

OISHI GROUP PLC

No. 116/2017

12 September 2017

Company Rating: A+

Outlook: Stable

Company Rating History:

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

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Rating Rationale

TRIS Rating affirms the company rating of Oishi Group PLC (OISHI) at “A+”. The rating reflects OISHI’s position as a strategically important subsidiary of Thai Beverage PLC (ThaiBev; rated “AA+/Stable”), a leading beverage company in Thailand. The standalone rating takes into consideration OISHI’s market position as the leading producer of ready-to-drink (RTD) tea in Thailand, growing cash flow, and sound liquidity. These strengths are partially constrained by the intense competition OISHI faces in the beverage and food industries, and the slow economic recovery in Thailand, which affects consumer spending.

The rating reflects OISHI’s status as a strategically important subsidiary of ThaiBev, given the role it generates revenue from the non-alcoholic beverage and food segments and its role as the central kitchen of ThaiBev’s food segment. OISHI produces RTD tea and other non-alcoholic beverages. The company also operates a central kitchen and a chain of Japanese restaurants. Its well-established “Oishi” brand is one of ThaiBev’s flagship brands for non-alcoholic beverages and Japanese restaurants. As of May 2017, ThaiBev owned a 79.7% stake in OISHI. OISHI’s operations are closely controlled by its parent company. The company receives support and benefits from synergies with ThaiBev, including designated managerial talent, nationwide distribution system, and shared production facilities. ThaiBev’s extensive distribution network provides OISHI with nationwide market coverage and growth opportunities in overseas markets. OISHI is also served as a beverage production unit for ThaiBev, producing dairy and drinking water products. In addition, OISHI can pool its purchases with ThaiBev, giving it greater bargaining power with suppliers.

OISHI’s strong business profile is attributed to its leading position in the Thai RTD tea segment. The company’s track record in the RTD tea market, together with the support provided by ThaiBev, help OISHI maintain its competitive edge. OISHI had a market share of about 46.5% of the Thai RTD tea market for the first six months of 2017, up from 44% in the same period of the previous year. The company’s key brand is “Oishi” which evokes a Japanese lifestyle. The strong market share resulted from the company’s emphasis on strengthening the brand while continuing to launch new beverages.

OISHI’s restaurant operation covers seven branded restaurant chains, frozen and chilled foods, and a food delivery service. As of June 2017, OISHI operated 242 restaurant outlets, half of which are the *Shabushi* brand, with the balance comprising brands like *Oishi Grand*, *Oishi Eaterium*, *Oishi Buffet*, *Oishi Ramen*, *Nikuya*, and *Kakashi*. OISHI recently revamped *Nikuya* and *Kakashi* brands. The company is also transforming some outlets of *Oishi Buffet* to *Oishi Eaterium*, with the concept of more attractive experience and premium. OISHI aims to attract more customers and improve sales and profitability. OISHI plans to add 15 new outlets per year in big cities in Thailand. The company also seeks opportunities in chilled and frozen food products.

OISHI’s risk profile takes into account the intense competition in the non-alcoholic beverage and restaurant industries. Promotional campaigns are frequent and competition is quite fierce in these two segments. In addition, OISHI faces the consequences of a slow economic recovery. Same-store sales of restaurant outlets are affected by a slow-growing economy and less consumer spending. For example,

sales in the food segment declined by 1%-2% per year during 2015 through the first nine months of fiscal year (FY) 2017 (the new fiscal year starts in October). Same-store sales dropped by 6% in 2016 and about 1.8% during the first nine months of FY2017.

The credit ratings are supported by OISHI's sound operating results, driven by the beverage segment. OISHI reported revenue of Bt10,399 million from January to September 2016 and Bt10,101 million for the first nine months of FY2017. The beverage segment comprised about 52% of the company's total revenue for the first nine months of FY2017; the food segment contributed 48%. Revenue from the beverage segment grew strongly, rising by 12% in 2016. The rise was driven by launches of new products and stronger revenues from contract manufacturing.

The operating margin increased, climbing to 18.1% for the first nine months of FY2017, compared with 13.3% in 2015 and 10.6% in 2014. The rise was due to the cost control efforts, efficient marketing and promotional campaigns, and new product launches. The cold aseptic filling (CAF) beverage production lines also reduced costs. Funds from operations (FFO) were Bt1,907 million for the first nine months of FY2017. Liquidity remains strong. The ratio of FFO to total debt was over 45% during 2013 through the first nine months of FY2017. The earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio was 46.1 times for the first nine months of FY2017, up from 17 times in 2015. Total debt was Bt2,019 million as of June 2017. The debt to capitalization ratio was low, registering 27.8% as of June 2017.

During the next three years, TRIS Rating expects OISHI's revenues will grow at a single digit rate per annum. The growth drivers are launches of new beverage products, a gradual revival in the Thai economy, plus increases in the numbers of food outlets. The exports for beverage products in the neighboring countries are expected to continue to grow. The operating margin, despite benefited from higher production efficiency, will stay under pressure. Two new regulations, one for an excise tax on RTD tea and a second for a tax on sugar-sweetened beverages, will raise costs. FFO is expected to range from Bt1,700-Bt2,000 million per annum, including the effect of the new excise tax. The liquidity will remain sound. TRIS Rating expects OISHI will make roughly Bt4,400 million in capital expenditures during the next three years to add new food outlets, upgrade equipments, and maintain the beverage production lines. The total debt to capitalization ratio is expected to stay below 40% during the next three years.

Rating Outlook

The "stable" outlook is based on the expectation that OISHI will remain a strategically important subsidiary of ThaiBev. OISHI is expected to maintain its competitive position in the RTD tea market and deliver sound operating performance.

The rating downside case would be triggered if the company's financial profile shows a sustained deterioration due to weaker operating performance and/or a significant deterioration in capital structure for a long period of time. The credit rating of OISHI could be revised upward if its operating performance improves significantly. Any change, in our view, in the degree of strategic importance and linkage to ThaiBev could affect OISHI's credit rating accordingly.

Oishi Group PLC (OISHI)

Company Rating:

A+

Rating Outlook:

Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Oct 16- Jun 17 ***	Jan-Sep 2016 ***	----- Year Ended 31 December -----		
			2015	2014	2013
Sales	10,101	10,399	12,879	12,405	12,208
Gross interest expense	42	61	106	97	87
Net income from operations	1,100	887	703	497	467
Funds from operations (FFO)	1,907	1,701	1,752	1,380	1,265
Total capital expenditures	446	840	769	1,859	2,131
Total assets	9,162	9,278	9,089	9,132	7,908
Total debt	2,019	2,536	3,100	2,890	2,063
Shareholders' equity	5,246	4,609	4,083	3,634	3,408
Operating income before depreciation and amortization as % of sales	18.1	15.8	13.3	10.6	10.4
Pretax return on permanent capital (%)	18.0 **	18.2 **	11.8	9.5	11.9
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	46.1	28.7	17.0	14.3	15.2
FFO/total debt (%)	113.3 **	87.2 **	56.5	47.8	61.3
Total debt/capitalization (%)	27.8	35.5	43.2	44.3	37.7

* Consolidated financial statements

** Annualized with trailing 12 months

*** New fiscal year starts in October (Fiscal year for 2016 is January to September.)

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