

OISHI GROUP PLC

No. 176/2019
25 October 2019

CORPORATES

Company Rating: A+
Outlook: Stable

Last Review Date: 12/10/18

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on Oishi Group PLC (OISHI) at “A+” with a “stable” outlook. The rating reflects OISHI’s position as a strategically important subsidiary of Thai Beverage PLC (ThaiBev: rated “AA” with a “stable” rating outlook by TRIS Rating), a leading beverage company in Thailand. The rating also reflects OISHI’s well-known brand, leading market position in the ready-to-drink (RTD) tea segment in Thailand, and its strong balance sheet. The rating is partially weighed down by a shrinking market for domestic RTD tea, intense competition in the restaurant segment, and the slow economic recovery in Thailand which affects consumer spending.

KEY RATING CONSIDERATIONS

Strong support from the ThaiBev Group

OISHI has held a longstanding relationship with the ThaiBev Group, a leading beverage company in Thailand since the Group acquired a majority stake in OISHI in 2006. As of May 2019, ThaiBev holds 80% of OISHI’s outstanding shares. We view OISHI as a strategically important subsidiary of ThaiBev, which enhances OISHI’s credit profile according to TRIS Rating’s group rating methodology.

OISHI leverages ThaiBev’s extensive distribution network to distribute OISHI’s products through more than 400,000 retail outlets nationwide. Besides, OISHI serves as a contract manufacturer for ThaiBev’s affiliates, which helps increase the utilization rate of OISHI’s production facilities.

Leading player in Thailand’s RTD tea market

TRIS Rating believes OISHI will be able to maintain its leading position in the RTD tea segment in Thailand underpinned by its well-recognized brand, established nationwide distribution network, and its product innovation. The market share of “Oishi Green Tea” remained at 45% in the first half of 2019, relatively stable compared with the same period last year.

The domestic RTD tea market recovered in the first half of 2019 with a growth of 5% year-on-year (y-o-y), after experiencing a drop of 10% in 2018 as a result of a new excise tax and sugar tax scheme that came into effect in September 2017. The tax scheme caused RTD tea costs to rise and prompted RTD tea producers to increase their prices. In the past two years, RTD tea producers have demonstrated their ability to accommodate the changes brought on by the tax schemes. Going forward, TRIS Rating expects RTD tea producers to be able to adapt to the gradual increases in the sugar tax rate during 2019-2023.

OISHI’s beverage sales was Bt5.99 billion in 2018, a 15% decrease y-o-y, due to weaker domestic demand following the RTD green tea price increase, which was made to offset the additional tax cost. Export sales to neighboring countries grew strongly by 39%, not enough to offset the weaker domestic sales.

However, in the first nine months of 2019, beverage sales recovered by 7% y-o-y to Bt5.1 billion thanks to a recovery in the domestic RTD tea market and growing export sales. TRIS rating expects low single-digit revenue growth rates in the beverage segment over the next three years as the domestic market is quite mature. We expect profitability in the beverage business to slightly improve as the company controls its selling and administrative

expenses more effectively.

Intense competition in restaurant business

TRIS Rating believes that OISHI can maintain its decent position as a restaurant operator in the fragmented and highly competitive restaurant industry, backed by its brand equity and a track record of consistent operating performance. OISHI has focused more on adding restaurant outlets in recent years. The number of outlets grew from 240 in 2017 to 252 in 2018 and 260 outlets as of June 2019, after having been stable throughout 2015-2017.

The company has experienced some soft trends with negative same-store sales in the past years. However, same-store sales have shown signs of recovery, becoming positive in the first nine months of fiscal year 2019 (FY2019). The positive same-store sales growth was primarily driven by “Oishi Ramen”, “Shabushi”, “Nikuya”, and “Kakashi”. Despite the previous soft trend in same-store sales, the company has managed to enhance its restaurant operating efficiency, resulting in improved profitability over the past five years.

As a result, OISHI’s revenue from the food segment grew 1.7% to Bt6.61 billion in 2018 and 11.3% y-o-y to Bt5.39 billion in the first nine months of 2019. Overall food profitability as measured by reported earnings before interest, tax, depreciation and amortization (EBITDA) margin improved to 11.4% in 2018 and 12.8% in the first nine months of 2019 from 10.1% in 2016.

TRIS Rating expects OISHI’s revenue from the food business to grow at 2%-3% per annum during 2020-2022. We expect outlet expansion to be the main growth driver although intense competition in the restaurant industry will continue to put pressure on same-store sales growth. Profitability is expected to remain favorable as the company should be able to control its costs effectively.

Minimal financial leverage

The company’s healthy finances are the result of robust cash flow generation, reasonable shareholder distribution, and no sizable investments during 2015-2018. As a result, the debt to EBITDA ratio gradually improved to 0.4 times in 2018 and 0.1 times in the first nine months of 2019 from 2 times in 2014.

Going forward, TRIS Rating expects OISHI will have little need to borrow. The expected funds from operations (FFO) of around Bt2.3 billion per annum should be enough to cover forecast investments of around Bt1 billion per annum (excluding acquisition budgets) and shareholder distribution during 2019-2022. We expect the company to become largely debt-free by 2022.

BASE-CASE ASSUMPTIONS

- Revenue to grow around 7% in 2019 and 2% per annum during 2020-2022.
- Gross profit margins to stay around 36%. Operating margins to stay around 17%-18%.
- Total capital spending to be around Bt1 billion per annum during 2019-2022.

RATING OUTLOOK

The “stable” outlook is based on our expectation that OISHI will remain a strategically important subsidiary of ThaiBev. TRIS Rating also expects OISHI to maintain its market position in the RTD tea business and restaurant business while delivering solid operating results and maintaining sound financial leverage.

RATING SENSITIVITIES

The rating could be revised upward if operating performance and cash flow rise meaningfully on a sustained basis or the company has more diversified sources of income. A rating downgrade would occur if the company undertakes overly aggressive debt-funded investments/acquisitions or its operating performance deteriorates for a prolonged period. Any change, in our view, in the degree of strategic importance and linkage to the ThaiBev Group could affect OISHI’s credit rating.

COMPANY OVERVIEW

OISHI is one of the leading providers of non-alcoholic beverages and food service in Thailand. The company was established in 1999, as a Japanese restaurant. 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 2019, ThaiBev was the major shareholder, controlling 80% 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”. In the food segment, OISHI owns 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). OISHI also offers a food delivery service and supplies frozen and chilled foods. As of June 2019, OISHI had 260 restaurant outlets. Shabushi is the company’s largest restaurant brand with 145 outlets in Thailand and two outlets in Myanmar.

OISHI’s production facilities comprise three beverage plants, one each in Pathum Thani, Chonburi, and Saraburi provinces. The combined annual beverage production capacity was about 540 million liters as of June 2019. OISHI also acts as a contract manufacturer, producing drinking water and dairy products for companies in the ThaiBev Group. For the food business, OISHI owns one central kitchen, located in Chonburi province.

OISHI recorded sales of Bt12.70 billion in 2018 and Bt10.53 billion in the first nine months of 2019. The beverage segment accounted for around 50% of total revenue and around two-thirds of EBITDA while the food segment accounted for the remainder.

KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution By Product Line

Product Line	2015		2016*		2017**		2018		9M2019	
	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%
Beverages	6,306	49	5,493	53	7,055	52	5,986	48	5,102	49
Food	6,573	51	4,907	47	6,497	48	6,610	52	5,386	51
Total	12,879	100	10,399	100	13,551	100	12,596	100	10,488	100

Source: OISHI

* Fiscal year for 2016 is Jan-Sep 2016.

** New fiscal year started in October from fiscal year 2017 onwards.

Table 2: OISHI’s Restaurant Portfolio as of June 2019

Brand	Product	Owned Outlet
Oishi Grand	Premium Japanese buffet	1
Oishi Eaterium	Japanese buffet	8
Oishi Buffet	Japanese buffet	10
Shabushi	Shabu and sushi buffet	147
Oishi Ramen	Japanese noodles	54
Nikuya	Japanese BBQ buffet	15
Kakashi	Quick service Japanese food	24
Hou Yuu	Premium Japanese restaurant	1
Total		260

Sources: OISHI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Oct 2018- Jun 2019	-----Year Ended 30 September-----			
		2018	2017	2016	2015*
Total operating revenues	10,531	12,697	13,672	10,505	12,962
Operating income	2,026	2,080	2,788	2,005	2,037
Earnings before interest and taxes (EBIT)	1,215	1,041	1,571	1,009	845
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,035	2,095	2,794	2,009	2,038
Funds from operations (FFO)	1,933	1,905	2,666	1,879	1,897
Adjusted interest expense	40	73	80	90	138
Capital expenditures	866	783	516	856	777
Total assets	9,395	9,680	9,707	9,278	9,089
Adjusted debt	238	903	984	2,354	3,045
Adjusted equity	6,577	5,990	5,591	4,609	4,083
Adjusted Ratios					
Operating income as % of total operating revenues (%)	19.24	16.38	20.39	19.09	15.72
Pretax return on permanent capital (%)	17.14 **	12.85	20.16	13.21	11.42
EBITDA interest coverage (times)	50.80	28.73	35.09	22.42	14.75
Debt to EBITDA (times)	0.10 **	0.43	0.35	1.17	1.49
FFO to debt (%)	974.32 **	211.00	271.03	79.85	62.30
Debt to capitalization (%)	3.50	13.10	14.96	33.81	42.72

* Fiscal year for 2015 is Jan-Dec 2015.

** Annualized with trailing 12 months.

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Oishi Group PLC (OISHI)

Company Rating:

A+

Rating Outlook:

Stable

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