash on hand of Bt515 million and undrawn uncommitted credit facilities of Bt3.6 billion as of September 2019. Funds from operations (FFO) before operating lease adjustment over the next 12 months will be around Bt2.2 billion. On the other hand, during the next 12 months, MAJOR will have to repay financial obligations of Bt2.5 billion, of which Bt2.1 billion is short-term debt. In addition, over the next 12 months, planned capital expenditures will be around Bt600 million and MAJOR plans to spend Bt200 million to produce movies.

MAJOR has a number of strategic investments, such as ownership stakes in M Pictures Entertainment PLC (MPIC), Siam Future PLC (SF), and Major Cineplex Lifestyle Leasehold Property Fund (MJLF). As of September 2019, the market value of the strategic investments totaled Bt6.6 billion. The high market value serves as a cushion for MAJOR, should it need additional financial flexibility.

TRIS Rating believes MAJOR will comply with its debenture covenants over the next 12 to 18 months. The debt to equity ratio at the end of September 2019 was 1.2 times, below the maximum of 1.5 times specified in the debenture covenant.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions during 2019 to 2021 are as follows:

- Revenues to range between Bt11-Bt12 billion.
- Adjusted EBITDA margin to stay above 30%.
- Capital expenditures to total around Bt2.8 billion over the forecast period.
- The adjusted debt to EBITDA ratio to gradually drop to 2.5 times in 2021.

RATING OUTLOOK

The "stable" outlook reflects the expectation of TRIS Rating that MAJOR will maintain its leading market position in the movie exhibition industry and its operating results will remain satisfactory.

RATING SENSITIVITIES

The rating could be upgraded if the company can substantially enlarge operating cash flow while leverage significantly declines. The rating downside case may occur if the aggressive use of debt to finance investments causes a significant deterioration in the financial profile.

COMPANY OVERVIEW

MAJOR is the largest movie exhibitor in Thailand, with a market share of approximately 70% in terms of first-week box office receipts. The company was founded in 1995 by Mr. Vicha Poolvaraluck, who currently owns 30% of the company's outstanding shares. MAJOR's five principal lines of business are cinema exhibition, bowling and karaoke, advertising media, space rental and services, and movie content. The cinema exhibition and advertising media segments are the key revenue contributors. In the first nine months of 2019, the cinema exhibition segment contributed 74% of total revenue, while the advertising media segment made up 15%. The three remaining segments contributed the remainder.

As of September 2019, MAJOR operated 166 cinemas, offering a total of 796 screens. MAJOR has 352 cinema screens in Bangkok and vicinity, 407 screens upcountry, and 37 screens abroad. MAJOR currently has 13 branches which offer bowling and karaoke, operating 267 bowling lanes, 136 karaoke rooms, and five ice skating rinks. MAJOR owns five stand-alone movie complexes, which offer commercial space for rent totaling 47,958 square meters. Other than its stand-alone complexes, MAJOR has located its theaters adjacent to modern trade retail outlets and department stores. MAJOR uses several cinema brands to capture a broad range of customer groups.

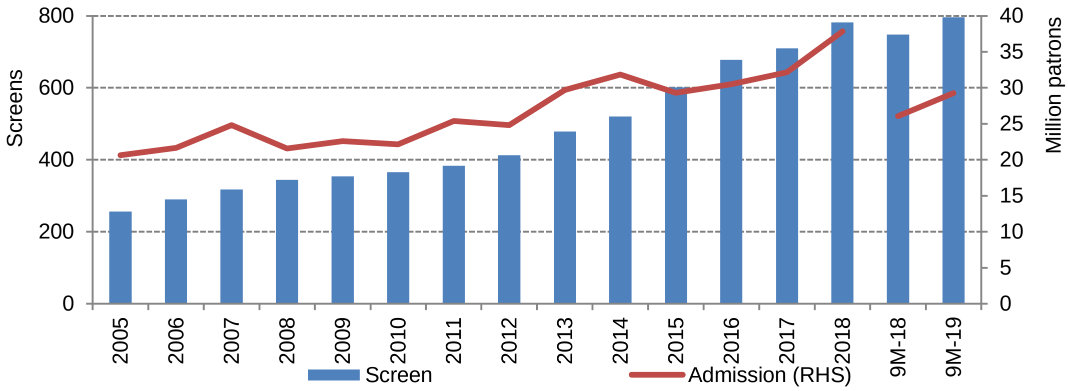
KEY OPERATING PERFORMANCE

Table 1: MAJOR's Sales Breakdown by Line of Business

Business Line	2014	2015	2016	2017	2018	Jan-Sep 2019
Cinema exhibition (including concessions)	67%	69%	72%	73%	76%	74%
Advertising media	13%	14%	15%	15%	14%	15%
Bowling & karaoke	6%	5%	5%	5%	4%	4%
Space rental and services	6%	6%	5%	5%	4%	4%
Movie content	8%	5%	3%	2%	2%	3%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

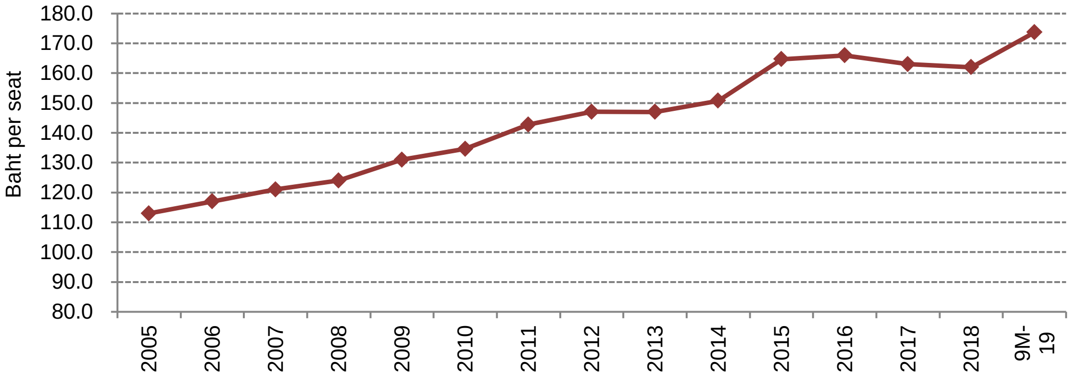
Source: MAJOR

Chart 1: MAJOR's Total Screens and Total Admission



Source: MAJOR

Chart 2: MAJOR's Average Ticket Price



Source: MAJOR

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

		----------------Year Ended 31 December ----------			
	Jan-Sep 2019	2018	2017	2016	2015
Total operating revenues	8,098	10,066	9,114	8,870	8,684
Earnings before interest and taxes (EBIT)	1,574	1,875	1,552	1,598	1,781
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,600	3,445	2,869	2,663	2,424
Funds from operations (FFO)	1,920	2,537	1,969	1,850	1,579
Adjusted interest expense	462	634	622	576	545
Capital expenditures	926	1,098	1,062	1,494	1,679
Total assets	13,547	14,074	13,808	14,725	14,246
Adjusted debt	11,146	11,156	11,863	11,237	10,644
Adjusted equity	6,346	6,632	6,499	6,718	6,648
Adjusted Ratios					
EBITDA margin (%)	32.10	34.22	31.48	30.02	27.91
Pretax return on permanent capital (%)	11.38	10.05	8.29	8.85	10.53
EBITDA interest coverage (times)	5.63	5.43	4.62	4.62	4.45
Debt to EBITDA (times)	3.22	3.24	4.13	4.22	4.39
FFO to debt (%)	22.60	22.74	16.60	16.46	14.83
Debt to capitalization (%)	63.72	62.71	64.61	62.59	61.55

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Major Cineplex Group PLC (MAJOR)

Company Rating:	A
Issue Ratings:	
MAJOR21OA: Bt500 million senior unsecured debentures due 2021	A
MAJOR229A: Bt1,000 million senior unsecured debentures due 2022	A
Rating Outlook:	Stable

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