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MAJOR CINEPLEX GROUP PLC

No. 168/2017 12 December 2017

Company Rating: A

Issue Rating:
Senior unsecured A

Outlook: Stable

Company Rating History:

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

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Rating Rationale

TRIS Rating affirms the company rating and senior unsecured debenture ratings of Major Cineplex Group PLC (MAJOR) at “A”. The ratings reflect the company’s leading position in the Thai movie exhibition industry, the prime locations of its properties throughout the country, the good performance of its unique advertising media, and its capable management team. These strengths are partially offset by MAJOR’s exposure to uncontrollable factors, such as the number of films released, film popularity, the risk of increasing competition from the proliferation of entertainment alternatives, and film piracy.

MAJOR is the largest movie exhibitor in Thailand, with approximately 70% market share in terms of first-week box office sales. The company was founded in 1995 by Mr. Vicha Poolvaraluck, who currently owns 32% 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 the advertising media segments are the key revenue contributors. In the first nine months of 2017, the cinema exhibition segment comprised 74% of total revenue, while the advertising media segment made up 15%. The three remaining segments contributed the rest.

As of September 2017, MAJOR operated 121 cinemas, offering a total of 695 screens. MAJOR currently has 346 cinema screens in Bangkok and vicinity, 333 screens upcountry, and 16 screens overseas. MAJOR currently has 15 branches which offer bowling and karaoke, operating 299 bowling lanes, 169 karaoke rooms, and six ice skating rinks. MAJOR owns five stand-alone movie complexes, which offer commercial space for rent totaling 49,130 square meters (sq.m.). 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.

MAJOR’s solid business profile is partly supported by its strong relationships with film distributors and the large number of theatre screens it has nationwide. Admission revenue is driven by the number of films released as well as the quality and popularity of the films. Adding new branches is one key success factor for movie exhibitors; more branches make the movie screens more accessible to customers. However, movie exhibitors face threats from product substitution such as home entertainment, mobile Internet, and other recreational activities. However, no other form of entertainment is as yet a perfect substitute for the movie-going experience.

In 2016 and the first nine months of 2017, MAJOR’s revenue grew by 1.9% and 3.9%, respectively. The growth was supported by increases in box office revenue and concession sales, driven by a number of popular Hollywood films and the additional of new screens. In addition, the company still posted revenue growth in advertising media segment, despite the weak performance of overall advertising industry. MAJOR’s operating profit margin was maintained at a high level, staying around 29% during the past few years. The cinema exhibition segment contributed approximately 61% of MAJOR’s EBITDA (earnings before interest, tax, depreciation, and amortization), while the rest was contributed by the advertising media segment. As the advertising media business incurred minimal additional costs to theater operation, it generates a substantial contribution to the company's bottom line.

MAJOR's total debt declined from Bt5,257 million in 2016 to Bt4,979 million at the end of September 2017. The total adjusted debt to capitalization ratio stayed at approximately 65% during 2016 through the first nine months of 2017. The liquidity profile is considered satisfactory. Funds from operations (FFO) increased from Bt1,794 million in 2015 to Bt1,949 million in 2016 and stood at Bt1,575 million for the first nine months of 2017. The FFO to total debt ratio ranged between18%-19% during 2015 through the first nine months of 2017. The EBITDA interest coverage ratio was around 5.2 times during the same period. During the next 12 months, MAJOR has to repay financial obligations of Bt2,701 million, of which Bt2,115 million is short-term debt. As of 30 September 2017, the company had Bt805 million in cash on hand and Bt3,926 million in unused credit facilities from several banks, which serve as flexibility to support its financial obligations. As of September 2017, the market value of MAJOR's strategic investments totaled Bt6,444 million, derived from shareholdings in M Pictures Entertainment PLC (MPIC), Siam Future PLC (SF), Major Cineplex Lifestyle Leasehold Property Fund (MJLF), and an Indian company, PVR Ltd. The high market value of these investments acts as a cushion for MAJOR, if additional financial flexibility is needed.

During 2018-2020, TRIS Rating forecasts MAJOR's total revenue to grow at a moderate rate, supported by a satisfactory movie line-up and an ongoing plan to add more cinemas. MAJOR's operating profit margin is forecast to stay at around 30%. MAJOR plans to increase the number of cinema screen to 1,000 screens by 2020. The expansion plan calls for MAJOR to invest around Bt1,000 million per annum during the next three years. In addition, the company has budgeted approximately Bt300 million each year to produce Thai movies. MAJOR's leverage ratio is estimated to decline to around 57% in 2020. FFO is expected to exceed Bt2,000 million. The FFO to total debt ratio will be around 24% and the EBITDA interest coverage ratio will be above 5 times.

Rating Outlook

The "stable" outlook reflects the expectation that MAJOR will maintain the leading market position in the movie exhibition industry and keep satisfactory performance. A rating upgrade is unlikely over the next 12-18 months, but the rating could be upgraded if the company could substantially enlarge its operating cash flow while maintaining leverage at the current level. A rating downside may occur if the aggressive use of debt to finance investments causes a significant deterioration in the financial profile.

Major Cineplex Group PLC (MAJOR)

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

Financial Statistics and Key Financial Ratios *

Unit: Bt million

	Jan-Sep 2017	Year Ended 31 December 2016	2015	2014	2013	2012
Sales	7,114	8,745	8,580	8,623	7,711	6,965
Gross interest expense	107	144	155	173	149	133
Net income from operations	779	812	934	984	832	623
Funds from operations (FFO)	1,575	1,949	1,794	2,031	1,437	1,368
Capital expenditures	739	1,494	1,679	919	1,116	954
Total assets	14,156	14,725	14,246	13,932	13,630	11,330
Total debt	4,979	5,257	4,676	4,563	4,820	2,852
Shareholders' equity	6,402	6,637	6,581	6,331	6,103	5,874
Operating income before depreciation and amortization as % of sales**	29.9	28.9	29.2	28.7	30.8	27.9
Pretax return on permanent capital (%)	10.3 ****	9.1	10.6	11.0	10.6	9.4
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	5.3	5.2	5.3	5.5	5.2	4.3
FFO/total debt (%)**	17.5 ****	19.1	18.1	23.1	19.3	18.9
Total debt/capitalization (%)	66.0	63.6	62.2	60.6	60.9	60.4
Total debt/capitalization (%)***	43.4	43.9	41.3	41.7	44.1	32.4

* *Consolidated financial statements*
** *Excluding film amortization*
*** *Excluding capitalized annual leases*
**** *Annualized from the trailing 12 months*

Note: All are operating lease adjusted ratios.

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