MAJOR CINEPLEX GROUP PLC

No. 64/2017 18 September 2017

Company Rating: A

Issue Ratings:
Senior unsecured A

Outlook: Stable

Company Rating History:

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

Contacts:

Pramuansap Phonprasert
pramuansap@trisrating.com

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Ruangwud Jarurungsipong
ruangwud@trisrating.com

Thiti Karoonyanont, Ph. D., CFA
thiti@trisrating.com

WWW.TRISRATING.COM

Rating Rationale

TRIS Rating affirms the company and senior unsecured debenture ratings of Major Cineplex Group PLC (MAJOR) at "A". At the same time, TRIS Rating assigns the rating of "A" to MAJOR's proposed issue of up to Bt500 million in senior unsecured debentures. The proceeds from the new debentures will be used to repay some debts and reserve for investment. 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 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 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 half of 2017, the cinema exhibition segment comprised 76% of total revenue, while the advertising media segment made up 14%. The three remaining segments each contributed around 2%-5% of total revenue.

As of June 2017, MAJOR operated 116 cinemas, offering a total of 689 screens. MAJOR currently has 348 cinema screens in Bangkok and vicinity, 325 screens upcountry, and 16 screens overseas. MAJOR currently has 16 branches which offer bowling and karaoke, operating 300 bowling lanes, 174 karaoke rooms, and five ice skating rinks. MAJOR owns five stand-alone movie complexes, which offer commercial space for rent totaling 50,360 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 theater 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 of key growth drivers for movie exhibitors because more branches make the movie screens more accessible to customers. However, movie exhibitors face threats from product substitution, for example, 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.

MAJOR's revenue increased by 2% in 2016 and 4% in the first half of 2017. The growth was supported by increases in box office revenue and concession sales, driven by a number of popular Hollywood films plus the additional of new screens. The ratio of operating income before depreciation and amortization to sales improved from 30.4% in 2016 to 33.1% in the first half of 2017. The cinema exhibition segment contributed approximately 62% of MAJOR's EBITDA (earnings before interest, tax, depreciation, and amortization), while the rest came from the advertising media segment. As the advertising media business incurred minimal additional costs as compared to theater operations, it generates a substantial contribution to the company's cash flow.

MAJOR's total debt dropped from Bt5,257 million in 2016 to Bt4,542 million at the end of June 2017 following its debt repayment. The total adjusted debt to capitalization ratio decreased from 61.7% in 2016 to 58.6% for the first half of 2017. The liquidity profile is considered satisfactory. Funds from operations (FFO) was Bt1,949 million in 2016 and stood at Bt1,249 million for the first half of 2017. The FFO to total debt ratio increased from 21.3% in 2016 to 24.7% (annualized, from the trailing 12 months) as of June 2017. The EBITDA interest coverage ratio improved, rising from 4.6 times in 2016 to 6.0 times in the first half of 2017. During the next 12 months, MAJOR has to repay financial obligations of Bt3,097 million, of which Bt1,591 million is short-term debt and Bt1,506 million is maturing long-term debt. As of 30 June 2017, the company had Bt671 million in cash on hand and Bt5,361 million in unused credit facilities from several banks which serve as flexibility to support its financial obligations. As of June 2017, the market value of MAJOR's strategic investments was Bt6,445 million, derived from shareholdings in M Pictures Entertainment PLC (MPIC), Siam Future PLC (SF), and Major Cineplex Lifestyle Leasehold Property Fund (MJLF). The high market value of these investments acts as a cushion for MAJOR, if additional financial flexibility is needed.

TRIS Rating forecasts MAJOR's total revenue to grow at a solid rate during 2017-2019, supported by a strong 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 Bt1,100-Bt1,200 million per annum during 2017-2019. The company has budgeted approximately Bt400 million each year to produce Thai movies and acquire international film rights. Hence, MAJOR's leverage ratio will rise to around 60% during the next three years. FFO is expected to exceed Bt2,000 million. The FFO to total debt ratio will be around 22% and the EBITDA interest coverage ratio will stay around 4.5 times.

Rating Outlook

The "stable" outlook reflects the expectation that MAJOR will maintain the leading market position in the movie exhibition industry and sustain a 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 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
Up to Bt500 million senior unsecured debentures due within 4 years	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios *

Unit: Bt million

	Jan-Jun 2017	------------------------ Year Ended 31 December --------------------				
		2016	2015	2014	2013	2012
Sales	4,913	8,745	8,580	8,623	7,711	6,965
Gross interest expense	74	144	155	173	149	133
Net income from operations	689	812	934	984	832	623
Funds from operations (FFO)	1,249	1,949	1,794	2,031	1,437	1,368
Capital expenditures	505	1,494	1,679	919	1,116	954
Total assets	14,349	14,725	14,246	13,932	13,630	11,330
Total debt	4,542	5,257	4,676	4,563	4,820	2,852
Shareholders' equity	6,810	6,637	6,581	6,331	6,103	5,874
Operating income before depreciation and amortization as % of sales**	33.1	30.4	31.0	28.9	27.6	24.6
Pretax return on permanent capital (%)	12.1 ****	10.1	11.6	11.9	11.7	10.8
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	6.0	4.6	4.5	4.3	4.0	4.0
FFO/total debt (%)**	24.7 ****	21.3	19.8	22.2	15.1	20.4
Total debt/capitalization (%)	58.6	61.7	61.0	60.7	62.7	55.8
Total debt/capitalization (%)***	39.7	43.9	41.3	41.7	44.1	32.4

Note: All are operating lease adjusted ratios
* *Consolidated financial statements*
** *Excluding film amortization*
*** *Excluding capitalized annual leases*
**** *Annualized from the trailing 12 months*

TRIS Rating Co., Ltd.
Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com