

MAJOR CINEPLEX GROUP PLC

No. 1/2024
2 January 2024

CORPORATES

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

Last Review Date: 04/01/23

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

Contacts:

Tulyawat Chatkam
tulyawatc@trisrating.com

Chanaporn Pinphithak
chanaporn@trisrating.com

Ruangwud Jarurungsipong
ruangwud@trisrating.com

Pramuansap Phonprasert
pramuansap@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Major Cineplex Group PLC (MAJOR) and the rating on MAJOR's senior unsecured debentures at "A-" with a "stable" 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 its unique position in the advertising media segment. However, the ratings are constrained by MAJOR's susceptibility to several uncontrollable factors, such as the number of films released, film popularity, and increased competition from alternative forms of entertainment.

KEY RATING CONSIDERATIONS

Operating performance remains on a recovery path

MAJOR continued to show improvement in its operating performance in 2023. Total operating revenue climbed 23% year-on-year (y-o-y) to THB5.8 billion in the first nine months of 2023, representing approximately 70% of the pre-pandemic revenue level. This strong growth was supported by a 33% y-o-y increase in cinema attendance in tandem with the rise in film releases, as well as higher advertising and concession revenue.

Going forward, a stronger lineup of Hollywood and local movie releases is expected to fuel momentum for MAJOR's revenue recovery. We expect total revenue to rise by 30% in 2023, reaching approximately THB8.5 billion, which translates to roughly 79% of the pre-pandemic level, thanks to releases of successful Thai films in the fourth quarter of 2023. We forecast a 8%-13% revenue growth in 2024-2026, placing revenue in the range of THB9.2-THB11.5 billion per annum. This revenue trajectory indicates a full recovery to pre-Coronavirus Disease 2019 (COVID-19) levels in 2026.

MAJOR's effective cost control and flexible cost structure have contributed to decent profitability. The company's earnings before interest, taxes, depreciation and amortization (EBITDA) margin stood at around 30% in the first nine months of 2023, and we expect the margin to remain at around 30%-31% in 2023-2026.

Advertising business to rebound in line with cinema attendance

In the first nine months of 2023, MAJOR's advertising revenue climbed to approximately 60% of the pre-pandemic level, a significant improvement from around 40% in 2022. This trend aligns with the resurgence in cinema attendance. Going forward, we expect the trend to continue with advertising revenue further improving in 2024-2026. Factors contributing to this anticipated growth include increasing cinema attendance from a stronger film release slate and the gradual resumption of advertising spending across industries. We project its advertising revenue to reach around THB1.0 billion in 2023, climbing to THB1.1-THB1.5 billion per annum in 2024-2026.

We expect MAJOR's large network of theaters nationwide and high attendance numbers to continue attracting advertisers. MAJOR offers 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 remains a crucial source of cash flow for MAJOR. It generates a substantial portion of the company's bottom line while incurring minimal incremental costs. Prior to the COVID-19 pandemic, the advertising media segment contributed approximately 50% of MAJOR's total EBITDA.

Market leader in Thai cinema exhibition

MAJOR is a clear leader in the movie exhibition industry in Thailand, with an estimated 70% share of first-week gross box office receipts. Its dominant market position confers significant leverage when negotiating with film distributors, studios, and suppliers. We expect the company to retain its top position through its continued expansion plan, targeting 40-50 new screens annually, adding to its existing network of 831 screens as of September 2023.

Reliance on successful new films

MAJOR's admission revenue is significantly influenced by the quantity and quality of released films, with a particular dependence on international titles. Historically, from 2015-2019, international films contributed over 80% of MAJOR's gross box office receipts. This reliance became evident during the COVID-19 pandemic as widespread film release postponements in 2020 significantly impacted MAJOR's box office revenue, followed by a resurgence of blockbuster releases in the latter half of 2021 and in 2022, which contributed to the company's recovery. In 2023, there was a rise in the number of blockbuster film releases, although it fell short of our expectations due to delays in certain film productions and releases caused by strikes involving writers and actors. However, with the resolution of these strikes in September and November 2023, film production and promotion have resumed. Hence, we anticipate a gradual improvement in Hollywood film slates in 2024, culminating in a full recovery in 2025, which should support MAJOR's cinema performance and revenue recovery.

Recognizing the reliance on international film content, MAJOR is actively pursuing strategies to expand its movie offerings through increased Thai film productions. The company aims to double its film production from roughly 10 movies to 20 movies per year, leveraging partnerships with other media and production companies. This strategy aligns with the demographics of MAJOR's extensive network, with the majority of screens located in provincial areas where Thai films find higher audience engagement. Recent successful Thai movies like "The Undertaker" and "Tee Yod", which grossed more than THB700 million and THB400 million, respectively, demonstrate the potential of local films to boost box office performance. These positive outcomes are expected to incentivize Thai film studios to produce more films. However, the long-term success of MAJOR's film production efforts and the overall Thai film market remain to be seen as the continuous success of Thai films, coupled with sustainable and widespread audience popularity, has yet to be proven.

Threats from alternative entertainments and changing consumer behavior

Movie exhibitors face rising competition from a variety of readily available entertainment options on the internet and mobile devices. The COVID-19 pandemic further escalated this trend, as lockdowns drove increased consumer adoption of at-home media consumption through streaming platforms and social media. In response, MAJOR continuously upgrades its theaters with high-quality digital screens, immersive sound systems, and comfortable seating arrangements. 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. While the competition from diverse entertainment options remains undeniable, we believe that movie theaters will continue to offer a distinct experience not easily replicated by other forms of movie viewing, enabling it to attract a large group of moviegoers.

Financial leverage expected to decrease with recovery in EBITDA

MAJOR's financial leverage decreased in the first nine months of 2023. Adjusted debt stood at around THB8.5 billion, while financial leverage, measured by the debt to EBITDA ratio, declined to 3.7 times in the first nine months of 2023 from 4.1 times in 2022, driven by an increase in EBITDA. Going forward, we project MAJOR's capital expenditures of around THB600 million per annum while investment in film production and acquisition will total around THB300 million per annum over the next three years. In addition, MAJOR has announced a share repurchase program with a potential total purchase amount of up to THB1 billion with the program lasting between 16 October 2023 and 15 January 2024. In our base-case forecast, we expect MAJOR to repurchase the full amount of THB1 billion under the program. Consequently, adjusted debt is projected to rise to around THB9.3-THB9.5 billion in the 2023-2026 period. However, with growing EBITDA, we anticipate MAJOR's financial leverage will gradually decrease to around 3.5 times in 2024 and around 3.0 times in 2025.

We assess the company's liquidity as adequate over the next 12 months. Its sources of funds comprised cash on hand of THB600 million as of September 2023. The company also has undrawn credit facilities available from commercial banks of THB4.4 billion. Operating cash flow is projected to be around THB1.8 billion in 2024. On the other hand, the uses of funds over the next 12 months will include debt coming due of around THB750 million and expected capital expenditures and investments in movie production of THB900 million.

We expect MAJOR to 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 2023 was 0.59 times, below the ceiling of 1.5 times imposed by the covenant.

MAJOR had no priority debt as of September 2023.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for MAJOR's operations during 2023 to 2026 are as follows:

- Revenues to increase to THB8.5 billion in 2023, THB9.2 billion in 2024, THB10.4 billion in 2025, and THB11.5 billion in 2026.
- Adjusted EBITDA margin to be around 30%-31% over the forecast period.
- Capital expenditures projected to be around THB600 million per annum and investment in film acquisition and production to be around THB300 million per annum in 2024-2026.

RATING OUTLOOK

The "stable" outlook reflects our expectation that 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 ratings could be revised upward if MAJOR's operating performance and cash flow improve significantly, 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 2023, the cinema exhibition segment contributed 77% of total revenue, while the advertising media segment made up 13%. The three remaining segments contributed the remainder.

As of September 2023, MAJOR operated 180 cinemas, offering a total of 831 screens, comprising 785 cinema screens in Thailand and 46 screens abroad. The company currently has 11 branches which offer bowling and karaoke, operating 245 bowling lanes, 117 karaoke rooms, and four ice-skating rinks. MAJOR owns four stand-alone movie complexes, which offer commercial space for rent totaling 24,551 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.

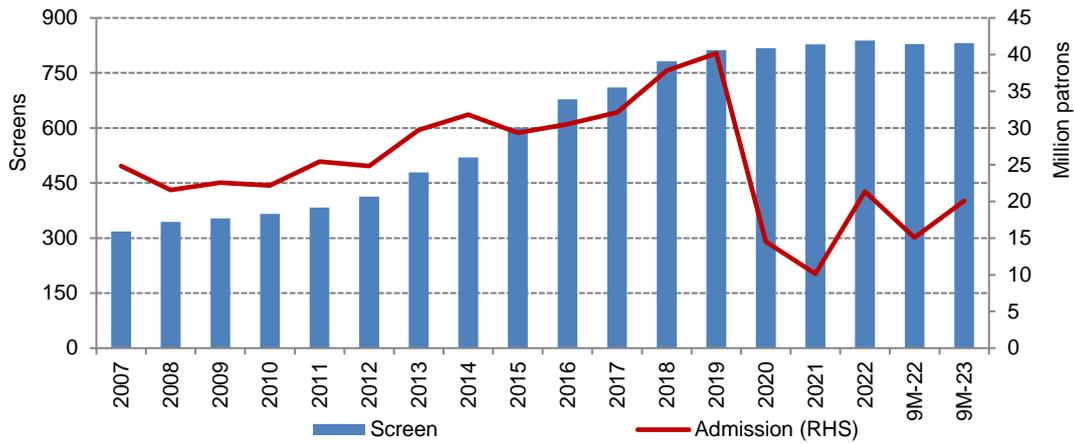
KEY OPERATING PERFORMANCE

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

Business Line	2018	2019	2020	2021	2022	Jan-Sep 2023
Cinema exhibition (including concessions)	76%	74%	66%	75%	78%	77%
Advertising media	14%	15%	15%	10%	10%	13%
Bowling & karaoke	4%	4%	5%	2%	5%	6%
Space rental and services	4%	4%	9%	9%	4%	3%
Movie content	2%	3%	5%	4%	3%	2%
Total	100%	100%	100%	100%	100%	100%

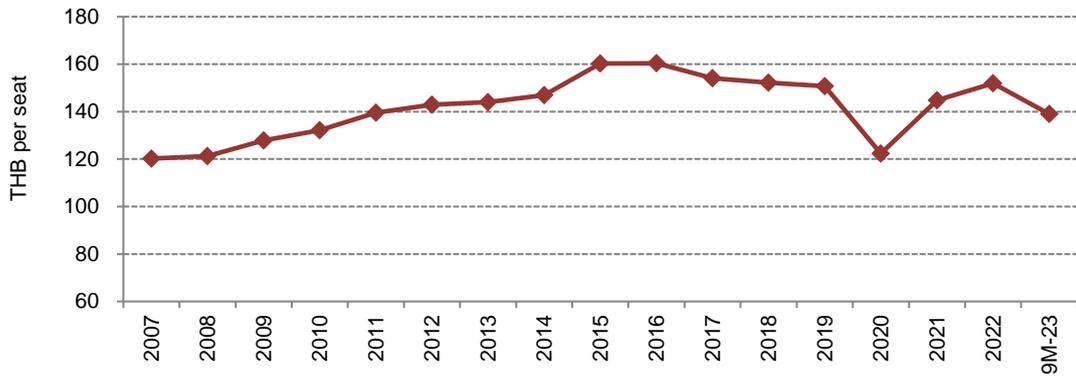
Source: MAJOR

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 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	5,754	6,553	3,340	3,920	10,815
Earnings before interest and taxes (EBIT)	725	513	(405)	55	2,450
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,707	2,049	1,006	976	3,792
Funds from operations (FFO)	1,329	1,497	(226)	456	2,830
Adjusted interest expense	379	511	570	507	673
Capital expenditures	627	608	217	316	856
Total assets	14,471	14,847	16,519	17,678	17,868
Adjusted debt	8,455	8,488	5,898	11,178	11,221
Adjusted equity	7,287	7,221	7,287	6,626	7,480
Adjusted Ratios					
EBITDA margin (%)	29.67	31.27	30.13	24.89	35.06
Pretax return on permanent capital (%)	6.01	2.96	(2.18)	0.28	12.88
EBITDA interest coverage (times)	4.51	4.01	1.76	1.92	5.64
Debt to EBITDA (times)	3.72	4.14	5.86	11.46	2.96
FFO to debt (%)	20.79	17.64	(3.83)	4.08	25.22
Debt to capitalization (%)	53.71	54.03	44.73	62.78	60.00

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

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2024, 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 www.trisrating.com/rating-information/rating-criteria