

Trend Focus

Big-screen industry trends and opportunities

Indonesia's movie theaters have witnessed increasing demand in recent years. With conventional independent theaters subsiding, the industry landscape is now entering a new phase of competition. In our view, the cinema industry is undercapitalized and worth a look.

Number of moviegoers has increased rapidly in recent years

The number of moviegoers in Indonesia has grown rapidly, from 18.9mn in 2012 to 42.7mn in 2017 and an estimated 50mn in 2018, according to Bekraf. While the rise of online streaming services had raised concerns about the future of the physical cinema industry, the threat has turned out to be insignificant. Streaming services have indeed shown rapid growth, but we think they have eroded the business of other industries rather than cinemas. As of 2016, there were at least six online streaming-based services officially operating in Indonesia. Despite that fact, attendance at movie theaters surged 129.8% to 37.2mn people that same year.

Judging by such trends, we surmise that the moviegoing experience offers customers value that online streaming platforms cannot replicate. It is notable that young urban people make up a large portion of the moviegoing public. As a leisure activity, going to the cinema is a form of discretionary spending, which depends on the level of disposable income. For the urban population, it is a simple, effortless form of entertainment, and ticket prices are reasonable (see Table 1). We think the surge in demand is also being fueled by the strength of the film industry and the growing number of screens.

The emergence of new challengers

The competitive landscape of Indonesia's movie theater industry has experienced two phases of change: 1) the transition to digitization and 2) the battle for market share between big chains. Before the digitization era, cinemas had to wait for celluloid tape, which was passed around between cinemas. Because the adoption of digital technology is costly, however, many operators found it hard to survive. In a nutshell, independent theaters had to close due to their lag in movie screening and inability to adopt new technology. This left the industry with several big chain operators. In 2012, after the adoption of digital projectors, only Cinema XXI, CGV, and several independent cinemas were left standing. Today, following the emergence of several big chains, the market is less concentrated. Cinema XXI has remained the biggest operator since 1987, but challengers now include CGV (2006), Cinemaxx (2014), Platinum Cineplex (2012), Flix Cinema (2017), and New Star Cineplex, along with a few independent cinemas located outside Jakarta.

The battle of the big chains

Cinema XXI retains its throne as the market leader, operating more than 50% of all screens in Indonesia; this number was likely even higher before the emergence of big chain rivals. CGV (formerly Blitz Megaplex) grew rapidly after being purchased by the Korean cinema operator CJ CGV Co Ltd (currently holds a 23% stake). Cinemaxx, established by Lippo Group in 2014, recently partnered with Cinepolis, a global cinema player, had aggressively opened more than 100 screens within the past four years. Several theaters owned by Cinema XXI closed their operations in Lippo Malls (e.g., Plaza Semanggi, Mal Lippo Cikarang, Sun Plaza Medan) and were replaced by Cinemaxx theaters. At present, there are 61 shopping malls in Lippo's network, creating high potential for Cinemaxx to penetrate and eat into Cinema XXI's share. In 2017, Flix Cinema was established by Agung Sedayu Group, offering a fancy eco-friendly ambience. All in all, while putting a dent in Cinema XXI's massive domination should prove difficult, we think the newer rivals will gradually erode the leader's market share.

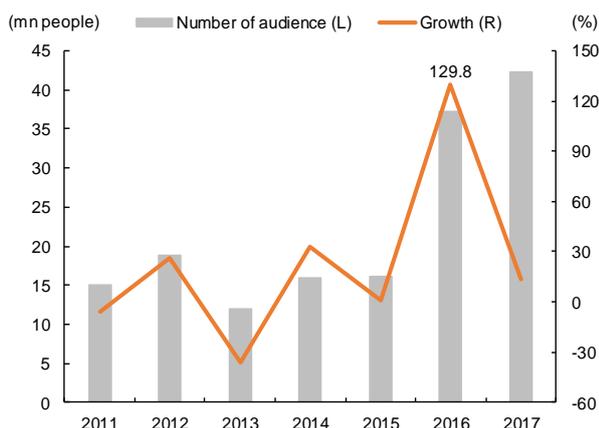
Competition fueling growth in number of screens

We think the rise of new players has helped boost the number of screens in Indonesia. Some global names, likely viewing the industry as undercapitalized, have shown interest in partnering with Indonesian cinema operator chains. We note, however, that the entrance of these foreign players was only possible after the government removed the theater industry from its negative investment list (Daftar Negatif Investasi/DNI) in 2016. We think this has fueled the growth in the number of screens—from 609 in 2012 to 1,412 in 2017—which, in turn, has spiked the public’s interest in moviegoing.

The future of the movie theater industry

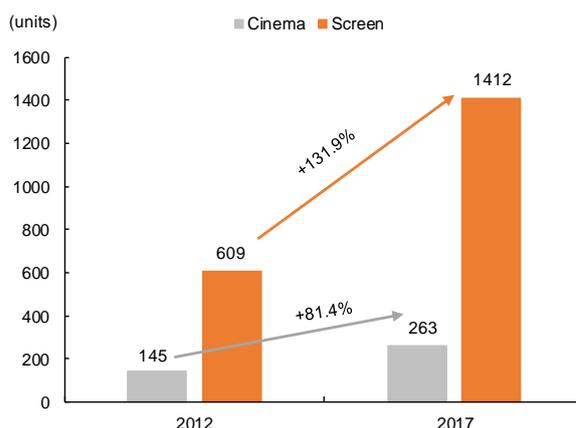
Notably, the ratio of the number of screens to population in Indonesia stood at 0.4/100,000 people in 2016, much lower than that of other countries such as Malaysia (3.9), Thailand (1.2), and India (0.9). Considering the growth of Indonesia’s young population, we think the low screen-to-population ratio indicates there is ample room for further growth. It should be noted, however, that theater growth may be constrained by the growth of shopping malls. Thus, more opportunities may be found by penetrating into big cities outside Jakarta. Currently, among the aforementioned cinema operators, only CGV is publicly listed, under PT Graha Layar Prima (BLTZ /Not Rated).

Figure 1. Number of moviegoers



Source: filmindonesia.or.id, Mirae Asset Sekuritas Indonesia Research

Figure 2. Number of screens and cinemas



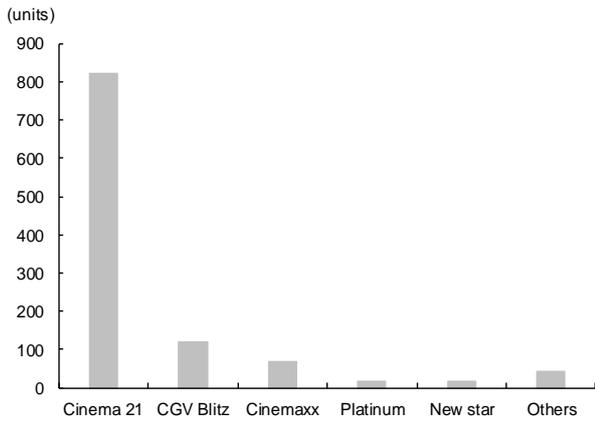
Source: filmindonesia.or.id, Mirae Asset Sekuritas Indonesia Research

Table 1. Chained cinema operators

	Cinema XXI	CGV	Cinemaxx	Platinum Cineplex	Flix Cinema
Established	1987	2004	2014	2012	2017
Company/Group	PT Nusantara Sejahtera Raya	PT Graha Layar Prima Tbk	PT Cinemaxx Global Pasifik	Tripur Multivision Plus	Agung Sedayu Group
Screen	934	314	135	N/A	N/A
Cinema	165	50	47	8	2
Cities	38	23	20	7	N/A
Price	Cinema XXI: IDR25k-60k The Premiere: IDR75k-250k IMAX: IDR45k-75k	Regular: IDR35k-75k Velvet: IDR160k-400k Satin: IDR55k-140k Sweetbox: IDR 95k-135k	Ultra XD: IDR35k-60k Regular: IDR30k-45k Deluxe: IDR45k-50k Gold: IDR60k-80k	Reg 2D: IDR30k-40k Reg 3D: IDR35k-50k Platinum: IDR45k-55k	IDR100k-200k
Revenue	N/A	IDR894.2bn (FY17)	IDR288.4bn (FY16)	N/A	N/A
Net profit	N/A	IDR12.4bn (FY17)	-IDR152.4bn (FY16)	N/A	N/A

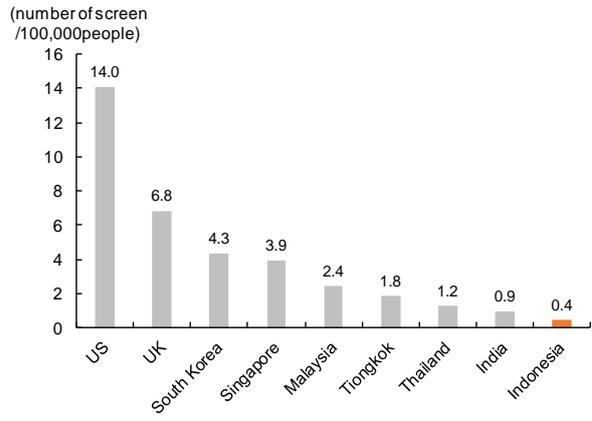
Source: Company data, Mirae Asset Sekuritas Indonesia Research

Figure 3. Number of screens by operator in 2016



Source: Bekraf, Mirae Asset Sekuritas Indonesia Research

Figure 4. Ratio of number of screens to 100,000 population in 2016



Source: BKPM, Mirae Asset Sekuritas Indonesia Research

Figure 5. Most moviegoers are young urban people



Source: Internet, Mirae Asset Sekuritas Indonesia Research

Figure 6. Ticket prices are considered affordable



Source: Mirae Asset Sekuritas Indonesia Research

APPENDIX 1

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