

OISHI GROUP PLC

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CORPORATES

Company Rating: A+
Outlook: Stable

Last Review Date: 17/09/20

Company Rating History:

Date	Rating	Outlook/Alert
04/10/16	A+	Stable
29/09/11	A-	Stable

Contacts:

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Pramuansap Phonprasert
pramuansap@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

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



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Oishi Group PLC (OISHI) at “A+”, with a “stable” rating outlook. The rating reflects OISHI’s position as a market leader in the ready-to-drink (RTD) tea segment in Thailand, its well-recognized brand, and its strong balance sheet with ample liquidity position. The rating also incorporates a one-notch rating enhancement to its stand-alone credit profile (SACP), assessed at “a” level, to reflect the company’s status as a strategic subsidiary of Thai Beverage PLC (ThaiBev; rated “AA/Stable” by TRIS Rating). These strengths are, however, partially offset by intense competition in its core businesses, and weakened operating performance in the restaurant business due to the lingering effects of the Coronavirus Disease 2019 (COVID-19) pandemic and weak consumer spending.

KEY RATING CONSIDERATIONS

Beverage business resilient against COVID-19 impacts

OISHI’s beverage business has performed well and proved to be resilient against the lingering effects of the COVID-19 pandemic and economic fallout. We expect the sound momentum of the beverage segment to continue throughout fiscal year 2021 (FY2021: October 2020 – September 2021).

In FY2020, OISHI’s total beverage sales stood at THB6 billion, a decline of 7% from FY2019, mainly due to a decrease in export sales resulting from the cross-border ban and a small decline in domestic sales. However, sales for the first nine months of FY2021 grew by nearly 2% year-on-year (y-o-y) to THB4.7 billion. The company reported satisfactory results, despite the drop in export sales, thanks to an effective summer promotion campaign, new product launches, and an expansion of distribution channels. Domestic sales, excluding original equipment manufacturer (OEM) products, rose by 8%, with growth via traditional trade channel and through increased market penetration upcountry. For export sales, some signs of recovery were observed, after hitting bottom amid the COVID-19 crisis last year.

For the first nine months of FY2021, OISHI’s beverage business maintained cash generation of about THB1.2 billion in earnings before interest, taxes, depreciation, and amortization (EBITDA), similar to the same period of FY2020 (excluding THB0.29 billion insurance claim). OISHI has focused on productivity improvement, a more profitable product mix and/or distribution mix, and effective online promotion campaign, to improve profitability during the economic downturn. Successful new product launches also drove sales and profitability.

Our base-case forecast assumes OISHI’s beverages business will remain at a satisfactory level in FY2021, despite the evolving COVID-19 situation and the decline in export sales. We project revenues will grow by mid-single-digit rates per annum during the following two years. The growth will be driven by a gradual rebound in export sales, wider market coverage, and through the introduction of new products.

Leader in the RTD tea market

We anticipate OISHI will continue to maintain its strong competitive position in the RTD tea market, aided by its well-recognized brands, ThaiBev’s extensive nationwide distribution network, and its product innovation. Its

“OISHI” brand is particularly well-known among Thai consumers. OISHI distributes its beverage products through ThaiBev’s extensive distribution network (including Sermasuk PLC’s distribution network), covering more than 450,000 retail outlets and local restaurants. ThaiBev’s and OISHI’s growth strategies are to expand their footprint into market with low penetration. OISHI held 48.5% market share in the 12-month period ending June 2021, up from 46.6% market share in the same period of the previous year. However, we expect competition in the non-alcoholic beverage market to remain high, driven by rival promotions, price-based competition in some distribution channels and areas, as well as alternative beverage products.

Another challenging year for food business

We expect the prolonged COVID-19 pandemic, the government’s outbreak containment measures, as well as softening consumer spending will severely affect OISHI’s restaurant business in FY2021. The path to recovery of the food business is likely to be protracted and will take longer than our previous expectation.

OISHI’s revenue from the food business for FY2020 dropped by 30% y-o-y to THB5 billion and continued to drop by 22% y-o-y to THB2.9 billion in the first nine months of FY2021. Takeaway and home delivery services alleviate the impact of city lockdowns to some extent, however, the revenue contribution remains small. EBITDA margin reduced to below 3% during FY2020 through the first nine months of FY2021, compared to an 11%-12% level in the past. The fall in margin was due to a decline in revenues while operating costs such as personnel expenses and rental fees remained fixed.

Our base-case projection forecasts a notable decline in OISHI’s revenue from the restaurant business in FY2021, following the escalation of the COVID-19 situation. We expect recovery in the restaurant business to begin in 2022 after a certain threshold of public vaccinations has been achieved and with the return of social normality, together with a rebound of consumer sentiment and spending. We expect OISHI’s revenue from frozen and chilled food products to gradually rise in the next two fiscal years. Recently, the company launched a line of bottled sauces to capture opportunities in the home-cooking segment. We expect its potential growth through a series and variety types of new packaged food products launches and wider market coverage.

We project OISHI’s total food business revenues to rebound to THB5.0-THB6.5 billion per year in FY2022-FY2023. We expect growth to continue to be driven by outlet expansion with increasing varieties of store formats. OISHI is introducing new store format e.g. food truck as well as an omni-channel approach to create opportunities to reach customers. The revenue from these new channels is expected to increase. During the next two fiscal years, OISHI plans to open 15-20 restaurant outlets per year, while also expanding its footprint in neighboring countries.

Earnings to decline in FY2021, but recovery expected

OISHI’s total profitability has been pressured by slumping food sales. We project OISHI’s overall EBITDA to decline in FY2021. We expect sustainable sales and profit from the beverage business to help stabilize the company’s overall profitability and the bottom line should remain in positive figures in FY2021. During the next two fiscal years, we expect OISHI’s EBITDA to improve, following the recovery of food sales, growing beverage sales, as well as new product introductions. The company is also focusing on expense control measures such as waste control, productivity improvement, and payroll management. EBITDA should stay in the THB1.8-THB2.1 billion range during FY2022-FY2023. In our forecast, we project the company’s funds from operations (FFO) to be in the range of THB1.5-THB2.0 billion annually during FY2021-FY2023.

Low leverage with ample liquidity

OISHI has been in a debt-free position since FY2019 through 30 June 2021. OISHI’s capital structure remains strong, with its equity base as of June 2021 amounting to nearly THB7 billion. As of June 2021, cash on hand and cash equivalents amounted to around THB1.8 billion, with an undrawn bank facility of THB8 billion. We forecast funds from operations (FFO) of around THB1.5-THB1.7 billion during the next 12 months, which should be sufficient to cover planned capital expenditures, investments, and dividend payouts.

The primary use of funds will be capital expenditures. OISHI plans total capital spending of about THB1 billion during FY2021-FY2023. Without any large debt-funded acquisitions, we expect OISHI’s capital structure to remain healthy, with little need to borrow over the next few years.

Strategic member of ThaiBev group

We assess OISHI as a strategic subsidiary of ThaiBev in accordance with our “Group Rating Methodology”. The company is integrated with ThaiBev in terms of operations and financial strategy. In FY2020, OISHI generated almost 40% of group-wide non-alcoholic beverage and food revenue, and around 50% of EBITDA for these segments. As one of the key contributors in the segment, we believe OISHI will remain a strategic part of ThaiBev’s integrated beverage and food

business strategy in the long term.

BASE-CASE ASSUMPTIONS

- Revenue to decline in FY2021, rebounding to the level of THB11.5-THB13.2 billion per annum during FY2022-FY2023.
- EBITDA margins to stay around 15%-16% range during FY2021-FY2023.
- Total capital spending of around THB1 billion during FY2021-FY2023.

RATING OUTLOOK

The “stable” outlook reflects our expectation that OISHI will remain a strategic entity of ThaiBev. We also expect OISHI to maintain its market position in the RTD tea market. Operating performance in the food business should rebound in the medium term. We expect OISHI to maintain its conservative financial policies, strong balance sheet, and ample liquidity.

RATING SENSITIVITIES

The credit downside case would materialize if OISHI adopts an aggressive shift in the use of leverage, or if the company’s operating performance deteriorates significantly more than expected. In contrast, the rating upside case would materialize if its operating results and ability to generate cash flow improve substantially from a larger, more diversified revenue base on a sustained basis. Any change in our view with regard to the degree of support OISHI receives from ThaiBev would also trigger a rating action.

COMPANY OVERVIEW

Established in 1999, as a Japanese restaurant, OISHI is one of the leading providers of non-alcoholic beverages and food services in Thailand. OISHI began producing and distributing “Oishi Japanese green tea” in 2003. The company was listed on the Stock Exchange of Thailand (SET) in 2004. ThaiBev purchased 40.2% of OISHI’s shares from its founder in 2006 and acquired more shares through a tender offer in 2008. As of May 2021, ThaiBev was the major shareholder, controlling 79.7% of OISHI’s paid-up shares.

OISHI’s products are Japanese in style and offered under the “Oishi” brand. The flagship product, OISHI green tea, is the market leader in the Thai RTD tea segment. The company also produces herbal drinks, sold under the brand name “Jubjai”. Besides, OISHI acts as a contract manufacturer, producing drinking water and dairy products for affiliates of ThaiBev.

In the food segment, OISHI owns one central kitchen and operates several Japanese restaurant chains, such as “Oishi buffet” (Japanese food buffet), “Shabushi” (shabu hot pot and sushi buffet), “Oishi Ramen” (Japanese noodles), “Nikuya” (Japanese-style barbecue), and “Kakashi” (a quick-service restaurant serving Japanese rice bowls). Since 2018, OISHI entered into more premium segments, such as “Hou Yuu” for premium Japanese restaurant, “Oyoki” for premium soft serve outlets, and the newly opened “Sakae” for premium sukiyaki and shabu restaurants in an a la carte format. OISHI also offers a food delivery service and supplies frozen and chilled foods. Recently, OISHI developed “OISHI food truck” and “OISHI to go”, to capture demand for takeaways. As of June 2021, OISHI had 256 restaurant outlets. Shabushi is the company’s largest restaurant brand with 158 outlets.

OISHI recorded total sales of THB11 billion in FY2020 and THB7.7 billion in the first nine months of FY2021. The beverage segment accounted for around 55% of total revenue, and around 92% of EBITDA in FY2020, while the food segment accounted for the remainder.

KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution by Product Line*

Product Line	FY2018		FY2019		FY2020		9MFY2021 (Oct 20-Jun 21)	
	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%
Beverages	5,986	48	6,501	48	6,004	55	4,711	62
Food	6,610	52	7,130	52	5,003	45	2,927	38
Total	12,596	100	13,631	100	11,007	100	7,638	100

Source: OISHI

* Fiscal year (FY -- year ended 30 September)

Table 2: OISHI's Restaurant Portfolio as of Jun 2021

Brand	Product	Owned Outlet
Oishi Grand	Premium Japanese buffet	1
Oishi Eaterium	Japanese buffet	9
Oishi Buffet	Japanese buffet	9
Shabushi	Shabu and sushi buffet	158
Oishi Ramen	Japanese noodles	51
Nikuya	Japanese BBQ buffet	5
Kakashi	Quick service Japanese food	18
Hou Yuu	Premium Japanese restaurant	3
Sakae	Premium a-la-cart Japanese restaurant	1
Oyoki	Premium Japanese soft serve	1
Total		256

Source: OISHI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Oct 2020 - Jun 2021	-----Year Ended 30 September -----			
		2020	2019	2018	2017
Total operating revenues	7,689	11,067	13,699	12,697	13,672
Earnings before interest and taxes (EBIT)	517	753	1,323	1,041	1,571
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,280	1,812	2,419	2,095	2,794
Funds from operations (FFO)	1,287	1,832	2,293	1,905	2,666
Adjusted interest expense	9	32	52	73	80
Capital expenditures	87	294	934	783	516
Total assets	8,931	8,568	8,407	9,680	9,707
Adjusted debt	0	0	0	903	984
Adjusted equity	6,974	6,961	6,640	5,990	5,591
Adjusted Ratios					
EBITDA margin (%)	16.64	16.37	17.66	16.50	20.43
Pretax return on permanent capital (%)	8.82 **	10.20	17.21	12.85	20.16
EBITDA interest coverage (times)	143.78	57.18	46.56	28.73	35.09
Debt to EBITDA (times)	0.00 **	0.00	0.00	0.43	0.35
FFO to debt (%)	n.m. **	n.m.	n.m.	211.00	271.03
Debt to capitalization (%)	0.00	0.00	0.00	13.10	14.96

* Consolidated financial statements

** Annualized with trailing 12 months

n.m. Not meaningful

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Oishi Group PLC (OISHI)

Company Rating:	A+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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