TRIS RATING
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MAJOR CINEPLEX GROUP PLC

No. 195/2018
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CORPORATES

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

Last Review Date: 12/12/17

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". 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 some 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 screen to 1,000 by 2020, compared with 748 screens as of September of 2018. Most of the new screens will be located in the upcountry.

MAJOR has cinemas in 38 provinces in Thailand, plus Cambodia and the Lao People's Democratic Republic (Lao PDR). MAJOR typically locates its theaters in good locations in densely populated urban areas, such as adjacent to department stores and hypermarkets.

Reliance on the number of films released and film popularity

Admission revenue is driven by 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 gross box office receipts. 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 will play a key role in the growth of the company. Half of MAJOR's screens are located in the upcountry, and most patrons outside of the Bangkok metropolitan area prefer Thai movies. MAJOR has joined with many partners to produce and release at least 10 Thai movies per year. More releases of Thai films 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 forecasts revenues from Thai films and international films will 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. However, no other form of entertainment is as yet a perfect substitute for the movie-going experience. TRIS Rating believes that despite the proliferation of other forms of entertainment, the habits of moviegoers will not change greatly.

Advertising media segment is a key cash flow contributor

The advertising media segment will continue to be a significant source of cash flow. As the advertising media business incurs minimal additional costs to theater operations, it generates 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 advertising revenue could grow by around 5% per annum during 2019-2021.

Leverage improving

We project MAJOR’s leverage will decline in the next few years. In the first nine months of 2018, the debt to EBITDA ratio stayed at 3.5 times. Over next three years, capital expenditures will fall to around Bt600 million per annum because the investment cost per screen will fall. As a result, the debt to EBITDA ratio will gradually improve to around 2 times in 2021.

Satisfactory liquidity profile

Liquidity is satisfactory. Its source of funds comprises cash on hand of Bt603 million and undrawn uncommitted credit facilities of Bt3,886 million as of September 2018. Funds from operations over the next 12 months will be around Bt2,000 million. On the other hand, during the next 12 months, MAJOR has to repay financial obligations of Bt2,734 million, of which Bt2,024 million is short-term debt. In addition, over the next 12 months, planned capital expenditures will be around Bt600 million and MAJOR plans to spend Bt150 million to produce movies.

MAJOR has a number of strategic investments, such as in ownership stakes in M Pictures Entertainment PLC (MPIC), Siam Future PLC (SF), and Major Cineplex Lifestyle Leasehold Property Fund (MJLF). As of September 2018, the market value of the strategic investments totaled Bt7,473 million. 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 2018 was 1.2 times, below the maximum of 1.5 times specified in the debenture covenant.

RATING OUTLOOK

The “stable” outlook reflects the expectation that MAJOR will maintain its leading market position in the movie exhibition industry and its operating results will remain satisfactory. In TRIS’s base case scenario, we assume revenues will grow by around 5% per annum during 2019-2021. The operating margins will stay above 30%. The leverage ratio will improve to around 50% in 2021. Funds from operations (FFO) is expected to exceed Bt2,000 million. The FFO to total debt ratio will stay over 25% and the EBITDA interest coverage ratio will be above 5 times.

RATING SENSITIVITIES

The rating could be upgraded if the company could substantially enlarge operating cash flow and leverage declines as projected. 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 approximately 70% market share in terms of first-week box office receipts. 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 2018, the cinema exhibition segment comprised 75% of total revenue, while the advertising media segment made up 14%. The three remaining segments contributed the rest.

As of September 2018, MAJOR operated 149 cinemas, offering a total of 748 screens. MAJOR has 338 cinema screens in Bangkok and vicinity, 377 screens upcountry, and 33 screens abroad. MAJOR currently has 13 branches which offer bowling and karaoke, operating 253 bowling lanes, 153 karaoke rooms, and six ice skating rinks. MAJOR owns five stand-alone movie complexes, which offer commercial space for rent totaling 48,735 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.

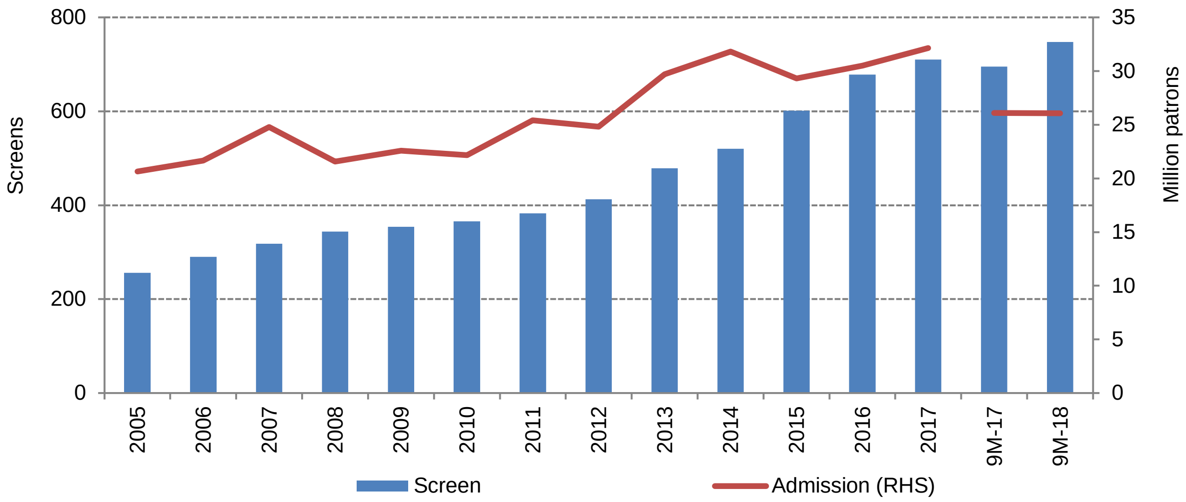
KEY OPERATING PERFORMANCE

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

Business Line	2013	2014	2015	2016	2017	Jan-Sep 2018
Cinema exhibition (including concessions)	68%	67%	69%	72%	73%	75%
Advertising media	14%	13%	14%	15%	16%	14%
Bowling & karaoke	6%	6%	5%	5%	5%	5%
Space rental and services	6%	6%	6%	5%	5%	5%
Movie content	6%	8%	5%	3%	2%	2%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

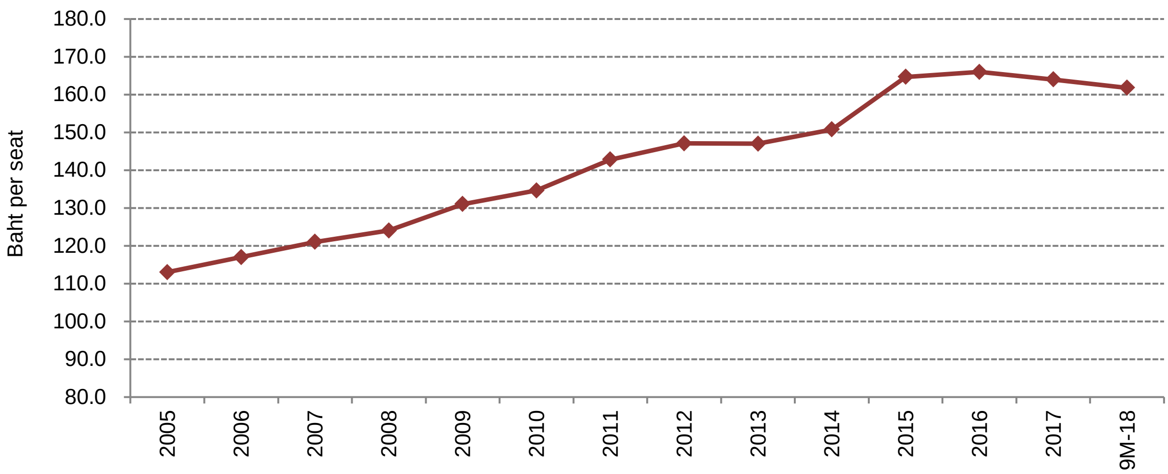
Source: MAJOR

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: Bt million

		----------------Year Ended 31 December -----------			
	Jan-Sep 2018	2017	2016	2015	2014
Total operating revenues	7,093	9,114	8,870	8,684	8,715
Operating income	2,499	2,867	2,848	2,807	2,670
Earnings before interest and taxes (EBIT)	1,385	1,577	1,694	1,892	1,854
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,709	3,132	3,089	2,987	2,822
Funds from operations (FFO)	2,065	2,206	2,179	2,031	1,921
Adjusted interest expense	458	647	673	655	631
Capital expenditures	829	1,062	1,494	1,679	919
Total assets	13,850	13,808	14,725	14,246	13,932
Adjusted debt	11,096	11,663	12,174	12,056	10,616
Adjusted equity	6,372	6,499	6,718	6,648	6,387
Adjusted Ratios					
Operating income as % of total operating revenues (%)	35.23	31.46	32.11	32.32	30.63
Pretax return on permanent capital (%)	8.15	8.26	8.81	10.34	11.23
EBITDA interest coverage (times)	5.92	4.84	4.59	4.56	4.48
Debt to EBITDA (times)	3.47	3.72	3.94	4.04	3.76
FFO to debt (%)	21.14	18.91	17.90	16.85	18.09
Debt to capitalization (%)	63.52	64.22	64.44	64.46	62.44

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

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

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