

OISHI GROUP PLC

No. 186/2023
28 September 2023

CORPORATES

Company Rating: AA-
Outlook: Stable

Last Review Date: 27/09/22

Company Rating History:

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

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RATIONALE

TRIS Rating upgrades the company rating on Oishi Group PLC (OISHI) to “AA-” from “A+”, with a “stable” rating outlook. The upgrade reflects our reassessment of OISHI’s group status within the Thai Beverage PLC (ThaiBev; rated “AA/Stable”) business group, from “strategic” to “strategically important”, following ThaiBev’s increased shareholding in OISHI, aiming to enhance synergies and efficiency within the group’s non-alcoholic beverage and food businesses. The rating on OISHI incorporates a rating enhancement from its stand-alone credit profile (SACP), assessed at “a” level.

OISHI’s SACP reflects its strong market position in the ready-to-drink (RTD) tea segment in Thailand, with its widely recognized brand and extensive distribution network. The rating takes into consideration the improvement in its operating performance post-pandemic and its strong balance sheet. However, these strengths are tempered by the intense competition in the restaurant business, challenges from rising costs, and the company’s relatively small scope of products, focusing mainly on RTD tea and Japanese buffet restaurants.

KEY RATING CONSIDERATIONS

A strategically important subsidiary of the ThaiBev group

As of August 2023, ThaiBev’s equity stake in OISHI had risen to 98.5% after a successful tender offer on the Stock Exchange of Thailand (SET), up from 79.7% recorded in March 2023. ThaiBev’s intention behind the acquisition of almost all of OISHI’s shares is to strengthen synergies and improve the overall efficiency and capabilities of the group-wide non-alcoholic beverage and food companies, which is currently in the process of conducting a feasibility study into the restructuring plan. OISHI was officially delisted from the SET on 6 September 2023.

OISHI is the flagship subsidiary of ThaiBev in the non-alcoholic beverage and food segments. OISHI is highly integrated with ThaiBev in terms of business operations and financial strategy. OISHI leverages ThaiBev’s extensive distribution network to reach over 450,000 retail outlets nationwide. Furthermore, OISHI serves as a contract manufacturer for ThaiBev’s affiliate companies, optimizing the utilization of its production facilities. OISHI also functions as the central kitchen for the ThaiBev group.

OISHI has consistently delivered satisfactory operating results and remains a key revenue and earnings contributor to ThaiBev’s non-alcoholic beverage and food businesses. In the fiscal year 2022 (FY2022: October 2021-September 2022), OISHI contributed approximately 38% of group-wide non-alcoholic beverage and food revenue and around 53% of earnings before interest, taxes, depreciation, and amortization (EBITDA) for these segments.

RTD tea market leader

OISHI continues to maintain its leadership in the RTD green tea market in Thailand with a share of 46.7% of the total market value over the past 12 months until June 2023, a slight decline from 48.3% during the same period in 2022. OISHI’s competitive strength stems from various factors, including its well-established and widely recognized brand, the quality of its products, and its reach to consumers through the extensive distribution channels of ThaiBev.

Innovative product offerings and marketing campaigns further solidify its leading position.

During the period covering July 2022 to June 2023, the total value of the Thai RTD tea market reached THB15.2 billion, a notable 22% year-on-year (y-o-y) growth. The market growth was driven by shifting consumer preferences towards healthier beverage choices and the introduction of new flavors and innovative products. Rising temperatures resulting from global climate change are another factor that further boosted sales. This growth exceeds that of other non-alcoholic beverages in the market, with the overall RTD non-alcoholic beverages market growing of 12.3% during the same period.

Strong beverage performance expected

During the next three years, we expect OISHI to deliver strong performance in its beverage business, driven by favorable market conditions and the company's strong competitive position. We expect growth from both the domestic and export markets, to drive overall revenue growth at 5%-10% annually in the beverage business.

In FY2022, OISHI's beverage sales came in at THB7.4 billion, an 18% increase compared with the previous fiscal year. During the first nine months of FY2023, beverage sales continued to grow by 16% y-o-y. This growth aligns with the growing RTD tea market and is supported by the company's promotion campaigns, introduction of new products, and rebounding export sales. The company has proactively increased its communication efforts to raise awareness about the health benefits of green tea, in line with the growing trend of health-consciousness among consumers.

OISHI's domestic beverage sales have shown resilience and are expected to keep growing, with sales in FY2022 surpassing pre-pandemic levels. Through ThaiBev's extensive distribution networks in domestic market, the company has also been actively expanding its market coverage by tapping into small local stores, school channels, and restaurants in various provinces. Meanwhile, export sales have rebounded, with a notable recovery of 18% in FY2022 and additional 11% growth during the first nine months of FY2023. Its export sales of beverages have gradually recovered, reaching around 84% of the pre-pandemic levels observed in FY2019.

Food business rebound to continue

The rebound in OISHI's food business will likely continue over the next three years. We project OISHI's food sales to grow by 8%-13% annually during FY2023-FY2025. We expect the post-pandemic rebound in dine-in traffic to boost OISHI's food sales. The expansion of the outlet network should serve as another factor driving sales growth. In addition, we expect an increase in sales of OISHI's frozen and chilled food products during the next few years, attributed to the introduction of new products and categories, and the expansion of market coverage.

The resumption of social activities and ongoing recovery of the operating environment have played major roles in driving dine-in traffic and demand, resulting in substantial positive same-store sales growth (SSSG) of 46.7% in FY2022 and 12.6% during the first nine months of FY2023. As a result, the company's total food sales reached THB5.4 billion in FY2022, representing a remarkable 51% annual growth. This positive momentum continued in the first nine months of FY2023, with a 15% y-o-y growth in sales. Food sales have rebounded to around 84% of the pre-pandemic levels observed in FY2019.

The company's strategic focus on store expansion is underscored by its flagship restaurant "Shabushi", recently launched "Oishi Biztoro", and other core buffet chain restaurants, with its plans to open approximately 25-30 new outlets each year. The company plans to open more "Shabushi" outlets in department stores, to tap rising traffic post-pandemic and sustain revenue growth. The company also plans to expand restaurant outlets in provincial areas, particularly with smaller-format stores and offer more varieties of food and menus. Despite operating multiple brands, we expect "Shabushi" to continue to be OISHI's flagship restaurant chain, playing a major role in broadening the company's customer and revenue bases. OISHI's focus is on refreshing its restaurant brands and revitalizing some existing outlets, aiming to enhance traffic and seize growth opportunities in the market.

Earnings to rebound but profit margins under pressure from rising costs

The sales recovery has resulted in a rebound in OISHI's profitability, with EBITDA of about THB2.3 billion in FY2022. In the first nine months of FY2023, its EBITDA came in at THB1.9 billion, with an EBITDA margin of around 17.8%.

During the next three years, we expect OISHI's EBITDA to continue to increase, aligning with the recovery of food sales and the rising performance of the beverage business. However, despite the uptick in profit, we expect the profit margin to remain under pressure due to the rising costs of key raw materials and the persistent competitive landscape, which hinder OISHI's ability to increase prices and entirely pass on cost increases to consumers. To mitigate the impact on its profit margin, the company's strategy moving forward is to focus on adopting modern technologies in its operating processes to enhance productivity and rationalize expenses. In our forecast, we project OISHI's EBITDA margin in the 16.5%-17.5% range, with an EBITDA of THB2.5-THB2.8 billion annually during FY2023-FY2025. Funds from operations (FFO) should be in the range of THB2.2-THB2.5 billion per annum during the forecast period.

Strong balance sheet with ample liquidity

We expect OISHI's capital structure to remain strong with ample liquidity during the next three years. 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. OISHI's primary sources of funds comprised cash and cash equivalents of around THB3.9 billion at the end of June 2023, compared with an adjusted total debt of THB772 million. The company also had an undrawn bank facility of THB5 billion. We estimate the company will generate FFO of THB2.2 billion in FY2023.

The primary uses of funds will be capital expenditures required to expand its restaurant outlets and beverage production capacities, estimated at around THB400 million-THB1.6 billion per annum during FY2023-FY2025. Without any large debt-funded acquisitions and/or investments, we expect OISHI's capital structure to remain strong, with little need to borrow during the next three years.

BASE-CASE ASSUMPTIONS

- Revenue to rebound to the level of THB14-THB16.5 billion per annum during FY2023-FY2025.
- EBITDA margin to stay around 16.5%-17.5%.
- Total capital spending of THB400 million-THB1.6 billion per year during the forecast period.

RATING OUTLOOK

The "stable" outlook reflects our expectation that OISHI will maintain its leading position in the Thai RTD tea market, and to deliver improved performance, particularly in its food business, while maintaining its strong financial position.

RATING SENSITIVITIES

The rating and/or outlook could be revised downward if OISHI's operating performance deteriorates materially, or if any debt-funded investments and/or acquisitions substantially weaken the company's financial position. The rating and/or outlook could also be revised downward if there is a deterioration in ThaiBev's credit profile. Conversely, the rating could be revised upward in tandem with an upward revision of the credit rating on the parent company. In addition, any change in our view on OISHI's group status in the ThaiBev group could also affect the rating.

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 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.

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. During 2021-2022, OISHI introduced "Shabu by Oishi" for premium shabu restaurants in an a-la-carte format, and "Oishi Biztoro" for fast, casual-style Japanese food. As of June 2023, OISHI had 277 restaurant outlets. "Shabushi" is the company's flagship restaurant brand with 168 outlets.

As of March 2023, ThaiBev held a 79.7% equity interest in OISHI. In March 2023, ThaiBev announced plans for a tender offer to acquire 76,279,602 shares (or 20.34%) of OISHI that were not already under its ownership. The objective is to enhance synergies as well as improve efficiency in management within the group's non-alcoholic beverage and food businesses. By August 2023, ThaiBev had successfully acquired an additional 70,662,764 shares in OISHI, representing an 18.84% stake in the company. Consequently, ThaiBev was the majority shareholder, with control of 98.5% of OISHI's paid-up shares. OISHI was officially delisted from the SET on 6 September 2023.

OISHI recorded total sales of THB12.8 billion in FY2022 and THB10.8 billion in the first nine months of FY2023. The beverage segment accounted for around 58% of its total sales in the first nine months of FY2023, while the food segment accounted for the remainder.

KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution by Product Line*

Product Line	FY2020		FY2021		FY2022		9M/FY2023 (Oct 22-Jun 23)	
	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%
Beverages	6,004	55	6,273	64	7,403	58	6,301	58
Food	5,003	45	3,568	36	5,404	42	4,555	42
Total	11,007	100	9,841	100	12,807	100	10,856	100

Source: OISHI

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

Table 2: OISHI's Restaurant Portfolio as of Jun 2023

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	168
Oishi Ramen	Japanese noodles	48
Nikuya	Japanese BBQ buffet	5
Kakashi	Quick service Japanese food	12
Hou Yuu	Premium Japanese restaurant	5
Sakae	Premium a-la-carte Japanese restaurant	1
Oishi Biztoro	Japanese fast casual style	19
Shabu by Oishi	Premium Japanese a-la-carte shabu	2
Total		277

Source: OISHI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Oct 2022- Jun 2023	----- Year Ended 30 September -----			
		2022	2021	2020	2019
Total operating revenues	10,893	12,796	9,888	11,067	13,699
Earnings before interest and taxes (EBIT)	1,241	1,380	534	753	1,323
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,944	2,322	1,545	1,812	2,419
Funds from operations (FFO)	1,751	2,165	1,434	1,723	2,304
Adjusted interest expense	22	25	17	32	52
Capital expenditures	242	185	100	294	934
Total assets	10,762	10,529	9,109	8,562	8,407
Adjusted debt	0	0	0	0	0
Adjusted equity	8,415	7,967	7,132	6,906	6,640
Adjusted Ratios					
EBITDA margin (%)	17.85	18.15	15.63	16.37	17.66
Pretax return on permanent capital (%)	16.58 **	16.79	7.01	10.24	17.21
EBITDA interest coverage (times)	88.24	93.55	92.24	57.18	46.56
Debt to EBITDA (times)	0.00 **	0.00	0.00	0.00	0.00
FFO to debt (%)	n.m. **	n.m.	n.m.	n.m.	n.m.
Debt to capitalization (%)	0.00	0.00	0.00	0.00	0.00

* 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

Oishi Group PLC (OISHI)

Company Rating:	AA-
Rating Outlook:	Stable

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