

Major Cineplex Group - MAJOR

2QCY13 net profit seen up 63.85% y-y

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Phillip Securities Research Pte Ltd
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Company Overview

MAJOR is Thailand's biggest cinema chain operator by market share at 80%. Its other related businesses include F&B, bowling, retail space, advertising media and film distribution operated by its subsidiaries.

- We expect MAJOR to report stellar earnings growth of 63.85% y-y in 2QCY13 thanks to a strong lineup of several blockbuster movies released during the period.
- Our forecast suggests MAJOR will pay an interim dividend of Bt0.50/share for 1HCY13 operations.
- MAJOR is currently making a tender offer for all remaining shares in MPIC and M Channel is also keen to bid for digital TV licenses for variety channels.
- Due to the likely absence of impairment charges, 2HCY13 earnings are expected to be better than 2HCY12.
- We raise our CY13 net profit outlook for MAJOR to Bt1,108mn. We also upgrade MAJOR shares to 'BUY' with an upwardly revised target price of Bt25/share.

What is the news?

Thanks to a strong lineup of several blockbuster movies released in 2QCY13, especially (i) Thai blockbuster Pee Mak Phra Khanong, a comedic version of the renowned Thai ghost which took in around Bt460mn in box office revenue, (ii) superhero sequel 'Iron Man 3' which pulled in Bt258mn, (iii) Fast & Furious 6 which brought in Bt213mn and (iv) Superman in Man of Steel sequel, which raked in Bt127mn, box office takings for top ten grossers in each month of 2QCY13 surged 53.56% y-y.

How do we view this?

We forecast MAJOR will report 2QCY13 total revenue growth of 37% y-y to Bt2,457mn based on assumptions that (i) 2QCY13 cinema revenue would be 60% higher than 2QCY12 thanks to a strong lineup of several blockbuster movies released during the period and revenue contribution from provincial cinemas, (ii) 2QCY13 F&B revenue would follow cinema revenue higher by 64% y-y due to the successful launch of new toppers to spur sales, and (iii) effective ad sales strategy would push cinema ad revenue up 20% y-y. Costs and SG&A expenses would follow revenues higher. In 2QCY13, MAJOR is also expected to book an additional gain from the divestment of SF. On this basis, we estimate MAJOR will post 2QCY13 net profit growth of 63.85% y-y to Bt358mn. Our forecast also suggests MAJOR will pay an interim dividend of Bt0.50/share for 1HCY13 operations.

MAJOR has launched a tender offer for all remaining shares in MPIC after its shareholders at Jul 30 EGM approved the acquisition of Major Kantana Broadcasting Co, which is engaged in cable TV business under the name 'M Channel,' which is 45% owned by MAJOR, and (ii) Talent One Co (T1) as part of the efforts to restructure group of companies. MAJOR issued 16.58mn new shares for a share swap with both companies. Following share

swaps, MAJOR's holding in MPIC stood at 75.01%, the mandatory tender offer trigger threshold under SEC rules, prompting MAJOR to launch a tender offer for all remaining shares in MPIC at Bt2.71/share equivalent to a swap price from Aug 5-Sep 9, 2013. M Channel is also keen to bid for digital TV licenses for variety channels.

Despite the likely absence of the big hit movies like 'Pee Mak Phra Khanong' in 2HCY13, there are now movies that have already passed the Bt100mn mark i.e. Pacific Rim and there would be a lineup of blockbuster movies to be released in 2HCY13, a factor that would also bode well for F&B and cinema ad revenues. Rental revenue is set to fall after CAWOW terminated its lease agreements at four branches but things are likely to improve as MAJOR has already secured a new tenant 'We Fitness.' MAJOR booked Bt173mn in impairment charges for its investment in MPIC and CAWOW in 4QCY12 but no or little impairment charges are anticipated in 2HCY13.

We revise upwards our CY13 net profit outlook for MAJOR to Bt1,108mn from a previous view of Bt1,048mn based on assumptions that full-year revenue will come in at Bt7,455mn.

Investment Actions?

Following earnings upgrade, we raise our CY13 target price for MAJOR to Bt25/share based on a P/E multiple of 20x. We also upgrade MAJOR shares to 'BUY.'

Valuation Method

P/E'13 (20x)

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