

OISHI GROUP PLC

No. 160/2018
12 October 2018

CORPORATES

Company Rating: A+

Outlook: Stable

Company Rating History:

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

Contacts:

Tulyawat Chatkam
tulyawat@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+". 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 rating also reflects OISHI's well-known brand, leading market position in the ready-to-drink (RTD) tea segment in Thailand, and strong balance sheet. The rating is 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

Support from ThaiBev Group

ThaiBev is one of the leading beverage companies in Thailand. OISHI's relationship with ThaiBev dates back more than 10 years when ThaiBev acquired a majority stake in 2006. As of May 2018, ThaiBev owned 80% of OISHI's outstanding shares.

OISHI manufactures RTD tea products and other non-alcoholic beverages, which ThaiBev then distributes through its extensive distribution network. Through a network which covers over 400,000 retail outlets, OISHI's products are available throughout Thailand. In addition, OISHI serves as a contract manufacturer. It has manufacturing agreements with affiliates of ThaiBev. Contract manufacturing increases the utilization rate of OISHI's production facilities.

New excise tax law shrinks size of RTD tea market

A new excise tax act took effect in mid-September 2017. The excise tax on RTD tea rose from 0% to 10% of the suggested retail selling price. The new act also imposes a tax based on the sugar content of beverages. The sugar tax will increase gradually from 2017 to 2023. As a result, consumers may shift toward beverages with less sugar and become more health conscious.

After the imposition of the new tax, producers of RTD tea increased prices in late 2017 to compensate for the higher tax burden which caused market demand to plunge. For example, OISHI's domestic sales of RTD tea fell 16% year-on-year (y-o-y) in the first nine months of fiscal year (FY) 2018 (Oct 17-Jun 18). This drop was in line with the drop in sales of the whole RTD tea segment. TRIS Rating expects demand in the RTD tea market to stabilize and beverage producers to be able to adapt to the new excise tax.

Strong position in RTD tea segment

Despite the recent drop in sales in the RTD tea segment, OISHI has remained the market leader. OISHI's market share was 45% over the previous 12 months ending June 2018. Its strong market position is supported by the well-known, Japanese-themed "OISHI" brand, and an extensive distribution network which yields high market penetration.

OISHI's beverage sales in the domestic market was Bt3,784 million in the first nine months of FY2018, a 17% drop y-o-y. The drop was due to a rise in the price of RTD tea and a fire at the UHT production lines in the Navanokorn plant.

OISHI's export sales are growing. Beverage exports grew at an average annual rate of 38% during 2014-2017, reaching Bt881 million in 2017. Exports rose by

49% to Bt989 million in the first nine months of FY2018, accounting for 20% of total beverage sales. We expect export sales will be one of the key drivers of growth in the beverage segment.

In November 2017, the UHT production line at the Navanakorn plant caught fire. The fire affected 12% of total production capacity though UHT beverages accounted for less than 10% of total beverage sales. Insurance will cover property damage, lost inventory, and the interruption in business. A new UHT line is expected to start operation in late 2018.

Restaurant segment faces intense competitive pressure

The restaurant segment has good growth prospects. Changes in consumer behavior, such as fast-paced lifestyles, and increased urbanization have raised demand. The competition has increased as well because there are low barriers to entry in the restaurant industry. In addition, the slow economic recovery in Thailand has constrained the growth of the company's restaurant segment. Same-store sales at OISHI's restaurant outlets declined by 2% in 2017 and 4% in the first nine months of FY2018. However, revenue in the restaurant segment held steady because OISHI opened new restaurants. Revenue was Bt6,064 million in 2017 and Bt4,539 million and in the first nine months of 2018. Shabushi restaurants contributed a majority portion of revenue in the restaurant segment.

Urbanization and rising income have made packaged food more popular with consumers. OISHI plans to capitalize on these trends. Revenue from package food was Bt433 million in 2017 and Bt314 million the first nine months of 2018, accounting for 6% of revenue in the food segment. The package food segment can take advantage of excess capacity at OISHI's central kitchen in Chonburi.

Low leverage and abundant cash flow protection

OISHI has a strong balance sheet. Adjusted net debt was Bt1,211 million while the adjusted net debt to net capitalization ratio was 17.2% as of June 2018. OISHI has had little need to borrow. It made less than Bt1,000 million in new investments in each of the last three years (2015-2017). At the same time, cash flow grew along with sales, and cost control efforts boosted profits. However, after prices for RTD tea jumped in FY2018, sales fell and funds from operations (FFO) dropped 25% y-o-y to Bt1,516 million in the first nine months of FY2018. Liquidity remained strong however. The FFO to adjusted net debt ratio was 179% and EBITDA interest coverage was 30 times as of June 2018.

During 2018-2021, OISHI plans capital expenditures totaling about Bt4,600 million. The expenditures will cover a new UHT production line to replace the one damaged by fire, adds a new beverage production line, and opens more restaurant outlets. TRIS Rating forecasts revenue growth of 3%-4% per annum, driven by beverage exports and more restaurant outlets. The operating margin will stay above 16% and FFO will range between Bt2,100-Bt2,300 million per year during 2019-2021. OISHI's balance sheet will remain strong. The adjusted net debt to capitalization will stay below 11%. OISHI's debt serviceability will remain strong as well. The FFO to adjusted net debt is forecast to stay above 200% during 2019-2021.

RATING OUTLOOK

The "stable" outlook is based on the expectation that OISHI will remain a strategically important subsidiary of ThaiBev. TRIS Rating also expects OISHI to maintain competitive position in the RTD tea segment and deliver sound operating results.

RATING SENSITIVITIES

The rating could be revised upward if operating performance and cash flow rise significantly on a sustained basis. A rating downgrade would occur if operating performance deteriorates for a prolonged period of time. Any change, in our view, on the degree of strategic importance and linkage to the ThaiBev Group could affect OISHI's credit rating accordingly.

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 to produce and distribute *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 2018, ThaiBev was the major shareholder, controlling 80% of OISHI's paid-up shares.

OISHI's products feature Japanese style and are offered under the brand "*Oishi*". 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 barbeque), 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 2018, OISHI had 249 restaurant outlets. *Shabushi* is the company's largest restaurant brand with 134 outlets in Thailand and two outlets in Myanmar.

OISHI's production facilities comprise three beverage plants, one each in Pathumthani, Chonburi, and Saraburi provinces. The combined annual production capacity was about 540 million liters of beverages as of June 2018. OISHI also acts as a contract manufacturer, producing drinking water and dairy products for companies in the ThaiBev Group. OISHI owns one central kitchen, located in Chonburi province.

OISHI recorded Bt13,551 million of sales in 2017 and Bt9,626 million in the first nine months of 2018. The beverage segment and food segment each accounted for 50% of total revenue for the first nine months of 2018.

KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution By Product Line

Product Line	2015		2016*		2017**		Oct-Jun 2018	
	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%
Beverages	6,306	49	5,493	53	7,055	52	4,773	50
Food	6,573	51	4,907	47	6,497	48	4,853	50
Total	12,879	100	10,399	100	13,551	100	9,626	100

Source: OISHI

* Fiscal year for 2016 is Jan-Sep 2016.

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

Table 2: OISHI's Restaurant Portfolio as of Jun 2018

Brand	product	Owned Outlet
Oishi Grand	Premium Japanese buffet	1
Oishi Eaterium	Japanese buffet	5
Oishi Buffet	Japanese buffet	12
Shabushi	Shabu and Sushi buffet	136
Oishi Ramen	Japanese noodles	50
Nikuya	Japanese BBQ buffet	17
Kakashi	Quick service Japanese food	22
Other		6
Total		249

Sources: OISHI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Oct 17- Jun 18	-----Year Ended 31 December -----			
		2017 ***	2016 ***	2015	2014
Total operating revenues	9,672	13,672	10,505	12,962	12,486
Operating income	1,645	2,788	2,005	2,037	1,606
Earnings before interest and taxes (EBIT)	838	1,546	982	814	598
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,658	2,794	2,009	2,038	1,636
Funds from operations (FFO)	1,516	2,666	1,879	1,897	1,532
Adjusted interest expense	55	80	90	138	126
Capital expenditures	325	516	856	777	1,864
Total assets	9,745	9,707	9,278	9,089	9,132
Adjusted debt	1,211	984	2,354	3,045	3,295
Adjusted equity	5,822	5,591	4,609	4,083	3,634
Adjusted Ratios					
Operating income as % of total operating revenues (%)	17.01	20.39	19.09	15.72	12.86
Pretax return on permanent capital (%)	15.54 **	20.16	13.21	11.42	9.66
EBITDA interest coverage (times)	30.18	35.09	22.42	14.75	12.97
Debt to EBITDA (times)	0.52	0.35	1.17	1.49	2.01
FFO to debt (%)	178.84 **	271.03	79.85	62.30	46.49
Debt to capitalization (%)	17.22	14.96	33.81	42.72	47.55

* Consolidated financial statements

** annualized with trailing 12 months

*** New fiscal year start in October from fiscal year 2017 onwards (fiscal year for 2016 is Jan-Sep 2016).

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

© Copyright 2018, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria