

# OISHI GROUP PLC

No. 164/2022  
27 September 2022

## CORPORATES

**Company Rating:** A+  
**Outlook:** Stable

**Last Review Date:** 16/09/21

### Company Rating History:

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

### Contacts:

Sarinthorn Sosukpaibul  
sarinthorn@trisrating.com

Tulyawat Chatkam  
tulyawatc@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 strong competitive position in the ready-to-drink (RTD) tea segment in Thailand, with its well-recognized brand and extensive distribution network, and its strong balance sheet. The rating incorporates a one-notch rating enhancement to the company’s 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). The rating also takes into consideration the expected recovery of its performance in the food business following the worldwide easing of Coronavirus Disease 2019 (COVID-19) restrictions. Nonetheless, the strengths are partially offset by intense competition in its core businesses as well as the challenges posed by rising commodity prices and surging inflation.

## KEY RATING CONSIDERATIONS

### RTD tea market leader

OISHI has maintained its solid position as the market leader, holding a share of 48.3% of the Thai RTD tea market by value in the 12-month period ending June 2022. Its market share has been relatively stable during the last two years. OISHI’s competitive strength is its strong brand equity, the extensive distribution network of ThaiBev, effective ongoing marketing campaigns, and new product launches.

The Thai RTD tea market is poised to grow in 2022, on the back of recovering demand, the resumption of normal activities, the introduction of new products, and promotional campaigns. In 2021, the RTD tea market was worth THB11.2 billion, growing by 4% from 2020. Sales of RTD tea have increased notably in the first half of 2022 compared with other non-alcoholic beverage categories, rising by 20.5% year-on-year (y-o-y) to THB6.9 billion.

### Solid performance of beverage segment

For the next three years, we expect OISHI’s beverage business to continue to deliver solid performance in tandem with sound market conditions and on the back of the company’s strong competitive position in the market. Our base-case scenario projects OISHI’s revenue from the beverage business to grow by 5%-13% per annum during the next three years.

OISHI’s domestic RTD tea sales proved resilient during the COVID-19 pandemic and are expected to continue to rise in 2022, where its sales are now higher than the levels seen before COVID-19. OISHI reported domestic beverage sales for fiscal year 2021 (FY2021: October 2020 - September 2021), excluding contracted production, of THB5 billion, an 11% increase from FY2020. In the first nine months of FY2022, sales rose by 16% y-o-y to THB4.5 billion. Products consumed on the go, which are sold in convenience stores, have posted solid sales growth, benefiting from uptick in out-of-home activities. Sales through the modern trade channels grew strongly by 21% y-o-y while traditional trade sales rose by 9%.

We believe new product launches and entry into new product categories will help fulfill the company’s sales potential and strengthen its performance in the beverage business. OISHI continues to develop new products to meet the needs of customers. Recently, the company released honey lemon green tea

with zero sugar to meet growing demand among health-conscious consumers, gaining larger customer base. OISHI has also introduced new packaging designs and is implementing effective promotional campaigns for targeting specific customer segments.

For overseas markets, we expect OISHI's export sales to gradually revive its growth trajectory over the next three years after a broad easing of COVID-19 restrictions worldwide. Its export sales rebounded by 9% y-o-y in the first nine months of FY2022, but remained 24% below the same period in FY2019. Green tea sales in Cambodia, OISHI's major export market, have rebounded strongly with an 11% y-o-y increase. We expect the recovery of the export markets will be another factor to boost overall beverage sales growth.

### **Food business to rebound**

We view OISHI's food sales is poised to rebound strongly after the significant decline during the past two pandemic years.

In FY2021, OISHI reported sales from the food business of THB3.6 billion, a 29.7% y-o-y decline, compared with THB7.1 billion in FY2019 before COVID-19. In the first nine months of FY2022, revenue in the food business rose 35.3% y-o-y to nearly THB4 billion. Sales have been boosted by the easing concerns over COVID-19 and the recovery in same-store sales. In the first nine months of FY2022, total sales of OISHI's restaurants grew by 32.5% y-o-y.

Our base-case projection forecasts OISHI's food sales to continue to rise substantially, with revenue rebounding to THB5.3 billion in FY2022 and growing by 11%-20% annually during FY2023-FY2024. We expect the recovery to be driven by the combination of same-store sales growth and outlet expansion. Same-store-sales growth should be supported by normalized outlet operating hours for dine-in restaurants, increasing numbers of dine-in customers, and the prospects of a post-COVID economic recovery. We also expect OISHI's revenue from frozen and chilled food products to rise through a variety of new packaged food product launches and wider market coverage.

Going forward, the company intends to actively expand its restaurant outlets. OISHI's outlet expansion focuses on "Shabushi" and the newly launched "Biztoro", totaling about 30 restaurant outlets per year. We expect "Shabushi" to continue to be OISHI's flagship restaurant brand. We view the "Biztoro" brand as having good growth potential as outlet expansion uses less investment, and the menus work well for fast food as well as the grab-and-go and the food delivery platform, which meet dynamic lifestyle demand. The company aims to expand its customer base with new branches easily accessible in new locations such as in gas stations, shopping centers, and community malls.

### **Earnings to recover**

In FY2021, OISHI reported THB1.4 billion in earnings before interest, taxes, depreciation, and amortization (EBITDA), down from THB2.2 billion before COVID-19. In the first nine months of FY2022, its EBITDA rose to THB1.8 billion, a 49% y-o-y increase. During the next three years, we expect OISHI's EBITDA to improve, in line with the recovery of food sales and increasing performance of the beverage business.

OISHI's profits will likely remain under pressure from price increases in key raw materials and rising operating expenses to support the personnel expenses and its network of restaurant expansion plans. However, OISHI has implemented margin safeguards such as raw material management, substitution of ingredients, appropriate sales promotions and campaigns, and price adjustments for specific menu items. We expect its economies of scale and increasing sales to alleviate the effect of higher costs to some extent. The company is also focusing on improving efficiency, waste control, and workforce management, to alleviate the impact. In effect, we project OISHI's EBITDA margin to stay in the range of 17.5%-18.5%, with an EBITDA of THB2.3-THB2.7 billion annually during FY2022-FY2024. Funds from operations (FFO) should be in the range of THB2.1-THB2.5 billion per annum during the forecast period.

### **Low leverage with ample liquidity**

We expect OISHI's capital structure to remain strong with abundant liquidity. Since OISHI has had no sizable capital expenditures and has a consistent and reasonable dividend payout ratio, the company is in a net cash position. As of June 2022, its cash on hand and cash equivalents amounted to around THB2.9 billion. The company also had an undrawn bank facility of THB5 billion.

The primary uses of funds are capital expenditures, estimated at around THB0.5-THB1.2 billion per annum during FY2022-FY2024, to expand its network of restaurants and beverage production capacity. Without any large debt-funded acquisitions, we expect OISHI's capital structure to remain strong and its liquidity to remain ample with little need to borrow during the next three years.

### **Strategic member of the 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 FY2021, OISHI generated nearly 35% of group-wide

non-alcoholic beverage and food revenue and around 55% of EBITDA for these segments. As one of the major companies 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

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- Revenue to rebound to the level of THB12-THB15 billion per annum during FY2022-FY2024.
- EBITDA margin to stay around 17.5%-18.5%.
- Total capital spending of THB0.5-THB1.2 billion per year during the forecast period.

#### RATING OUTLOOK

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The "stable" outlook reflects our expectation that OISHI will remain a strategic entity of ThaiBev. We also expect OISHI to maintain its leading position in the Thai RTD tea market despite the intense competition. OISHI should be able to deliver improved performance, particularly in its food business, while maintaining its strong financial position.

#### RATING SENSITIVITIES

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The credit downside case would materialize if OISHI's financial profile and operating performance are significantly weaker than expected, or any debt-funded investments materially weaken the company's balance sheet. In contrast, the rating upside case would materialize if OISHI could substantially enlarge its cash flow on a sustained basis, with a larger and more diversified revenue base. Any change in our view with regard to the degree of support OISHI receives from ThaiBev would also trigger a rating action.

#### COMPANY OVERVIEW

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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 2022, ThaiBev was the major shareholder, holding 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. OISHI has a strong competitive edge in Japanese-style restaurants with its flagship brand in the shabu buffet segment. OISHI also offers a food delivery service and supplies frozen and chilled foods. Since 2018, OISHI has entered into more premium segments. In late 2021 through the middle of 2022, OISHI introduced "Shabu by Oishi" for premium shabu restaurants in an a-la-carte format, and "Biztoro" for fast, casual-style Japanese food. As of June 2022, OISHI had 263 restaurant outlets. "Shabushi" is the company's flagship restaurant brand with 162 outlets.

OISHI recorded total sales of THB9.8 billion in FY2021 and THB9.4 billion in the first nine months of FY2022. The beverage segment accounted for around 58% of its total revenue in the first nine months of FY2022, while the food segment accounted for the remainder.

KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution by Product Line\*

Product Line	FY2019		FY2020		FY2021		9M/FY2022 (Oct 21-Jun 22)	
	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%
Beverages	6,501	48	6,004	55	6,273	64	5,430	58
Food	7,130	52	5,003	45	3,568	36	3,962	42
<b>Total</b>	<b>13,631</b>	<b>100</b>	<b>11,007</b>	<b>100</b>	<b>9,841</b>	<b>100</b>	<b>9,392</b>	<b>100</b>

Source: OISHI

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

Table 2: OISHI's Restaurant Portfolio as of Jun 2022

Brand	Product	Owned Outlet
Oishi Grand	Premium Japanese buffet	1
Oishi Eaterium	Japanese buffet	9
Oishi Buffet	Japanese buffet	7
Shabushi	Shabu and sushi buffet	162
Oishi Ramen	Japanese noodles	52
Nikuya	Japanese BBQ buffet	5
Kakashi	Quick service Japanese food	16
Hou Yuu	Premium Japanese restaurant	3
Sakae	Premium a-la-carte Japanese restaurant	1
Biztoro	Japanese fast casual style	5
Shabu by Oishi	Premium Japanese a-la-carte shabu	2
<b>Total</b>		<b>263</b>

Source: OISHI

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Oct 2021- Jun 2022	----- Year Ended 30 September -----			
		2021	2020	2019	2018
Total operating revenues	9,431	9,888	11,067	13,699	12,697
Earnings before interest and taxes (EBIT)	1,156	534	753	1,323	1,041
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,857	1,545	1,812	2,419	2,095
Funds from operations (FFO)	1,713	1,434	1,723	2,304	1,967
Adjusted interest expense	14	17	32	52	73
Capital expenditures	130	100	294	934	783
Total assets	10,054	9,109	8,562	8,407	9,680
Adjusted debt	0	0	0	0	903
Adjusted equity	7,765	7,132	6,906	6,640	5,990
<b>Adjusted Ratios</b>					
EBITDA margin (%)	19.69	15.63	16.37	17.66	16.50
Pretax return on permanent capital (%)	14.58 **	7.01	10.24	17.21	12.85
EBITDA interest coverage (times)	130.99	92.24	57.18	46.56	28.73
Debt to EBITDA (times)	0.00 **	0.00	0.00	0.00	0.43
FFO to debt (%)	n.m. **	n.m.	n.m.	n.m.	217.91
Debt to capitalization (%)	0.00	0.00	0.00	0.00	13.10

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

n.m. Not meaningful

## RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

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**Oishi Group PLC (OISHI)**

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<b>Company Rating:</b>	<b>A+</b>
<b>Rating Outlook:</b>	<b>Stable</b>

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**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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