

MAJOR CINEPLEX GROUP PLC

No. 1/2023
4 January 2023

CORPORATES

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

Last Review Date: 05/09/22

Company Rating History:

Date	Rating	Outlook/Alert
04/01/22	A-	Stable
17/06/20	A	Negative
08/12/16	A	Stable
25/03/09	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Major Cineplex Group PLC (MAJOR) and the rating on MAJOR's senior unsecured debenture at "A-" with a "stable" outlook. The ratings reflect expected improvement in MAJOR's operating performance through recovering cinema attendance and improving financial leverage. The ratings continue to reflect the company's leading position in the Thai movie exhibition industry, the prime locations of its properties throughout the country, and its unique position in the advertising media segment. The ratings are weighed down by its susceptibility to several uncontrollable factors, such as the number of films released, film popularity, and increased competition from entertainment alternatives.

KEY RATING CONSIDERATIONS

Recovery expected to continue

MAJOR's operating performance in 2022 improved as theater attendance started to recover following the easing of the Coronavirus Disease 2019 (COVID-19) situation. The box office has shown significant recovery since the government gradually lifted social distancing measures in the fourth quarter of 2021 through the second quarter of 2022. MAJOR's revenue grew 174% year-on-year (y-o-y) to THB4.7 billion in the first nine months of 2022 (around 58% of 2019 levels), thanks to recovery in cinema admission, more blockbuster film releases, and the low revenue base from mandatory closures of theaters in the second and third quarter of 2021.

We expect MAJOR's operating performance to continue to improve, supported by improving consumer confidence for out-of-home activities and solid 2023 movie line up. Under our base-case forecast, we expect MAJOR's total revenue to grow by 95% to THB6.5 billion in 2022 (around 60% of 2019 levels), 40% to THB9.1 billion in 2023 (around 80% of 2019 levels), and 8% to THB9.9 billion in 2024 (around 90% of 2019 levels).

MAJOR has demonstrated the ability to adjust its costs downwards against the plunge in revenues during the COVID-19 pandemic. The company sustained the earnings before interest, taxes, depreciation and amortization (EBITDA) margin at around 24% in 2020 before improving to 31% in 2021 through the first nine months of 2022, thanks to effective cost control during the pandemic and in part from the rent waivers received from landlords during the outbreak. We expect MAJOR's profitability to remain acceptable with an adjusted EBITDA margin of around 30%-32% in 2023-2024 as its revenues increase and MAJOR continues to manage costs efficiently with rental expenses rebounding to a normal level.

Revival in advertising business lagging behind cinema business

MAJOR's advertising revenue recovered to around 40% of pre-COVID-19 levels in the first nine months of 2022 from around 20% in 2021, lagging those of the box office and concession businesses. However, we expect MAJOR's advertising revenue to continue to improve in 2023 and 2024 in tandem with an increase in cinema attendance, more blockbuster film releases, and the resumption of advertising spending. We expect revenue from the advertising to be around THB600 million in 2022, increasing to around THB1 billion in 2023 and THB1.1 billion in 2024.

We view MAJOR's large network of theaters nationwide and high attendance numbers to continue attracting advertisers. MAJOR offers advertisers various types of media platforms, and advertisers can also use MAJOR's theaters as part of their campaigns or marketing events. The advertising media business continues to be a significant source of cash flow for the company. It makes a substantial contribution to the company's bottom line while incurring minimal additional costs. Prior to the COVID-19 outbreak, the EBITDA of the advertising media business accounted for around 50% of MAJOR's total EBITDA.

Leading position in Thai movie exhibition industry

MAJOR is the largest film exhibitor in Thailand, with an estimated market share of 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. We expect the company to maintain its leading position as it intends to add 40-50 screens per annum, from 829 screens as of September 2022.

Reliance on successful new films

MAJOR's admission income hinges on the number of films released as well as their quality and popularity, particularly international films. International films made up over 80% of MAJOR's gross box office receipts from 2015 to 2019. Film studios postponed most of their blockbuster film releases during the COVID-19 peak in the United States (US) in 2020 and released more blockbuster films in the second half of 2021 through 2022. We expect increasing big-budget film slates in 2023 to support recovery in MAJOR's cinema performance. However, there remains risk that Hollywood film release schedules could change depending on the global pandemic situation, especially in the US and China, as they are major contributors to the global box office.

During the pandemic, major film studios experimented with film distribution approaches, such as simultaneously releasing films in theaters and on streaming services or reducing exclusive theatrical windows. However, as the COVID-19 situation improves, major film studios have returned to exclusively releasing their films in cinemas before premium video on demand or streaming services. We believe that maintaining an appropriate exclusive theatrical window remains the best option for major studios to monetize and market blockbusters. This is both for the sake of immediate box office earnings and the success of long-term licensing deals.

To lessen its dependency on international films and to boost the number of films being shown, the company intends to produce more Thai films by increasing production from roughly 10 movies per year to 20 movies per year. The company's strategy is to collaborate with other partners to produce Thai films. As the majority of MAJOR's screens are in provincial areas where moviegoers prefer Thai films, more Thai releases will increase admission revenues at provincial theaters while dependency on Hollywood content is decreased. MAJOR aims for income from Thai and international films to be nearly equal in the future. However, the success of its in-house film production remains to be proven.

Threats from entertainment alternatives and changing consumer behavior

Movie exhibitors face disruption from many other forms of entertainment. For example, the widely available entertainment services on the Internet and mobile devices have created greater options for consumers. The COVID-19 pandemic accelerated and amplified the shift in consumer behavior as it has forced consumers to change from out-of-home to in-home media consumption during the COVID-19 lockdown which increased consumer familiarization with consuming video content at home through streaming platforms, video on demand, and social media. In response, MAJOR continues to upgrade its theaters with high-quality digital screens, sound systems, and other premium amenities. The company has also introduced innovative theater formats to enhance competitiveness, differentiate itself from in-home viewing, and improve the quality of the movie-going experience. We believe that movie theaters will continue to offer the unique experience unmatched by other forms of movie viewing, enabling it to attract a large group of moviegoers.

Financial leverage to improve with recovery in EBITDA

In the first nine months of 2022, MAJOR's adjusted debt increased to THB8.8 billion, from THB5.9 billion in 2021, as the company acquired shares in Workpoint Entertainment PLC and Taokaenoi Food & Marketing PLC for around THB2.2 billion. However, MAJOR financial leverage as measured by debt to EBITDA ratio improved to 4.4 times in the first nine months of 2022 from 5.9 times in 2021 thanks to the improved EBITDA. Going forward, we expect MAJOR's financial leverage to lower to around 3 times in 2023-2024 from the growing EBITDA while adjusted debt growing moderately. Over the next two years, capital expenditures are projected to be around THB800 million per annum and investment in film acquisition and production to be around THB400 million per annum.

We assess the company to have adequate liquidity over the next 12 months. Its sources of funds comprised cash on hand of THB870 million as of September 2022. The company also has undrawn credit facilities available from commercial banks of THB5 billion. Operating cash flow is projected to be around THB2 billion in 2023. On the other hand, the uses of funds over the next 12 months include debt coming due of around THB750 million and expected capital expenditures and movie production of THB1.2 billion.

We expect MAJOR will be able to comply with the covenant on its debentures over the next 12 to 18 months. The debt (excluding lease liabilities) to equity ratio at the end of September 2022 was 0.67 times, below the ceiling of 1.5 times imposed by the covenant.

MAJOR had no priority debt as of September 2022.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for MAJOR's operations during 2022 to 2024 are as follows:

- Revenues to increase to THB6.5 billion in 2022, THB9.1 billion in 2023, and THB9.9 billion in 2024.
- Adjusted EBITDA margin to be around 30%-32% over the forecast period.
- Capital expenditures projected to be around THB800 million per annum and investment in film acquisition and production to be around THB400 million per annum in 2023-2024.

RATING OUTLOOK

The "stable" outlook reflects our expectation of MAJOR's operating results will continue to improve with increasing cinema admissions while maintaining acceptable financial leverage. We expect the company to maintain its strength in the movie exhibition industry.

RATING SENSITIVITIES

A rating downside may occur if MAJOR undertakes aggressive investments and/or its operating performance significantly deteriorates such that the adjusted net debt to EBITDA ratio stays above 5 times for a prolonged period. On the other hand, the rating could be revised upward if there are clear signs of revival in MAJOR's operating performance close to the pre-COVID-19 levels, with its adjusted net debt to EBITDA ratio staying well below 3 times on a sustained basis.

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 2022, the cinema exhibition segment contributed 78% of total revenue, while the advertising media segment made up 10%. The three remaining segments contributed the remainder.

According to the information as of September 2022, MAJOR operates 178 cinemas, offering a total of 829 screens. MAJOR has 790 cinema screens in Thailand and 39 screens abroad. The company currently has 11 branches which offer bowling and karaoke, operating 245 bowling lanes, 121 karaoke rooms, and four ice-skating rinks. MAJOR owns five stand-alone movie complexes, which offer commercial space for rent totaling 47,934 square meters. Other than its stand-alone complexes, the company 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.

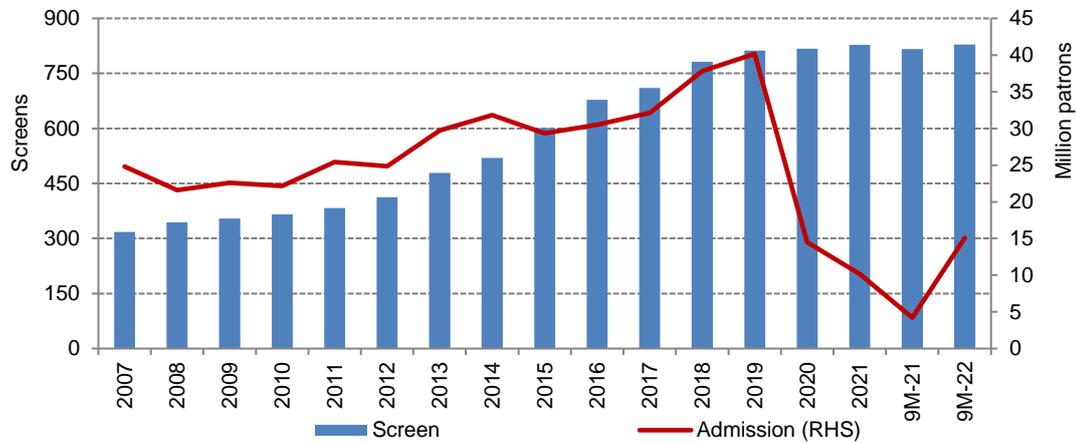
KEY OPERATING PERFORMANCE

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

Business Line	2017	2018	2019	2020	2021	Jan-Sep 2022
Cinema exhibition (including concessions)	73%	76%	74%	66%	75%	78%
Advertising media	15%	14%	15%	15%	10%	10%
Bowling & karaoke	5%	4%	4%	5%	2%	5%
Space rental and services	5%	4%	4%	9%	9%	4%
Movie content	2%	2%	3%	5%	4%	3%
Total	100%	100%	100%	100%	100%	100%

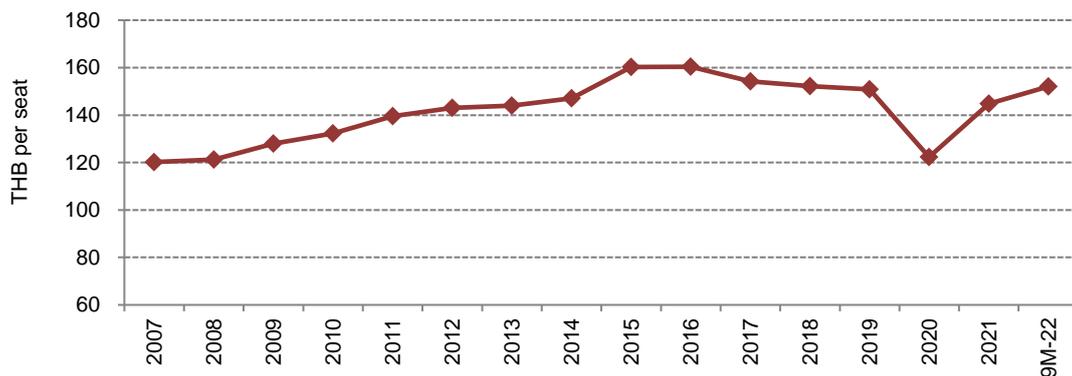
Source: MAJOR

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: Mil. THB

	Jan-Sep 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	4,686	3,340	3,920	10,815	10,066
Earnings before interest and taxes (EBIT)	251	(406)	55	2,450	1,875
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,482	1,005	976	3,792	3,445
Funds from operations (FFO)	1,068	(227)	456	2,830	2,496
Adjusted interest expense	380	570	507	673	634
Capital expenditures	322	217	316	856	1,018
Total assets	14,146	16,519	17,678	17,868	14,074
Adjusted debt	8,785	5,898	11,178	11,221	11,156
Adjusted equity	6,663	7,287	6,626	7,480	6,632
Adjusted Ratios					
EBITDA margin (%)	31.62	30.09	24.89	35.06	34.22
Pretax return on permanent capital (%)	1.88	(2.19)	0.28	12.88	10.05
EBITDA interest coverage (times)	3.90	1.76	1.92	5.64	5.43
Debt to EBITDA (times)	4.40	5.87	11.46	2.96	3.24
FFO to debt (%)	13.09	(3.85)	4.08	25.22	22.37
Debt to capitalization (%)	56.87	44.73	62.78	60.00	62.71

RELATED CRITERIA

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

Major Cineplex Group PLC (MAJOR)

Company Rating:	A-
Issue Rating:	
MAJOR279A: THB1,000 million senior unsecured debentures due 2027	A-
Rating Outlook:	Stable

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