TRIS RATING
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MAJOR CINEPLEX GROUP PLC

No. 1/2022
4 January 2022

CORPORATES

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

Last Review Date: 27/01/21

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 downgrades the company rating on Major Cineplex Group PLC (MAJOR) and the ratings on MAJOR's senior unsecured debentures to "A-" from "A" and revises the rating outlook to "stable" from "negative". The downgrade reflects a slower-than-expected recovery in MAJOR's operating performance due to the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, which has put downward pressure on its credit metrics beyond the thresholds commensurate with the previous ratings. We expect MAJOR's operating results to gradually improve with the reopening of the company's cinemas on 1 October 2021, after a five-month mandatory closure. However, the recovery of operating performance is being challenged once again by the emergence of the Omicron variant. The outlook revision takes into consideration MAJOR's significantly lower debt level following disposal of its investment in Siam Future Development PLC (SF), and its strong liquidity, which should enable the company to withstand the stress in earnings over the next few quarters.

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 susceptibility 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

Operating results continue to be hindered by COVID-19 but revival expected

MAJOR's performance continues to be impacted by successive waves of COVID-19 outbreaks. Its operating performance recovered more slowly than we previously projected due to the severity of the latest COVID-19 outbreak and the slow pace of vaccinations across the country. Even though the Hollywood film studios started to release more blockbuster films in the second quarter of 2021, MAJOR's revenue declined further by 33% year-on-year (y-o-y) in the first nine months of 2021 due to the severe outbreak of the Delta variant. During the second and third quarters of 2021, the company had to close most of its cinemas for more than five months after the government implemented strict lockdown measures to contain the outbreak. The company has also had to reduce its capacity following the reopening of cinemas to comply with social distancing requirements.

We expect MAJOR's operating results to gradually revive over the next couple of years. Its cinemas resumed operations on 1 October 2021 after the government adopted policies of returning to normalcy and living with COVID-19, and began gradual easing of lockdown measures following an improvement in the COVID-19 situation. Cinema audiences in the country gradually recovered in the last quarter of 2021, with at least three movies generating box office revenues of over THB100 million each. We expect more blockbuster films to be launched in 2022 if the Hollywood film studios maintain their release schedules. Thai film producers also plan to launch more movies in 2022. In our base-case forecast, we project MAJOR's revenue to increase by approximately 130% y-o-y in 2022 and 35% in 2023, as opposed to a decline of around 30% y-o-y in 2021.

However, the revival of MAJOR's performance is once again under threat with the emergence of the Omicron variant. Even though we do not expect the government to impose strict lockdown measures again, a severe outbreak could dampen the appetite of moviegoers due to health concerns.

MAJOR has tightened cost control, especially selling and administrative expenses. The company also received waivers from its landlords on rent expenses during the outbreak. However, earnings before interest, taxes, depreciation, and amortization (EBITDA) margin will likely drop to around 24% in 2021 due to the substantial decline in the company's revenue. We project its EBITDA margin to improve to the 30%-35% range in 2022 and 2023 in tandem with its revenue recovery.

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 for international films. During 2015-2019, international films accounted for over 80% of MAJOR's gross box office receipts. The global pandemic forced major Hollywood film studios to postpone most of their blockbuster films in 2020, impeding MAJOR's ability to generate income even though the outbreak in Thailand was by then well contained. Some major Hollywood film studios started to release blockbuster films in the second quarter of 2021 following an improving COVID-19 situation in the United States, with more films scheduled for release in 2022. However, the Hollywood film release schedule could change depending on the global pandemic situation, especially in the United States.

To leverage film revenue in the pandemic era, some major film studios schedule theater releases of new movies at the same time as premium video on-demand (PVOD) channels. Some film studios shortened the time between movie releases in theaters and their availability through other channels, such as premium video on-demand or streaming. The success in revenues from other channels could increase the appetite of film studios to maintain a shorter release window. However, we believe the impact from this potentially shortened release window will be limited for MAJOR since premium video on-demand services are not popular among Thai viewers. The shorter release window may also lead to online piracy issues. We still believe maintaining an appropriate release window is the best way for a film studio to maximize overall income after the global pandemic becomes largely contained, in view of the large investment required to produce a movie.

To reduce its reliance on international films and to boost revenues, the company plans to produce more Thai films, from around 10 movies per year to 20 movies in 2022. The company's strategy is to join with other partners on production of Thai movies. The strategy is based on the fact that the majority of MAJOR's screens are located in provincial areas where most patrons prefer Thai movies. More Thai film releases will boost admission revenues from provincial theaters and reduce the reliance on content from Hollywood. Moreover, Thai films can be programmed during times when there are fewer 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 declines but recovery anticipated

MAJOR's advertising sales declined by 62% y-o-y in the first nine months of 2021 due mainly to the closure of cinemas and lower advertising spending during the pandemic. However, we expect MAJOR's advertising revenue to recover in 2022 and 2023 in tandem with the reopening of its cinemas, more blockbuster film releases, and the resumption of advertising spending. We expect revenue from the advertising to be around THB250 million in 2021, increasing to around THB700 million in 2022 and THB1 billion in 2023.

Advertisers are attracted to MAJOR because of the large number of theaters it operates nationwide and the high number of moviegoers it attracts. MAJOR can offer advertisers a variety of media platforms, such as movie screens, video walls, and plasma screens, in and around theater areas. Advertisers can also use MAJOR's theaters as part of their advertising campaigns or as venues to organize marketing events.

The advertising media business continues to be a significant source of cash flow for the company. While the advertising media business incurs minimal additional costs to theater operations, it makes a substantial contribution to the company's bottom line. Prior to the COVID-19 outbreak, EBITDA of the advertising media business accounted for around 50% of total EBITDA.

Leading position in Thai movie exhibition industry

MAJOR is the largest movie exhibitor in Thailand, with an estimated market of 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 816 screens as of September 2021. 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). The company 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 disruption from many other forms of entertainment. For example, the widely available 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 to enhance competitiveness, differentiate itself from in-home viewing, and improve the quality of movie-going experience. We believe movie theaters will continue to offer unique experience unmatched by other forms of movie viewing, enabling it to attract a large group of moviegoers despite the proliferation of other forms of entertainment.

Leverage improving

We expect MAJOR's leverage to improve in 2022 and 2023. In the first nine months of 2021, the company's adjusted debt declined to THB5.4 billion, compared with THB11.4 billion in 2020. The drop was supported by the large amount of cash gained from the disposal of an investment. The company divested all its shares in SF to Central Pattana PLC (CPN), worth THB7.8 billion. However, the adjusted debt to EBITDA ratio is expected to worsen to around 9 times in 2021 as a result of the weakening operating performance. During the next two years, we project the adjusted debt to EBITDA ratio to improve to the range of 2-3 times based on the expected recovery in operating results. Over the next three years, capital expenditures are projected to be approximately THB600 million per annum. We also project additional investments totaling THB2.5 billion during 2022-2024.

Strong liquidity profile

We assess the company to have strong liquidity over the next 12 months. Its sources of funds comprised cash on hand of THB2.28 billion and short-term investments worth THB4.4 billion as of September 2021. The company also has undrawn credit facilities available from commercial banks of THB5 billion. Funds from operations (FFO) before operating lease adjustment over the next 12 months are projected to be around THB1 billion. On the other hand, during the next 12 months, uses of funds will include repayment of financial obligations totaling THB2.8 billion, of which THB35 million is short-term debt, planned capital expenditures of around THB660 million and THB100 million for movie production.

We expect MAJOR will be able to comply with the covenants on its debentures over the next 12 to 18 months. The debt to equity ratio at the end of September 2021 was 0.85 times, below the ceiling of 1.5 times imposed by the covenants.

As of September 2021, MAJOR's total interest-bearing debt of THB3.5 billion included THB35 million in priority debt. This priority debt was secured debt at the subsidiaries level. The priority debt ratio was 1%, a very low level that suggests an insignificant amount of priority debt.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for MAJOR's operations during 2021 to 2023 are as follows:

- Revenues to decline to THB2.7 billion in 2021, then increase to THB6.4 billion in 2022 and THB8.7 billion in 2023.
- Adjusted EBITDA margin to be around 24% in 2021, then improve to the 30%-35% range in 2022 and 2023.
- Capital expenditures to total around THB1.5 billion over the three-year forecast period.
- Adjusted debt to EBITDA ratio to rise to 9 times in 2021, then improve to 2-3 times in 2022 to 2023.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that MAJOR's operating results will gradually recover from 2022 onwards, possibly with some hiccups along the way, and that the company will manage its liquidity prudently.

RATING SENSITIVITIES

A rating downside may occur if the company depletes its liquidity quicker than expected, or if we see structural changes in the movie release window or consumer behavior that could fundamentally impair its long-term profitability. On the other hand, the rating or outlook could be revised upward once there are clear signs of revival in the company's operating performance close to the pre-COVID level, with its adjusted net debt to EBITDA ratio stays 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 2021, the cinema exhibition segment contributed 69% of total revenue, while the advertising media segment made up 10%. The three remaining segments contributed the remainder.

As of September 2021, MAJOR operated 173 cinemas, offering a total of 816 screens. MAJOR has 777 cinema screens in Thailand and 39 screens abroad. The company currently has 11 branches which offer bowling and karaoke, operating 245 bowling lanes, 127 karaoke rooms, and four ice-skating rinks. MAJOR owns five stand-alone movie complexes, which offer commercial space for rent totaling 47,934 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.

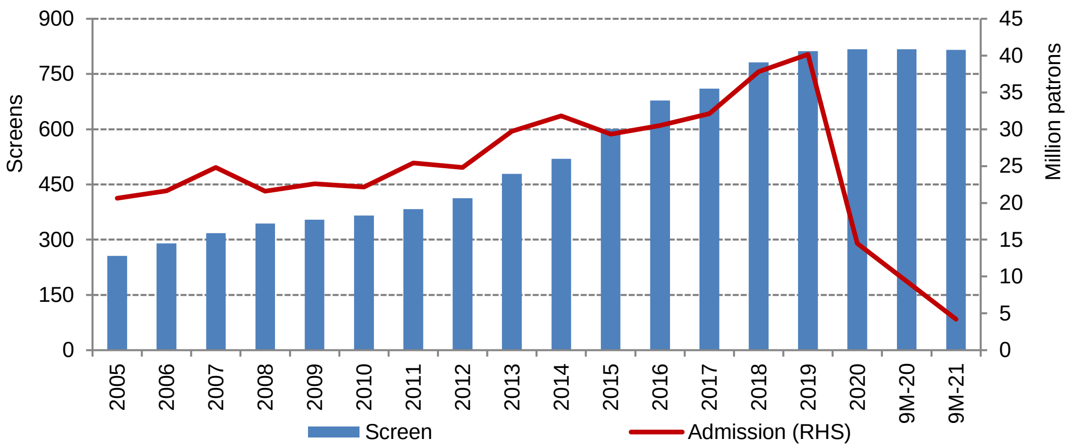
KEY OPERATING PERFORMANCE

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

Business Line	2016	2017	2018	2019	2020	Jan-Sep 2021
Cinema exhibition (including concessions)	72%	73%	76%	74%	66%	69%
Advertising media	15%	15%	14%	15%	15%	10%
Bowling & karaoke	5%	5%	4%	4%	5%	3%
Space rental and services	5%	5%	4%	4%	9%	15%
Movie content	3%	2%	2%	3%	5%	3%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

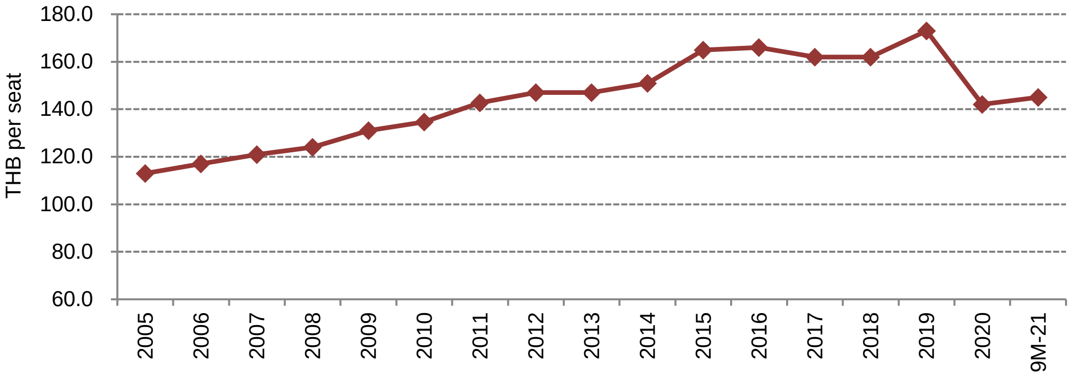
Source: MAJOR

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

		----------------Year Ended 31 December ----------			
	Jan-Sep 2021	2020	2019	2018	2017
Total operating revenues	1,709	3,923	10,815	10,066	9,114
Earnings before interest and taxes (EBIT)	(924)	(127)	2,450	1,875	1,552
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	56	793	3,792	3,445	2,869
Funds from operations (FFO)	(744)	379	2,764	2,537	1,969
Adjusted interest expense	438	507	673	634	622
Capital expenditures	124	316	856	1,018	1,062
Total assets	17,835	17,678	17,868	14,074	13,808
Adjusted debt	5,436	11,178	11,221	11,156	11,863
Adjusted equity	8,105	6,626	7,480	6,632	6,499
Adjusted Ratios					
EBITDA margin (%)	3.30	20.21	35.06	34.22	31.48
Pretax return on permanent capital (%)	(2.93)	(0.65)	12.88	10.05	8.29
EBITDA interest coverage (times)	0.13	1.56	5.64	5.43	4.62
Debt to EBITDA (times)	13.00	14.10	2.96	3.24	4.13
FFO to debt (%)	(8.15)	3.39	24.64	22.74	16.60
Debt to capitalization (%)	40.14	62.78	60.00	62.71	64.61

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Company Rating:	A-
Issue Ratings:	
MAJOR222A: THB500 million senior unsecured debentures due 2022	A-
MAJOR229A: THB1,000 million senior unsecured debentures due 2022	A-
Rating Outlook:	Stable

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