

22 October 2024

Consumer Non-cyclical | Food & Beverage Products

Osotspa (OSP TB)

Buy (Maintained)

A Better 4Q Ahead; Still BUY

Target Price (Return): THB30.50 (+43%)
 Price (Market Cap): THB21.40 (USD1,923m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (THB/USD) 287m/8.45m

- Maintain BUY and DCF-derived THB30.50 TP, 43% upside and c.4% yield.** Osotspa's 3Q24F core profit is expected to grow 8% YoY (-34% QoQ), but its bottomline may be in the red due to a one-time expense from the divestment of the glass packaging JV in Myanmar. We are positive on its 4Q24F earnings which should see YoY and QoQ expansion. A focus on its core businesses after the completion of divestments may also help strengthen its operations from 2025F. The stock's current P/E valuation (c.-2SD) and dividend yield remain attractive.
- Flooding affected traditional trade channels.** OSP's market share for energy drinks in Thailand is expected to shrink to 45.4% in 3Q24 from 46.5% in 3Q23 and 46.4% in 2Q24. The key reason is that the company's traditional trade distribution channels (c.60% of beverage sales) were affected by floods in the northern, north-eastern, and central regions (c.60% of traditional trade sales), while performance of its modern trade channels stayed quite stable. We expect it to be challenging for OSP to reach its targeted market share of 47.9% (+2ppts YoY) by end-4Q24, based on its 9M24's 46.0% market share. However, the momentum will likely improve QoQ in the final quarter.
- 3Q24F core profit expanded YoY.** We expect OSP to post a core profit of THB609m in 3Q24, up 8% YoY on wider profit margin, despite falling 34% QoQ due to seasonality. Total sales should fall by 2% YoY (-16% QoQ) to THB6.15bn. Strong sales growth YoY for its personal care product and overseas businesses may be offset by the weaker domestic beverage business, while the QoQ drop was due to a low season for beverages in the local and international markets. We assume an overall GPM at 36.0%, up 0.6ppt YoY on wider high-margin international sales, but QoQ will likely see a 2.2-ppt decline due to smaller operations. The opex should also drop 3% YoY (-10% QoQ) on lower selling expenses, but the sluggish topline may cause its opex-to-sales ratio to stay quite flat YoY, yet rise by 1.7ppts QoQ to 25.7%. OSP may book a one-time net impairment of THB800m from the divestment of the glass packaging JV in Myanmar, causing it to record a bottomline net loss of THB191m this quarter.
- Brighter 4Q outlook.** We believe OSP's core profit will expand YoY and QoQ in 4Q24F as local and overseas sales should recover. The domestic market may benefit from: i) The easing of floods that will boost the company's beverage product distribution, and ii) better functional drinks sales post-launch of its new C-Vitt vitamin C drink products in 3Q. As such, we maintain our forecasts and TP, expecting OSP to see strong core profit growth of 24% YoY in FY24 - based on the assumption of an 8% sales expansion and GPM hike by 1.9 ppts to 36.4% - as well as another 9% to THB3.34bn in FY25 (reaching FY19's levels).
- Valuation.** Our TP includes a 0% ESG premium/discount, given OSP's 3.2 ESG score, which is on par with the country median. It is trading at an undemanding 21x FY24F P/E, or c.-2SD from its 5-year historical mean.

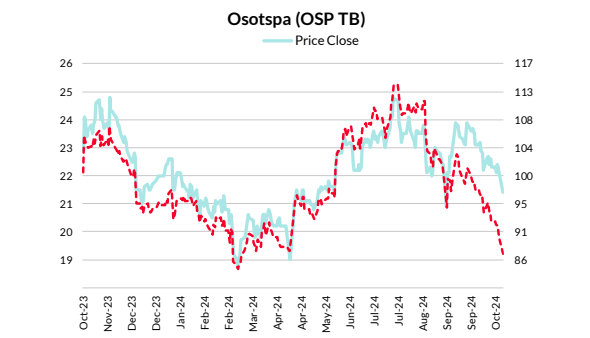
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.7)	(10.5)	(13.4)	12.6	(6.6)
Relative	(7.8)	(13.1)	(26.4)	0.8	(13.0)
52-wk Price low/high (THB)	18.80 - 24.80				



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E: GOOD

OSP focuses resources on minimising its impact on the environment by implementing circular economic principles. At company level, it increases operational eco-efficiencies. By 2025, it targets a 40% reduction in water consumption and 15% less greenhouse gas emissions. At the consumer level, OSP reduces the environmental impact of its packaging. With a sustainable packaging policy, it plans to be 100% polyvinyl chloride free and see a 5% weight reduction by 2025. It also plans to have 100% recyclable, compostable, and reusable packaging within 2030.

S: EXCELLENT

OSP aims to make a positive impact on society, serve customers with the highest quality, treat employees well via good labour practices and human capital development, and share corporate citizenship and philanthropy programmes in the communities it operates in. OSP also focuses on growing alongside its suppliers and gearing for the future with innovations.

G: EXCELLENT

OSP is committed to corporate governance to protect the company and shareholders' interests, and treat shareholders equally and fairly. It also strives to maximise shareholder satisfaction through growth in its value, and disclose information transparently and reliably.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (THBm)	27,266	26,062	28,031	29,236	30,466
Recurring net profit (THBm)	1,934	2,481	3,075	3,342	3,595
Recurring net profit growth (%)	(40.6)	28.3	24.0	8.7	7.6
Recurring P/E (x)	33.24	25.91	20.90	19.24	17.88
P/B (x)	3.7	3.8	3.7	3.6	3.6
P/CF (x)	31.25	24.85	9.85	12.94	12.48
Dividend Yield (%)	4.2	7.7	4.3	5.2	5.6
EV/EBITDA (x)	15.40	14.04	11.11	10.30	9.65
Return on average equity (%)	10.8	14.0	15.9	18.9	20.2
Net debt to equity (%)	4.3	8.2	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (THB)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Thailand	Recurring EPS	0.64	0.83	1.02	1.11	1.20
Consumer Non-cyclical	DPS	0.90	1.65	0.92	1.11	1.20
Osotspa	BVPS	5.74	5.68	5.85	5.90	5.95
OSP TB	Return on average equity (%)	10.8	14.0	15.9	18.9	20.2
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	33.24	25.91	20.90	19.24	17.88
DCF	P/B (x)	3.7	3.8	3.7	3.6	3.6
	FCF Yield (%)	1.7	2.9	8.6	6.2	6.5
	Dividend Yield (%)	4.2	7.7	4.3	5.2	5.6
Key drivers	EV/EBITDA (x)	15.40	14.04	11.11	10.30	9.65
i. New product launches;	EV/EBIT (x)	25.72	21.19	15.90	14.49	13.39
ii. Expansion of production capacity;						
iii. Penetration into new markets;						
iv. Efficient corporate cost control programme.						
	Income statement (THBm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	27,266	26,062	28,031	29,236	30,466
i. Unsuccessful premiumisation strategy;	Gross profit	8,350	9,003	10,203	10,701	11,181
ii. Slow recovery in consumption;	EBITDA	3,979	4,589	5,503	5,864	6,185
iii. Continuing cost hikes;	Depreciation and amortisation	(1,598)	(1,548)	(1,657)	(1,697)	(1,728)
iv. Delays in its corporate cost-savings programme coming into effect;	Operating profit	2,381	3,040	3,846	4,166	4,457
v. Political uncertainty in Myanmar.	Net interest	(89)	(108)	(95)	(90)	(70)
	Pre-tax profit	2,293	2,854	3,436	4,076	4,387
	Taxation	(369)	(431)	(638)	(693)	(746)
	Reported net profit	1,934	2,402	2,760	3,342	3,595
	Recurring net profit	1,934	2,481	3,075	3,342	3,595
Company Profile						
Osotspa is a manufacturer and distributor of consumer products, mainly energy drinks under the key brand M-150, as well as sports drinks, ready-to-drink coffee, and personal care products under the Babi Mild and Twelve Plus brands. OSP also provides product manufacturing, packaging, and distribution services.	Cash flow (THBm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(909)	(1,148)	2,109	(72)	(171)
	Cash flow from operations	2,057	2,587	6,526	4,967	5,152
	Capex	(990)	(745)	(1,000)	(1,000)	(1,000)
	Cash flow from investing activities	(484)	1,975	(1,000)	(1,000)	(1,000)
	Dividends paid	(3,304)	(4,956)	(2,253)	(3,196)	(3,443)
	Cash flow from financing activities	(2,980)	(4,310)	(4,610)	(3,196)	(3,443)
	Cash at beginning of period	2,493	1,087	1,339	2,255	3,026
	Net change in cash	(1,407)	253	916	771	709
	Ending balance cash	1,087	1,339	2,255	3,026	3,736
	Balance sheet (THBm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	1,087	1,339	2,255	3,026	3,736
	Tangible fixed assets	13,480	13,020	12,414	11,758	11,063
	Total investments	3,805	1,387	1,387	1,386	1,386
	Total assets	26,154	24,402	22,603	22,850	23,085
	Short-term debt	1,161	2,168	78	78	78
	Total long-term debt	723	520	253	253	253
	Total liabilities	7,699	7,892	5,585	5,687	5,770
	Total equity	18,455	16,510	17,017	17,163	17,315
	Total liabilities & equity	26,154	24,402	22,603	22,850	23,085
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	1.9	(4.4)	7.6	4.3	4.2
	Recurrent EPS growth (%)	(40.6)	28.3	24.0	8.7	7.6
	Gross margin (%)	30.6	34.5	36.4	36.6	36.7
	Operating EBITDA margin (%)	14.6	17.6	19.6	20.1	20.3
	Net profit margin (%)	7.1	9.2	9.8	11.4	11.8
	Dividend payout ratio (%)	139.8	206.3	100.0	100.0	100.0
	Capex/sales (%)	3.6	2.9	3.6	3.4	3.3
	Interest cover (x)	26.8	28.2	40.5	46.3	63.7

Source: Company data, RHB

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Figure 1: OSP's DCF valuation

THBm	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
EBIT	3,846	4,166	4,457	4,717	4,993	5,244	5,472	5,699	5,936	6,181
EBIT (1-t)	3,192	3,458	3,699	3,915	4,145	4,353	4,541	4,730	4,927	5,130
Depreciation & amortisation	1,657	1,697	1,728	1,789	1,836	1,884	1,938	1,989	2,042	2,095
Change in net working capital	3,604	(2,181)	(99)	42	9	(2)	17	(7)	2	(9)
Capex	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Net free cash flow to firm	7,453	1,974	4,328	4,747	4,989	5,235	5,497	5,713	5,970	6,216
Terminal value										117,276
PV	7,182	1,755	3,549	3,591	3,481	3,369	3,264	3,129	3,016	57,553
Terminal growth	3.0%									
WACC	8.4%									
Total discounted firm value	89,890									
Less: Net debt	(1,924)									
Less: Minority interest	184									
Equity value	91,630									
Number of shares (m)	3,004									
Intrinsic value (THB/share)	30.50									
ESG premium/(discount)	0%									
TP (THB/share)	30.50									

Source: RHB

Figure 2: OSP's performance preview

FYE Dec (THBm)	3Q23	4Q23	1Q24	2Q24	3Q24F	YoY % chg	QoQ % chg	9M23	9M24F	YoY % chg
Turnover	6,277	6,530	7,260	7,345	6,152	-2.0	-16.2	19,532	20,757	6.3
Gross profit	2,220	2,317	2,647	2,804	2,215	-0.2	-21.0	6,686	7,666	14.7
Gross profit margin (%)	35.4	35.5	36.5	38.2	36.0			34.2	36.9	
SG&A/sales (%)	25.9	24.9	24.7	24.0	25.7			24.9	24.8	
EBIT	684	796	977	1,128	734	7.4	-34.9	2,244	2,839	26.5
EBIT margin (%)	10.9	12.2	13.5	15.4	11.9			11.5	13.7	
EBITDA	1,069	1,177	1,347	1,501	1,115	4.4	-25.7	3,411	3,964	16.2
EBITDA margin (%)	17.0	18.0	18.6	20.4	18.1			17.5	19.1	
Interest expense	(26)	(34)	(29)	(26)	(24)	-9.8	-9.7	(74)	(79)	7.2
Pre-tax profit	657	762	948	1,101	710	8.1	-35.5	2,170	2,760	27.2
Tax	(96)	(171)	(82)	(143)	(82)	-14.8	-42.7	(259)	(306)	18.0
Core profit	562	592	828	919	609	8.4	-33.7	1,889	2,357	24.8
Core profit margin (%)	9.0	9.1	11.4	12.5	9.9			9.7	11.4	
Net profit	642	433	828	604	(191)	nm	nm	1,969	1,242	-36.9
Net profit margin (%)	10.2	6.6	11.4	8.2	-3.1			10.1	6.0	

Source: Company data, RHB

Emissions And ESG

Trend analysis

In 2023, OSP's greenhouse gas emissions (Scope 1 and 2) totalled 238,226tCO₂e, declining 16% from 284,456tCO₂e in 2022.

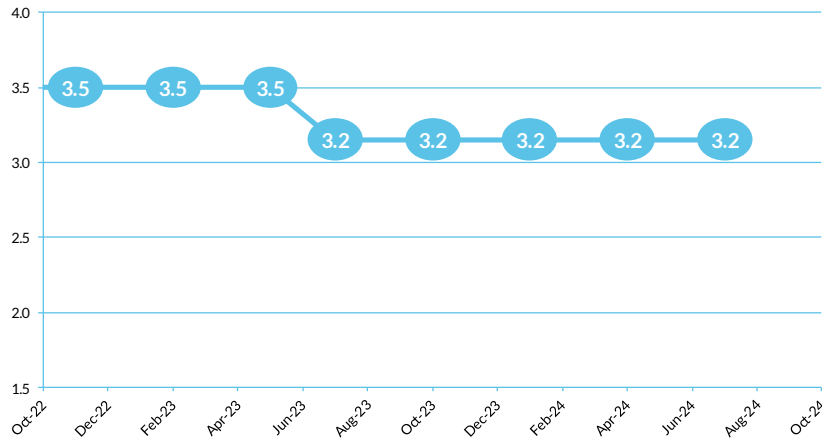
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	182,988	186,256	153,645
Scope 2	88,258	98,199	84,581
Scope 3	285,684	274,682	327,831
Total emissions	556,930	559,137	566,057

Source: Company data, RHB

Latest ESG-Related Developments

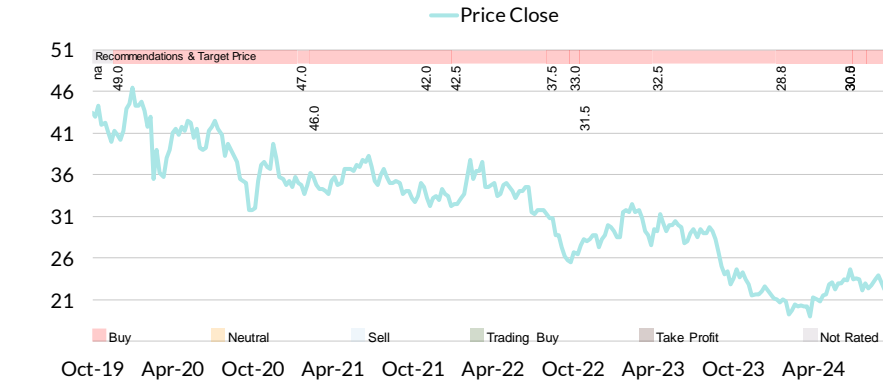
- **Sustainable supply chain.** By 2025, it plans to create economic opportunities for 450 small suppliers of cullets and herbs, enhance the livelihood of 500 local herb suppliers, and 100% of critical suppliers will be subject to ESG assessments.
- **Consumer health and well-being.** By 2025, 100% of OSP's beverage portfolio will be produced with less sugar, and 50% of its healthcare and confectionery portfolio will be sugar-free.
- **Sustainable packaging.** By 2030, 100% of its products will be in recyclable, reusable, or compostable packaging.
- **Water management.** By 2025, it targets a 40% reduction in water consumption in the company's operations.
- **Energy and climate change management.** By 2025, it targets a 10% reduction in energy consumption across its facilities, and 15% reduction in greenhouse gas emissions across its operations.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-09-02	Buy	30.5	20.9
2024-08-26	Buy	30.5	22.8
2024-07-24	Buy	30.0	23.6
2024-04-23	Buy	28.8	21.0
2024-03-27	Buy	28.8	20.6
2024-02-29	Buy	28.8	20.3
2024-01-30	Buy	28.8	21.1
2023-10-24	Buy	32.5	24.1
2023-08-11	Buy	32.5	29.5
2023-07-20	Buy	32.5	29.3
2023-04-25	Buy	32.5	28.5
2022-11-10	Buy	31.5	26.5
2022-10-18	Buy	33.0	25.3
2022-08-25	Buy	37.5	31.3
2022-02-25	Buy	42.5	35.8

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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Analyst	Company
-	-

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Corporate Governance Report Rating 2023 (CG Score) as of 13 Nov 2023



Score Range	Number of Logo	Description
90-100	▲▲▲▲▲	Excellent
80-89	▲▲▲▲	Very Good
70-79	▲▲▲	Good
60-69	▲▲	Satisfactory
50-59	▲	Pass
Lower than 50	No logo given	N/A

7UP	BBL	CPW	HTC	M FC	PRINC	SIRI	TFG	TSTH
AAI	BC	CRC	ICC	M FEC	PRM	SIS	TFMAMA	TTA
AAV	BCH	CRD	ICHI	M ILL	PRTR	SITHAI	TGE	TTB
ABM	BCP	CSC	ICN	M INT	P SH	SJWD	TGH	TTCL
ACE	BCPG	CSS	III	M ONO	P SL	SKR	THANA	TTW
ACG	BDM S	CV	ILINK	M OONG	PT	SM	THANI	TURTLE
ADB	B EC	DCC	ILM	M SC	PTC	SMPC	THCOM	TVDH
ADD	B EM	DDD	IM H	M ST	PTT	SMT	THIP	TVH
ADVA NC	B EYOND	DELTA	IND	M TC	PTTEP	SNC	THRE	TVO
A EONTS	B GC	DEM CO	INET	M TI	PTTGC	SNP	THREL	TVT
AF	B GRIM	DM T	INTUCH	NC	Q-CON	SNP	TIDLOR	TWPC
A GE	BH	DOHOM E	IP	NCH	QH	SO	TIPH	UAC
AH	BIZ	DRT	IRC	NCL	QTC	SPALI	TISCO	UBE
AHC	BJC	DUSIT	IRPC	NDR	RATCH	SA	TK	UBIS
AIRA	BJCHI	EA	ITC	NER	RBF	SA BINA	TKN	UKEM
AIT	B KI	EA STW	ITEL	NKI	RPH	SA K	TKS	UP
AJ	B LA	ECF	IVL	NOB LE	RS	SA M ART	TKT	UPF
A KP	B OL	ECL	JAS	NRF	RT	SA M TEL	TLI	UPOIC
A KR	BPP	EE	JTS	NTV	S	SA PPE	TM	UV
A LLA	BRI	EGCO	KBANK	NVD	S&J	SA T	SSF	VCOM
A LT	BROOK	EP G	KCC	NWR	SA	SB NEXT	SSSC	VGI
AM A	BRR	ERW	KCE	NYT	SA BINA	SC	STA	VIBHA
AM ARIN	BTS	ETC	KEX	OCC	SA K	SCB	STC	VIH
AM ATA	BTW	ETE	KKP	ONEE	SA M ART	SCC	STEC	VL
AM ATAV	BWG	FE	KSL	OR	SA M TEL	SCG	STI	VN
ANAN	B YD	FLOYD	KT B	ORI	SA PPE	SCGP	SUC	WHA
A OT	CBG	FN	KTC	OSP	SA T	SCM	SUN	WHAUP
AP	CENTEL	FPI	KTM S	OTO	SB NEXT	SDC	SUSCO	WICE
APCO	CFRESH	FPT	KUM WEL	PAP	SC	SEA FCO	SUTHA	WINMED
APCS	CHA SE	FSX	KUN	PATO	SCB	SEA OIL	SVI	WINNER
ARIP	CHEWA	FVC	LA LIN	PB	SCC	SECURE	SVT	XPG
ARROW	CHG	GB X	LA NNA	PCSGH	SCCC	SELIC	SYM C	YUASA
A SEFA	CHOW	GC	LH	PDG	SCG	SENA	SYNEX	ZEN
A SK	CIM BT	GCA P	LHFG	PDJ	SCGP	SENX	SYNTEC	TQM
A SP	CIVIL	GENCO	LIT	PG	SCM	SFT	TACC	TQR
A SW	CK	GFP T	LOXLEY	PHOL	SDC	SGC	TAE	TRT
ATP 30	CKP	GCC	LP N	PIM O	SEA FCO	SGF	TCAP	TRUE
AUCT	CM	GLA ND	LRH	PJW	SEA OIL	SGP	TCM C	TRV
AWC	CNT	GLOB AL	LST	P LA NB	SECURE	SHR	TEAM G	TSC
A YUD	COLOR	GP SC	M	P LA T	SELIC	SICT	TEG H	TSTE
B	COM 7	GRA M M Y	M AJOR	P LUS	SENA			
BA	COTTO	GULF	M A LEE	PM	SENX			
BAFS	CPA LL	GUNKUL	M ATCH	P OLY	SFT			
BAM	CPA XT	HANA	M BK	P ORT	SGC			
BANPU	CPF	HARN	MC	PPP	SGF			
BAY	CPI	HENG	M -CHA I	PPS	SGP			
BB GI	CPL	HM PRO	M COT	PR9	SHR			
BBIK	CPN	HPT	M EGA	PRG	SICT			

2S	B SB M	EFORL	IT	KWC	PIN	SCI	SUPER	VRANDA
A5	BTG	EKH	J	KWM	P QS	SCN	SVOA	WAVE
AIE	CEN	ESSO	JCKH	LDC	PREB	SE	SWC	WFX
A LUCON	CGH	ESTA R	JDF	LEO	PRI	SE-ED	TCC	WIK
AM R	CH	EVER	JKN	LHK	PRIM E	SFLEX	TEKA	WIN
APURE	CHIC	FORTH	JM ART	M ACO	PROEN	SINGER	TFM	WP
ARIN	CI	FSM ART	JUBILE	M ETCO	PROS	SKN	TM ILL	XO
AS	CIG	FTI	K	M ICRO	PROUD	SONIC	TNP	
A SIA	CM C	GEL	KCA R	MK	P STC	SORKON	TPLAS	
A SIA N	COM AN	GP I	KGI	M VP	PTECH	SPVI	TPOLY	
A SIM AR	CSP	HEA LTH	KIA T	NCAP	P YLON	SSP	TRC	
A SN	DOD	HUM AN	KISS	NOVA	RCL	SST	TRU	
AURA	DPAINT	IFS	KK	NTSC	SA LEE	STANLY	TRUBB	
BR	DV8	INSET	KTIS	PACO	SA NKO	STP	TSE	

24CS	CHARAN	GTB	JSP	M UD	PM TA	SAM CO	TC	UTP
AM ANAH	CHA YO	GTV	KB S	NATION	PPM	SAWAD	TEAM	VARO
AM ARC	CHOTI	GYT	KGEN	NNCL	PRA KIT	SCAP	TFI	VPO
AM C	CITY	HL	KJL	NPK	PRAPAT	SCP	TIGER	W
APP	CM AN	HTECH	L&E	NSL	PRECHA	SIAM	TITLE	WARRIX
A SA P	CM R	HYDRO	LEE	NV	PRIN	SKE	TKC	WORK
BCT	CRANE	IIG	M A STER	OGC	P SG	SKY	TM I	WPH
B E8	CWT	INGRS	M BAX	PAF	RABBIT	SMART	TNH	YONG
BIG	DHOUSE	INSURE	M EB	PCC	REA DY	SMD	TPA	ZIGA
BIOTEC	DTCENT	IRCP	M ENA	P EA CE	RJH	SMIT	TPAC	
B LESS	EA SON	ITD	M ETA	PICO	RSP	SOLAR	TRITN	
B SM	FNS	ITNS	M GT	PK	RWI	SPA	UBA	
B VG	FTE	JCK	M ITSIB	PL	S11	STECH	UMI	
CAZ	GIFT	JM T	M JD	P LA NET	SA AM	STPI	UMS	
CCET	GJS	JR	M OSHI	P LE	SA F	SVR	UOBKH	

Source: Thai Institute of Directors (IOD)

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