

OISHI GROUP PLC

No. 140/2020
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CORPORATES

Company Rating: A+
Outlook: Stable

Last Review Date: 25/10/19

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 market leader in the ready-to-drink (RTD) tea segment in Thailand and its well-recognized brand. The rating also takes into consideration OISHI’s satisfactory operating results, strong balance sheet, and ample liquidity position. The rating is partly enhanced by the support OISHI receives from Thai Beverage PLC (ThaiBev; rated “AA/Stable” by TRIS Rating), its major shareholder. However, these strengths are partially offset by intense competitions in both the beverage and restaurant businesses, and a weak economy induced by the Coronavirus Disease 2019 (COVID-19) pandemic.

KEY RATING CONSIDERATIONS

Support from ThaiBev

ThaiBev’s equity interest holdings in OISHI as of May 2020 was 79.66%. ThaiBev has full control over OISHI’s operations through the appointment of the top management and board of directors. OISHI receives support from ThaiBev through the latter’s extensive distribution network, as well as through shared resources and production facilities.

OISHI leverages ThaiBev’s extensive distribution network to distribute its products, which covers more than 450,000 retail outlets and local restaurants country wide. OISHI also serves as a contract manufacturer for ThaiBev’s affiliates, which helps increase the capacity utilization of OISHI’s production facilities.

The rating incorporates an enhancement based on the support OISHI receives from ThaiBev. We view OISHI as a strategically important subsidiary to ThaiBev in light of its contribution to ThaiBev’s non-alcoholic beverages and food businesses. We believe OISHI will receive full support from ThaiBev, including financial assistance in the event of distress, because of OISHI’s essential role in ThaiBev’s non-alcoholic beverage and food operations.

Chain restaurants negatively affected by COVID-19

In fiscal year 2019 (FY2019), OISHI’s revenue from the food business was THB7.1 billion, growing by about 8% from FY2018. After experiencing soft trends in the previous years, same-store sales of OISHI’s restaurants improved in FY2019, rising by about 2%. The same-store sales growth was primarily driven by “Shabushi”, “Nikuya”, “Kakashi” and “Oishi Ramen”.

OISHI has a strong competitive edge in Japanese-style restaurants with its flagship brand in the shabu buffet segment. OISHI has continued to expand restaurant outlets. During 2019 and 2020, OISHI has focused on expansion of “Shabushi” and has entered into more premium and a la carte segments, such as “Hou Yuu” for premium Japanese restaurant and newly opened “Sakae” for premium sukiyaki and shabu restaurants in a la carte format. The number of outlets was 269 as of June 2020, up from 266 in 2019, and 252 in 2018.

In FY2020, we expect the social-distancing measures to contain the spread of the COVID-19 will cause an apparent decline in revenue from OISHI’s restaurant business. Domestic economic fallout from the pandemic, resulting in weakened consumer confidence, is another factor dampening same-store sales in 2020.

OISHI's restaurants were closed for dine-in services from 22 March to 16 May 2020 as part of the national lockdown. As a result, its revenue from restaurant chains dropped for the first nine months of FY2020. Takeaway and home delivery helped soften the impact of lockdowns to some extent. On the other hand, OISHI's frozen and chilled food products recorded favorable revenue growth from new products launch and consumers' buying behaviors during the height of lockdown fears.

Nonetheless, the COVID-19 has had an adverse impact on the company's overall food business. OISHI's revenue from the food business for the first nine months of FY2020 dropped by 30% year-on-year (y-o-y) to THB3.8 billion. Profitability of the food business as measured by reported earnings before interest, tax, depreciation and amortization (EBITDA) margin plunged to 2% in the first nine months of FY2020 due to a decline in sales, and major fixed operating costs such as rental fee and personal expenses.

After relaxation of lockdown, there was a sign of sales recovery observed although it was not yet fully normal. Our base-case forecast projects OISHI's revenue from the food business to shrink significantly in FY2020, but will resume to the level of THB6-THB7 billion per annum during the following two years. We expect outlet expansion with varieties of store formats to be the main growth driver during FY2021-FY2022. Intense competition in the restaurant industry and the fragile economy as well as low consumer confidence will continue to put pressure on same-store sales growth.

OISHI has implemented expense controls, waste controls, and operational efficiency program to alleviate the impact of declined revenue and aims to improve profitability in the long term. Our base case forecast projects earnings for the food business in FY2020 to be negative, before improving during the next two years.

Market leader in the Thai RTD tea segment

OISHI remains the market leader in the RTD tea segment in Thailand. OISHI held a market share of about 46.7% in the trailing 12 months period of June 2020, up from 44.5% in the same period of the previous year. OISHI's competitive edge is largely built upon its well-recognized brands, nationwide distribution network, and its product innovation. OISHI utilizes ThaiBev's extensive distribution network (including Sermsook PLC's distribution network) which covers more than 450,000 retail outlets and local restaurants. OISHI's innovative products and its expansion into the premium RTD tea segment also help boost sales in the beverage segment. Its market share is way above the second-ranked company which holds a market share of around 31%.

OISHI recorded total beverage sales of THB6.5 billion in FY2019, growing by 9% from FY2018. OISHI's domestic RTD tea sales in FY2019 grew by 7% from the previous fiscal year, outpacing the industry growth rate of 2% from FY2018. In 2019, the RTD tea market in Thailand recovered from a new excise tax scheme, as the RTD tea producers were able to accommodate the changes brought by the tax schemes and began offering products with lower sugar contents.

However, in the first half of 2020, the Thai RTD tea market contracted by 12% y-o-y as a result of the COVID-19. OISHI's beverage sales in the first nine months of FY2020 dropped by 9% y-o-y to THB4.7 billion. Despite declining sales, the profitability in the beverage business improved because of the cost control efforts and lower advertising and promotion expenses. Normalized EBITDA margin (excluding THB0.29 billion of one-time items for insurance claim) was about 24.5% in the first nine months of FY2020, up from 23.3% in the same period of the previous fiscal year. The higher profit margin of the beverage business could partly help cushion the loss in the food business.

After the relaxation of lockdown measures, we expect domestic sales to resume to near-normal levels, while export sales to improve gradually. Our base case forecast projects a drop in OISHI's beverage sales in FY2020, before rebounding and growing at single-digit rates during the following two years.

Beverage business helps stabilize earnings

OISHI's profitability has remained satisfactory. The company's EBITDA amounted to about THB2.4 billion per annum in FY2019, up from THB 2 billion in FY2018. The improvement in profitability in FY2019 was driven by both the beverage and food business. The EBITDA margin was 17.7% for FY2019.

However, recurring EBITDA (stripping out one-time items) for the first nine months of FY2020 was THB1.4 billion, down from THB2 billion in the same period of the previous fiscal year, largely due to the drop in the food business's profitability. The EBITDA margin for the first nine months of FY2020 was 16.7%.

We project the overall EBITDA of OISHI to decline in FY2020, reflecting the dipping food sales with negative earnings. However, we expect sales of beverage products with improved margins to help stabilize overall profitability and the company's bottom line to remain profitable in FY2020. We forecast EBITDA to gradually improve to a level of THB2.1-THB2.3 billion per annum during the following two fiscal years. The rebound in sales, as well as cost-control initiatives particularly in the food business while entering into premium products, and product innovations are expected to improve

the company's profitability.

Minimal financial leverage

OISHI has been in a debt-free position since FY2019 and maintained this position through 30 June 2020. Since OISHI has improved cash generation and has reasonable dividend payout with no sizable capital expenditure or investments for a long period of time, the company is in a net cash position. As of June 2020, cash on hand and cash equivalents amounted to around THB740 million.

OISHI plans total capital spending of about THB1.7 billion during FY2020-FY2022. Without any large debt-funded acquisitions, we expect OISHI will have little need to borrow and is likely to continue its net cash position during the next three fiscal years. We forecast funds from operations (FFO) of around THB1.8-THB2 billion during the next 12 months, which should be sufficient to cover planned capital expenditures, investments, and dividend payout. We do not expect any significant change to OISHI's capital structure during the next three fiscal years.

BASE-CASE ASSUMPTIONS

- Revenue to come under pressure in FY2020 and will rebound to a level of THB12.5-THB13 billion per annum during FY2021-FY2022.
- EBITDA margins to stay around 17%.
- Total capital spending of around THB1.7 billion during FY2020-FY2022.

RATING OUTLOOK

The "stable" outlook reflects our expectation that OISHI will remain a strategically important subsidiary of ThaiBev. We also expect OISHI to maintain its market position in the RTD tea and restaurant businesses while delivering improved operating results and maintaining a strong balance sheet.

RATING SENSITIVITIES

The credit downside case would materialize if OISHI makes an aggressive shift in the use of leverage or if the company's operating performance deteriorates further than our expectations. In contrast, the rating upside case would materialize if its operating results and ability to generate cash flow improve materially on a sustained basis, or the company has more diversified sources of income. Any change in our view with regard to the degree of support OISHI receives from ThaiBev would also trigger a rating action.

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 2020, ThaiBev was the major shareholder, controlling about 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). During 2018-2020, OISHI has entered into more premium segments, such as "Hou Yuu" for premium Japanese restaurant, "Oyoki" for premium soft serve outlets, and newly opened "Sakae" for premium sukiyaki and shabu restaurants in a la carte format. OISHI also offers a food delivery service and supplies frozen and chilled foods. As of June 2020, OISHI had 269 restaurant outlets. Shabushi is the company's largest restaurant brand with 158 outlets in Thailand and one 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 579 million liters as of June 2020. OISHI also acts as a contract manufacturer, producing drinking water and dairy products for affiliates of ThaiBev. For the food business, OISHI owns one central kitchen, located in Chonburi province.

OISHI recorded total revenue of THB13.6 billion in FY2019 and THB8.4 billion in the first nine months of FY2020. The beverage segment accounted for around 48% of total revenue and around 63% of EBITDA in FY2019, while the food segment accounted for the remainder.

KEY OPERATING PERFORMANCE
Table 1: Revenue Contribution by Product Line*

Product Line	FY2017		FY2018		FY2019		9MFY2020 (Oct 19-Jun 20)	
	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%
Beverages	7,055	52	5,986	48	6,491	48	4,656	55
Food	6,497	48	6,610	52	7,132	52	3,766	45
Total	13,551	100	12,596	100	13,623	100	8,423	100

Source: OISHI

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

Table 2: OISHI's Restaurant Portfolio as of Jun 2020

Brand	Product	Owned Outlet
Oishi Grand	Premium Japanese buffet	1
Oishi Eaterium	Japanese buffet	9
Oishi Buffet	Japanese buffet	10
Shabushi	Shabu and sushi buffet	159
Oishi Ramen	Japanese noodles	53
Nikuya	Japanese BBQ buffet	12
Kakashi	Quick service Japanese food	22
Hou Yuu	Premium Japanese restaurant	1
Oyoki	Premium Japanese soft serve	2
Total		269

Source: OISHI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 30 September -----				
	Oct 2019- Jun 2020	2019	2018	2017	2016***
Total operating revenues	8,463	13,699	12,697	13,672	10,505
Earnings before interest and taxes (EBIT)	610	1,323	1,041	1,571	1,009
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,415	2,419	2,095	2,794	2,009
Funds from operations (FFO)	1,377	2,293	1,905	2,666	1,879
Adjusted interest expense	19	52	73	80	90
Capital expenditures	265	934	783	516	856
Total assets	8,426	8,407	9,680	9,707	9,278
Adjusted debt	0	0	903	984	2,354
Adjusted equity	6,768	6,640	5,990	5,591	4,609
Adjusted Ratios					
EBITDA margin (%)	16.72	17.66	16.50	20.43	19.12
Pretax return on permanent capital (%)	9.38 **	17.21	12.85	20.16	13.21
EBITDA interest coverage (times)	74.14	46.56	28.73	35.09	22.42
Debt to EBITDA (times)	0.00 **	0.00	0.43	0.35	1.17
FFO to debt (%)	n.m. **	n.m.	211.00	271.03	79.85
Debt to capitalization (%)	0.00	0.00	13.10	14.96	33.81

* Consolidated financial statements

** Annualized with trailing 12 months

*** Fiscal year for 2016 is January-September 2016.

n.m. Not meaningful

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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