

# MAJOR (MAJOR TB)

Major Cineplex Group

Current

BUY

Previous

BUY

Close

29.50

2019 TP

33.00

Exp Return

+12%

THAI CAC

N/A

CG 2018

4

## Consolidated earnings

BT (mn)	2017	2018	2019E	2020E
Normalized earnings	822	972	1,231	1,326
Net profit	1,193	1,284	1,391	1,486
Normalized EPS (Bt)	0.92	1.09	1.38	1.48
Reported EPS (Bt)	1.33	1.44	1.56	1.66
% Norm EPS growth	-18.5	18.3	26.6	7.7
Dividend (Bt)	1.25	1.30	1.40	1.49
BV/share (Bt)	7.17	7.28	7.43	7.60
EV/EBITDA (x)	13.5	11.9	10.6	10.0
PER (x)	22.1	20.6	19.0	17.8
PER (x) - normalized	32.1	27.2	21.4	19.9
PBV (x)	4.1	4.1	4.0	3.9
Dividend yield (%)	4.2	4.4	4.7	5.1
ROE (%)	12.6	14.7	15.9	16.7
YE No. of shares (million)	895	895	895	895
Par (Bt)	1	1	1	1

Source: Company data, FSS estimates

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## 1Q19 profit misses estimate by 10%

### 1Q19 normalized earnings down 20.0% Q-Q and up 19.3% Y-Y

MAJOR's 1Q19 net profit comes in at Bt206mn (-20.6% Q-Q, -27.7 Y-Y). Excluding extra items, i.e. an extra gain of Bt28mn from sales of investment, the company's normalized earnings are equal to Bt177mn (-20.0% Q-Q, +19.3% Y-Y). It misses our estimate by about 10% due mainly to lower-than-expected gross margin and higher-than-expected SG&A expense.

The sharp Q-Q decrease can be blamed on seasonality and the high base a quarter ago. The strong Y-Y increase is made possible by revenues which jumped 23.1% Y-Y (and -18.6% Q-Q) after ticket sales (which account for 55% of total revenues) surged by 25.8% Y-Y (and -23.9% Q-Q). Moreover, concession sales surged 20.6% Y-Y (and -21.9% Q-Q), while ads income soared 19.1% Y-Y (and +3.2% Q-Q). Gross margin widened to 33.0% (vs. 31.8% in 1Q18). However, it narrowed from 37.6% a quarter ago due to increased depreciation expense after MAJOR opened new cinemas. Moreover, the gross margin of its ads business temporarily decreased, while MAJOR's subsidiaries reported gross loss of Bt10mn.

### Expect 2Q19 normalized earnings to increase to peak of year, Maintain BUY rating at 2019 TP of Bt33

Although MAJOR's 1Q19 normalized earnings are enough to secure just 14% of our full-year forecast, we retain our 2019E normalized earnings because we expect the company's normalized earnings to accelerate in 2Q19 thanks to the movie industry's high season. Furthermore, Avengers: Endgame is highly popular and recorded robust revenues, while the remaining movie lineup is also strong. Hence, we maintain our BUY rating on MAJOR at our 2019 TP of Bt33 (DCF) on the back of constant dividend yield of 5%. Nonetheless, the stock has sharply rallied lately, while MAJOR's below-estimate 1Q19 normalized earnings might serve as negative sentiment.

*Risks: Slower-than-expected economic expansion, lower-than-expected popularity in MAJOR's movie lineup, increased popularity of online movie, e.g. Netflix*

## 1Q19 Earnings Results

(Bt mn)	1Q19	4Q18	%Q-Q	1Q18	%Y-Y	Comment
Revenues	2,400	2,951	-18.7	1,950	23.1	<ul style="list-style-type: none"> <li>In 1Q19, revenues beat our estimate. However, cost was also higher than expected. Hence, gross margin missed our estimate of 35.6%.</li> <li>SG&amp;A expense was above our estimate.</li> </ul>
Cost of services	1,609	1,841	-12.6	1,330	20.9	
Gross profit	791	1,110	-28.7	620	27.6	
SG&A	609	848	-28.2	520	17.2	
Interest expense	26	27	-2.1	29	-9.8	
Normalized earnings	177	221	-20.0	148	19.3	
Net profit	206	259	-20.6	284	-27.7	
Gross margin (%)	33.0	37.6	-4.6	31.8	1.2	
Norm earnings margin (%)	7.4	7.5	-0.1	7.6	-0.2	
Net profit margin (%)	8.6	8.8	-0.2	14.6	-6.0	

Source: Company and FSS Research

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## Recommendation Definitions

BUY	The latest close is below our target price and the estimated upside is 10% or more.
HOLD	The latest close is below our target price and the estimated upside is 0-10%.
SELL	The latest close is above our target price.
TRADING BUY	The latest close is above our target price but the price is expected to be driven by short-term positive factors
OVERWEIGHT	The estimated return is higher than the market average.
NEUTRAL	The estimated return is the same as the market average.
UNDERWEIGHT	The estimated return is lower than the market average

*Note: The expected return may change as market risks increase or decline.*

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## Thai Institute of Directors Association (IOD) - Corporate Governance Report Rating 2018

Score Range	Rating	Description
100-90		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
<50	no logo given	n/a

### IOD (IOD Disclaimer)

The Corporate Governance Report (CGR) of Thai listed Companies is based on a survey and assessment of information which companies listed on the Stock Exchange of Thailand and the Market for Alternative Investment ("**listed companies**") disclose to the public. The CGR is a presentation of information from the perspective of outsiders on the standards of corporate governance of listed companies. It is not any assessment of the actual practices of the listed companies, and the CGR does not use any non-public information. The CGR is not therefore an endorsement of the practices of the listed companies. It is not a recommendation for investment in any securities of any listed companies or any recommendation whatsoever. Investors should exercise their own judgment to analyze and consider any information relating to the listed companies presented in this CGR report. No representation or warranty is made by the Institute of Directors or any of its personnel as to the completeness or accuracy of the CGR report or the information used.

## Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC)

1 CG Score 2018 from Thai Institute of Directors Association (IOD)

2 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 31, 2018) are categorised into:

- companies that have declared their intention to join CAC, and
- companies certified by CAC.