

MAJOR CINEPLEX GROUP PLC

No. 1/2021
11 January 2021

CORPORATES

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

Last Review Date: 17/06/20

Company Rating History:

Date	Rating	Outlook/Alert
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 ratings on MAJOR's senior unsecured debentures at "A" with a "negative" outlook. The "negative" outlook reflects the uncertainty and severity of impact from the Coronavirus Disease 2019 (COVID-19) outbreak on MAJOR's operating performance and potential further delays on the release schedules of blockbuster films from major film studios.

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. These strengths are partially offset by exposure to several uncontrollable factors, such as the number of films released, film popularity, and increased competition from the proliferation of entertainment alternatives.

KEY RATING CONSIDERATIONS

Severe impacts from COVID-19 in 2020 but expected to recover strongly in 2021

We expect MAJOR's performance will recover in the next couple of years after being heavily affected by the COVID-19 pandemic in 2020. In the first nine months of 2020, MAJOR's revenue declined by 68% year-on-year (y-o-y) due to the fallout from the outbreak. The company had to close all its cinemas for two months and reduce its capacity when its cinemas reopened in an attempt to contain the spread of the virus. The Hollywood film studios also delayed most blockbuster films from 2020 to 2021. Meanwhile, cinema attendance numbers resumed quite slowly as consumers continued to be concerned over risks of contracting COVID-19 in theaters.

After the virus was largely contained domestically, cinema attendance in the country strongly recovered in the last quarter of 2020, as evidenced by the two Thai movies that generated box office revenues of over THB100 million. We expect there will be more blockbuster films launched in 2021 resulting from the delay of originally scheduled launches in 2020 together with the originally scheduled releases for 2021. Hollywood film studios began launching blockbuster films again in December 2020. In addition, Thai film producers also plan to launch more movies in 2021. In our base-case forecast, we project MAJOR's revenue to increase y-o-y by approximately 75% in 2021 and 30% in 2022, compared with a decline by around 60% y-o-y in 2020. We also believe that the government should be able to contain the new outbreak that started in late December and will unlikely resort to nationwide lockdowns to avoid the repeat of consequential impacts on the economy.

Even though its key cost structure comprises variable cost components such as revenue shared to film studios, concession costs, and some rental fees, the company has implemented many cost-saving measures to alleviate the impact from the COVID-19. MAJOR has tightened cost control, especially selling and administrative expenses and negotiated the reduction in fixed rents with some landlords. We project its earnings before interest, taxes, depreciation, and amortization (EBITDA) margin will improve to around 30% in 2021 and 2022, compared with around 21% in 2020.

Reliance on the number and popularity of new films

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. However, the impact from the COVID-19 has induced the major Hollywood film studios to postpone most of their blockbuster films from 2020 to 2021. As a result, the contribution of foreign films is expected to decline to around 60% in 2020. We believe there will be more blockbuster films released in 2021 due to the postponement of scheduled launches in 2020 and the original film release schedule for 2021. However, the Hollywood film release schedule could change depending on the global pandemic situation, the availability of vaccine, and the success of the films released during the pandemic.

Some major film studios schedule the releases of their movies in the theaters at the same time as premium video on-demand channels. They also plan to reduce the time between the movie release in the theater and its availability through other channels such as premium video on-demand or streaming. We believe the impact from this potentially shortened release window will be limited for MAJOR since premium video on-demand services are not popular with Thai viewers. We still believe 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.

To reduce the reliance upon foreign films and boost its revenue, the company plans to produce more Thai films, from around 10 movies per year to 20 movies in 2021. Its strategy is to join with other partners to produce and release Thai movies. This is because over 50% of MAJOR's screens are located provincially, and most patrons outside of the Bangkok metropolitan area prefer Thai movies. More Thai film releases will boost admission revenues at provincial locations and reduce reliance on content from Hollywood. Moreover, Thai films can be programmed during times when there are fewer new Hollywood blockbuster releases. 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.

Advertising revenue dropped but expected to recover

MAJOR's advertising sales declined by 65% y-o-y in the first nine months of 2020 as its clients cut advertising spending during the pandemic together with the substantial drop in attendance. However, we expect MAJOR's advertising revenue to recover in 2021 and 2022 in tandem with the release of more blockbuster films and the resumption of advertising following the containment of the outbreak. We expect revenue from the advertising segment to be around THB600 million in 2020, increasing to around THB1.0-THB1.2 billion during 2021-2022.

Advertisers are attracted to MAJOR because of its large number of theaters spreading nationwide and the largest number of movie goers it has attracted. 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 venues to organize marketing events.

The advertising media segment continues to be a significant source of MAJOR's cash flow. While 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 of the advertising media segment accounted for around 50% of total EBITDA.

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. We expect the company to retain its leading position as it continues to aggressively expand through new cinemas. MAJOR plans to increase the number of cinema screens to 1,200 by 2025, compared with 817 screens as of September 2020. Most of the new screens will be located in the provinces.

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.

Threats from entertainment alternatives

Movie exhibitors face threats from many other forms of entertainment. 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 has also introduced 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. We believe 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.

Weakening leverage but expected to improve

We expect MAJOR's leverage to weaken in 2020, then improve in 2021 and 2022. In 2020, the adjusted debt to EBITDA ratio is expected to weaken to around 13.5 times as the impact of COVID-19 has led to a drastic drop in EBITDA in 2020. However, during the next two years, we project the adjusted debt to EBITDA ratio to improve to around 3-4 times in tandem with the expected recovery of its operating performance. Over the next three years, capital expenditures are projected to range from THB300 million to THB500 million per annum.

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 THB1.45 billion and undrawn uncommitted credit facilities of THB3.6 billion as of September 2020. Funds from operations (FFO) before operating lease adjustment over the next 12 months are projected to be around THB1.5 billion. On the other hand, during the next 12 months, MAJOR will have to repay financial obligations of THB2.4 billion, of which THB1.7 billion is short-term debt. In addition, over the next 12 months, planned capital expenditures will be around THB350 million and MAJOR plans to spend THB150 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 2020, the market value of the strategic investments totaled THB5.2 billion. The high market value serves as a cushion for MAJOR, should it need additional financial flexibility.

We believe MAJOR will be able to comply with its debenture covenants over the next 12 to 18 months. The debt to equity ratio at the end of September 2020 was 1.32 times, below the ceiling of 1.5 times imposed by the debenture covenant.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for MAJOR's operation during 2020 to 2022 are as follows:

- Revenues to decline to THB3.8 billion, then increase to THB6.8 billion in 2021 and THB8.8 billion in 2022.
- Adjusted EBITDA margin to weaken to 21% in 2020, then improve to around 30% in 2021 and 2022.
- Capital expenditures to total around THB1 billion over the three-year forecast period.
- The adjusted debt to EBITDA ratio to rise to 13.5 times in 2020, then improve to 3-4 times in 2021 to 2022.

RATING OUTLOOK

The "negative" outlook reflects the uncertainty and severity of impact from the COVID-19 outbreak on MAJOR's operating performance and the potential further delay in the releases of blockbuster films.

RATING SENSITIVITIES

A rating downside may occur if we no longer believe a significant recovery in 2021 can be reasonably expected, or the impact from the virus outbreak or structural change in release window has resulted in a significant change in consumer behavior in a way that affects its operating performance materially. On the other hand, the outlook could be revised to "stable" if the company is able to quickly revive its operating performance, leading us to expect its adjusted net debt to EBITDA ratio to fall below 3.5 times soon.

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 2020, the cinema exhibition segment contributed 64% of total revenue, while the advertising media segment made up 17%. The three remaining segments contributed the remainder.

As of September 2020, MAJOR operated 173 cinemas, offering a total of 817 screens. MAJOR has 778 cinema screens in Thailand and 39 screens abroad. MAJOR currently has 11 branches which offer bowling and karaoke, operating 245 bowling lanes, 136 karaoke rooms, and four ice skating rinks. MAJOR owns five stand-alone movie complexes, which offer commercial space for rent totaling 47,953 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.

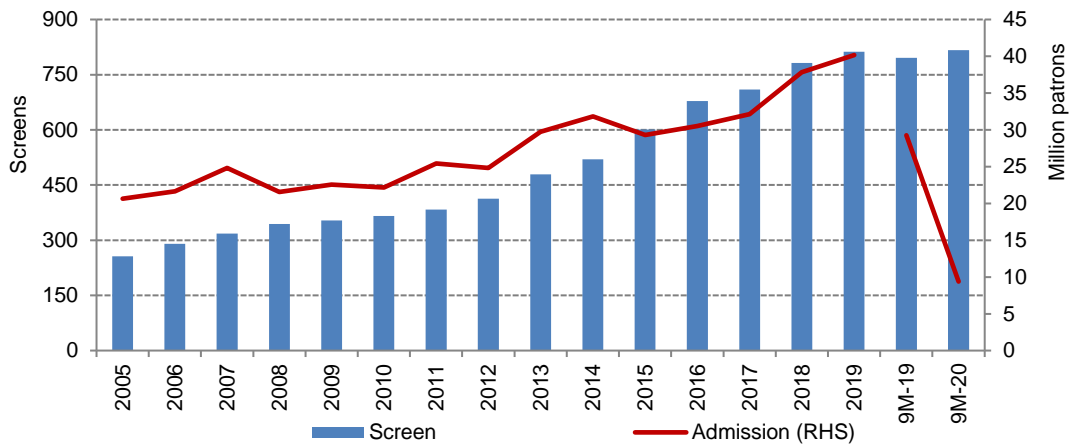
KEY OPERATING PERFORMANCE

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

Business Line	2015	2016	2017	2018	2019	Jan-Sep 2020
Cinema exhibition (including concessions)	69%	72%	73%	76%	74%	64%
Advertising media	14%	15%	15%	14%	15%	17%
Bowling & karaoke	5%	5%	5%	4%	4%	5%
Space rental and services	6%	5%	5%	4%	4%	10%
Movie content	5%	3%	2%	2%	3%	4%
Total	100%	100%	100%	100%	100%	100%

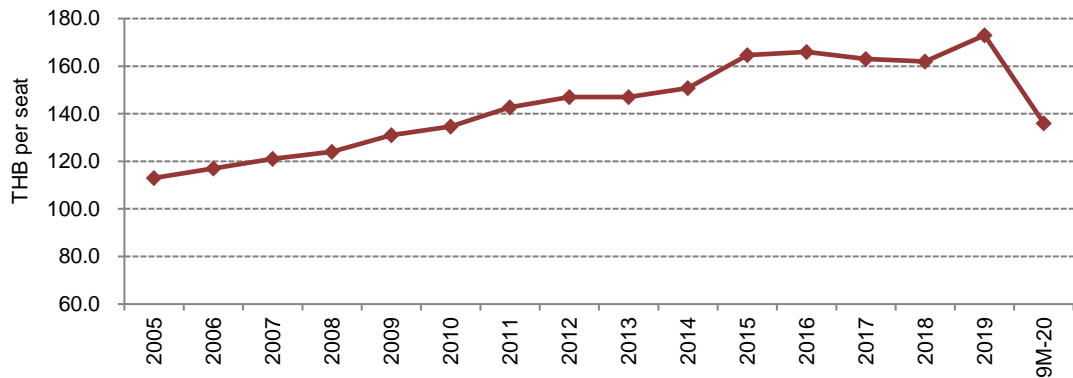
Source: MAJOR

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 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	2,557	10,815	10,066	9,114	8,870
Earnings before interest and taxes (EBIT)	(513)	2,067	1,875	1,552	1,598
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	408	3,449	3,445	2,869	2,663
Funds from operations (FFO)	54	2,546	2,537	1,969	1,850
Adjusted interest expense	359	624	634	622	576
Capital expenditures	235	856	1,018	1,062	1,494
Total assets	17,268	14,006	14,074	13,808	14,725
Adjusted debt	11,438	10,833	11,156	11,863	11,237
Adjusted equity	6,326	6,607	6,632	6,499	6,718
Adjusted Ratios					
EBITDA margin (%)	15.94	31.89	34.22	31.48	30.02
Pretax return on permanent capital (%)	(1.56)	11.24	10.05	8.29	8.85
EBITDA interest coverage (times)	1.13	5.52	5.43	4.62	4.62
Debt to EBITDA (times)	11.53	3.14	3.24	4.13	4.22
FFO to debt (%)	4.71	23.50	22.74	16.60	16.46
Debt to capitalization (%)	64.39	62.12	62.71	64.61	62.59

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:	
MAJOR210A: THB500 million senior unsecured debentures due 2021	A
MAJOR229A: THB1,000 million senior unsecured debentures due 2022	A
Rating Outlook:	Negative

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