

28 February 2020

Consumer Non-cyclical | Food & Beverage Products

## Osotspa (OSP TB)

**Buy** (Maintained)

### Healthy Growth To Continue; Maintain BUY

- Keep BUY with unchanged THB49.00 TP, 15% upside plus c.2% yield.** We are still optimistic on Osotspa's 2020F outlook. Expected resilient 15% core profit growth and ROE hike by 2% this year may be driven by strong functional drinks sales, new facility in Myanmar, and efficient cost management to keep GPM rising. Its market leadership also deserves premium valuation.
- 2020 targets still aggressive.** On Thursday's analyst meeting, Osotspa's management highlighted its expectation of double-digit growth in total revenue for 2020F. It plans to strengthen its local beverage markets (both energy and functional drinks), extend its product categories for the personal care segment, keep expanding its overseas markets in Myanmar and Vietnam, and drive new business (51% investment in a JV) by doubling the number of vending machines. Margin-wise, it would continue focusing on the corporate "Fit-Fast-Firm" programme to lower costs by up to THB800m.
- Likely to achieve.** We keep our 2020F of 11% revenue growth, GPM hike by 40bps, and 15% core profit growth. Amid concerns on the COVID-19 spread, we are still optimistic on the health consciousness trend which may continue driving functional beverage sales. Meanwhile, its personal care outlook may continue to be supported by the products' value-for-money positioning and new product launches. Successful reformulation of energy drinks has lowered its sugar content excise tax rate to THB0.10/litre, from THB0.50-1.00/litre previously, playing a vital role in boosting profit margins. The inauguration of its new beverage filling facility in Myanmar by end-1Q20F may also provide upside to the topline, and we expect the plant's performance contribution to be more visible from 3Q20F onwards.
- 4Q19 recap and 1Q20F outlook.** Osotspa delivered in-line 4Q19 core profit growth of 16% YoY and flattish QoQ. Resilient sales of +5% YoY and QoQ were driven by the production de-bottlenecking for C-Vitt, a popular vitamin drink, and improving sales of its premiumised new products (eg M-150 Black Galingale with Honey). Efficient cost control is ongoing as planned, while the operation of a new glass facility in Oct 2019 and declining effective tax rate supported its increased bottomline and core profit margin YoY. We expect moderate earnings growth for 1Q20F based on its ability to bring down the sugar content and pay lower excise tax, which may also help sustain GPM, and the improving production of functional beverages.
- Resilient growth deserves premium valuation.** We like Osotspa's attractive overseas growth story, while its business expansion may also solidify local operations. We assign a premium valuation for the firm based on its local market leadership for energy drinks, ie M-150, which is likely to be maintained. These factors may also be reflected in the ROE hike from 18% in 2019F to 22% in 2021F. We keep a prospective 39x FY20F P/E to drive the THB49.00 TP, while the DCF methodology derives THB42.00 as a solid support to represent the stock's lower range FY20F valuation. Key risks are weaker-than-expected consumption and opex control.

Target Price (Return):	THB49.00 (15%)
Price:	THB42.50
Market Cap:	USD4,033m
Avg Daily Turnover (THB/USD)	464m/15.2m

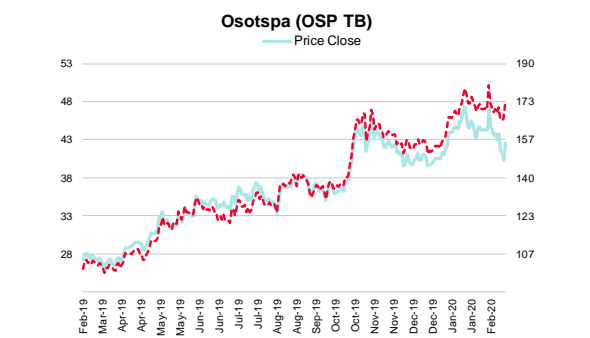
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.9	(5.0)	2.4	14.1	56.0
Relative	16.6	3.5	15.6	27.8	72.2
52-wk Price low/high (THB)	26.0 – 47.3				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	24,297	25,610	28,345	30,644	32,677
Recurring net profit (THBm)	2,820	3,224	3,717	4,284	4,773
Recurring net profit growth (%)	1.0	14.3	15.3	15.3	11.4
Recurring P/E (x)	45.26	39.60	34.34	29.80	26.75
P/B (x)	7.0	7.0	6.7	6.2	5.7
P/CF (x)	na	35.39	68.99	51.54	41.85
Dividend Yield (%)	1.6	2.4	2.0	2.3	2.6
EV/EBITDA (x)	24.75	24.14	21.28	18.83	16.86
Return on average equity (%)	28.1	17.9	19.9	21.6	22.3
Net debt to equity (%)	(42.9)	(20.1)	(12.8)	(14.2)	(20.8)

Source: Company data, RHB

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## Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Regional	Recurring EPS	0.94	1.07	1.24	1.43	1.59
Consumer Non-cyclical	DPS	0.69	1.00	0.87	1.00	1.11
<b>Osotspa PCL</b>	BVPS	6.04	6.07	6.34	6.85	7.39
OSP TB	Return on average equity (%)	28.1	17.9	19.9	21.6	22.3
Buy						
	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Valuation basis</b>	Recurring P/E (x)	45.26	39.60	34.34	29.80	26.75
DCF and prospective P/E	P/B (x)	7.0	7.0	6.7	6.2	5.7
	FCF Yield (%)	0.4	2.2	1.3	2.5	3.8
<b>Key drivers</b>	Dividend Yield (%)	1.6	2.4	2.0	2.3	2.6
i. Launches of new products;	EV/EBITDA (x)	24.75	24.14	21.28	18.83	16.86
ii. Expansion of production capacity;	EV/EBIT (x)	32.04	30.17	26.27	23.03	20.41
iii. Penetration into new market destinations;						
iv. Efficient corporate cost control program.						
	<b>Income statement (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Key risks</b>	Total turnover	24,297	25,610	28,345	30,644	32,677
i. Changes in consumer preferences;	Gross profit	7,883	8,946	10,006	10,940	11,796
ii. Rising competition in beverages and personal care businesses;	EBITDA	4,719	4,952	5,676	6,388	7,037
iii. Volatile raw material prices;	Depreciation and amortisation	(1,074)	(989)	(1,078)	(1,164)	(1,225)
iv. Unsuccessful overseas distribution.	Operating profit	3,644	3,963	4,598	5,224	5,812
	Net interest	(81)	(13)	(23)	(17)	(12)
<b>Company Profile</b>	Pre-tax profit	3,748	3,986	4,575	5,207	5,800
Osotspa is a manufacturer and distributor of consumer products, mainly energy drinks under the key brand M-150, sport drinks, ready-to-drink coffee, and personal care products under the brands Babi Mild and Twelve Plus. Osotspa also provides product manufacturing, packaging, and distribution services.	Taxation	(686)	(718)	(823)	(885)	(986)
	Reported net profit	3,005	3,259	3,717	4,284	4,773
	Recurring net profit	2,820	3,224	3,717	4,284	4,773
	<b>Cash flow (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Change in working capital	639	136	(177)	(203)	(180)
	Cash flow from operations	(1,115)	3,607	1,851	2,477	3,050
	Capex	1,613	(815)	(152)	768	1,768
	Cash flow from investing activities	(290)	(2,092)	(152)	768	1,768
	Dividends paid	(2,809)	(3,124)	(2,993)	(2,761)	(3,136)
	Cash flow from financing activities	5,516	(3,182)	(2,937)	(2,814)	(3,167)
	Cash at beginning of period	376	4,486	2,819	1,581	2,012
	Net change in cash	4,111	(1,667)	(1,238)	431	1,651
	Ending balance cash	4,486	2,819	1,581	2,012	3,663
	<b>Balance sheet (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total cash and equivalents	7,987	4,119	2,881	3,312	4,963
	Tangible fixed assets	6,850	9,226	11,183	12,051	11,853
	Total investments	3,249	4,626	4,622	4,618	4,614
	Total assets	23,456	24,324	25,239	26,788	28,589
	Short-term debt	32	97	97	97	97
	Total long-term debt	110	406	369	316	285
	Total liabilities	5,153	6,301	6,400	6,425	6,589
	Total equity	18,303	18,023	18,840	20,363	22,000
	Total liabilities & equity	23,456	24,324	25,239	26,788	28,589
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	(2.9)	5.4	10.7	8.1	6.6
	Recurrent EPS growth (%)	(92.2)	14.3	15.3	15.3	11.4
	Gross margin (%)	32.4	34.9	35.3	35.7	36.1
	Operating EBITDA margin (%)	19.4	19.3	20.0	20.8	21.5
	Net profit margin (%)	12.4	12.7	13.1	14.0	14.6
	Dividend payout ratio (%)	93.5	95.9	80.5	64.4	65.7
	Capex/sales (%)	(6.6)	3.2	0.5	(2.5)	(5.4)
	Interest cover (x)	44.9	310.7	199.1	300.4	484.5

Source: Company data, RHB

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Figure 1: Osotspa's DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
EBIT	4,598	5,224	5,812	6,491	7,081	7,637	8,211	8,786	9,379	9,962
EBIT (1-t)	3,770	4,336	4,824	5,387	5,878	6,339	6,816	7,293	7,784	8,269
Depreciation & amortisation	1,078	1,164	1,225	1,254	1,298	1,345	1,385	1,429	1,474	1,517
Change in net working capital	(1,755)	(26)	23	(10)	13	(0)	(8)	6	(6)	3
Capex	(3,000)	(2,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Net free cash flow to firm	93	3,474	5,072	5,630	6,189	6,683	7,193	7,728	8,252	8,789
Terminal value										188,886
PV	87	2,987	4,045	4,164	4,244	4,250	4,242	4,227	4,186	92,976
Terminal growth	3.0%									
WACC	7.8%									
Total discounted firm value	125,408									
Less: Net debt	(1,115)									
Less: Minority interest	152									
Equity value	126,372									
Number of shares (m)	3,004									
Equity value per share (THB)	42									

Source: RHB

Figure 2: Osotspa's 4Q/FY19 results review

FYE Dec (THBm)	4Q18	3Q19	4Q19	YoY % chg	QoQ % chg	2018	2019	YoY % chg	Remarks
Turnover	6,333	6,328	6,621	4.6	4.6	24,297	25,610	5.4	Strong sales growth for beverages (+5% YoY)
Gross profit	2,186	2,191	2,320	6.1	5.9	7,883	8,946	13.5	
EBIT	991	988	1,002	1.0	1.4	3,644	3,963	8.8	The new excise tax on sugary beverages affected its vitamin drinks "C-Vitt" and resulted in weak share of profits from equity investments YoY and QoQ
EBIT margin (%)	15.7	15.6	15.1			15.0	15.5		
EBITDA	1,260	1,227	1,279	1.5	4.3	4,719	4,952	5.0	
EBITDA margin (%)	19.9	19.4	19.3			19.4	19.3		
Interest expense	(5)	(2)	(6)	10.2	148.0	(81)	(13)	-84.3	
Pretax profit	986	986	996	1.0	1.0	3,563	3,950	10.9	
Tax	(271)	(165)	(189)	-30.5	14.4	(686)	(718)	4.7	
Core profit	707	818	821	16.0	0.4	2,820	3,224	14.3	Solid core profit growth YoY was driven by GPM hike and lowering effective tax rate
Net profit	789	838	823	4.3	-1.8	3,005	3,259	8.4	
Gross margin (%)	34.5	34.6	35.0			32.4	34.9		Efficient corporate cost control under the "Fit-Fast-Firm" program
SG&A/sales (%)	21.1	23.1	21.9			20.4	22.2		Rising marketing expense for personal care products, new business launches, and the Vietnamese market penetration drove the ratio to increase YoY
Core profit margin (%)	11.2	12.9	12.4			11.6	12.6		
Net margin (%)	12.5	13.2	12.4			12.4	12.7		

Source: Company data, RHB

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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100 - 100		ดีเลิศ	Excellent
80 - 80		ดีมาก	Very Good
70 - 70		ดี	Good
60 - 60		ดีพอใช้	Satisfactory
50 - 50		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด



ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนารมณ์ CAC

A	ASK	CHG	FC	GREEN	JUTHA	MATCH	NINE	PIMO	RWI	SPPT	TFI	TU	VNT
AI	AU	CHOTI	FER	GSTEL	KASET	MATI	NMG	PK	SANKO	SPRC	THE	TVD	WAVE
AIE	BCH	CHOW	FPI	GUNKUL	KBS	MBAX	NNCL	PL	SAUCE	SR	TICON	TVO	WHA
AIRA	BJC	CIG	FSMART	HARN	KCAR	MC	NTV	PLANB	SC	SRICHA	TIP	TVT	WICE
AJ	BJCHI	COL	GEL	IFS	KTECH	MFEC	NUSA	POST	SCCC	SST	TKN	TWPC	WIJK
ALUCON	BLAND	COM7	GFPT	ILINK	KWC	MIDA	NWR	PRINC	SCN	STA	TLUXE	U	TRUE
AMATAV	BR	CPALL	GGC	INET	KYE	MILL	OGC	PRO	SEAOIL	SUPER	TMILL	UPA	
AOT	BROCK	CPF	GIFT	IRC	L&E	ML	PACE	PSTC	SE-ED	SUSCO	TMT	UREKA	
APCO	BRR	CPR	GJS	J	LEE	MTLS	PAF	PYLON	SENA	SWC	TNP	UWC	
AQUA	CEN	CSC	GLOBAL	JMART	LIT	NBC	PAP	QTC	SIRI	SYMC	TPA	VGI	
ARROW	CGH	EKH	GOLD	JMT	LVT	NCL	PATO	ROH	SMART	TAKUNI	TSE	VIBHA	
ASIA	CHEWA	EPCO	GPSC	JUBILE	MAKRO	NEP	PCSGH	ROJNA	SPACK	TBSP	TTI	VIH	

ได้รับการรับรอง CAC

ADVANC	BKI	CPN	FE	INTUCH	LANNA	MSC	PLAT	PTT	SAT	SNP	TCMC	TMD	UOBKH
AKP	BLA	CSL	FNS	IRPC	LHBANK	MTI	PM	PTTEP	SCB	SORKON	TFG	TNITY	WACOAL
AMANAH	BROOK	DCC	FSS	IVL	LHK	NKI	PPP	PTTGC	SCC	SPC	TGCI	TNL	
AP	BTS	DEMCO	GBX	K	LPN	NSI	PPS	Q-CON	SCG	SPI	THANI	TOG	
ASP	BWG	DIMET	GCAP	KBANK	MBK	OCC	PRANDA	QH	SGP	SSF	THCOM	TOP	
AYUD	CENTEL	DRT	GLOW	KCE	MBKET	OCEAN	PREB	QLT	SINGER	SSI	THRE	TPCORP	
BAFS	CFRESH	DTAC	HANA	KGI	MCOT	PB	PRG	RATCH	SIS	SSSC	THREL	TRU	
BANPU	CIMBT	DTC	HMPRO	KKP	MFC	PDI	PSH	RML	SITHAI	SVI	TIPCO	TSC	
BAY	CM	EASTW	HTC	KSL	MINT	PE	PSL	ROBINS	SMIT	SYNTEC	TISCO	TSSTH	
BBL	CNS	ECL	ICC	KTB	MONO	PG	PT	S & J	SMPC	TAE	TKT	TTCL	
BCP	CPI	EGCO	IFEC	KTC	MOONG	PHOL	PTG	SABINA	SNC	TCAP	TMB	TVI	

N/A

2S	ARIP	BSM	CSS	FMT	INOX	LTX	NPK	RCL	SFP	SUC	TITLE	TSR	VPO
AAV	AS	BTC	CTW	FN	INSURE	M	NPP	RICH	SGF	SUN	TIW	TSTE	VTE
ABICO	ASAP	BTNC	CWT	FOCUS	IRCP	MACO	NVD	RICHY	SHANG	SUTHA	TK	TTA	WG
ACAP	ASEFA	BTW	D	FORTH	IT	MAJOR	NYT	RJH	SIAM	SVH	TKS	TTL	WHAUP
ACC	ASIAN	BUI	DCON	FTE	ITD	MALEE	OHTL	ROCK	SIMAT	SVOA	TM	TTTM	WIN
ADAM	ASIMAR	CBG	DCORP	FVC	ITEL	MANRIN	OISHI	RP	SKE	SYNEX	TMC	TTW	WINNER
ADB	ASN	CCET	DDD	GC	JAS	MAX	ORI	RPC	SKN	T	TMI	TUCC	WORK
AEC	ATP30	CCP	DELTA	GENCO	JCT	M-CHAI	OTO	RPH	SKR	TACC	TMW	TWP	WORLD
AEONTS	AUCT	CGD	DIGI	GL	JKN	MCS	PAE	RS	SKY	TAPAC	TNDT	TWZ	WP
AF	BA	CHARAN	DNA	GLAND	JSP	MDX	PDG	RSP	SLP	TASCO	TNH	TYCN	WPH
AFC	BAT-3K	CHO	DTCI	GPI	JTS	MEGA	PERM	S	SMK	TC	TNPC	UAC	WR
AGE	BCPG	CHUO	EA	GRAMMY	JWD	METCO	PF	S11	SMM	TCB	TNR	UBIS	XO
AH	BDMS	CI	EARTH	GRAND	KAMART	MGT	PICO	SAFARI	SMT	TCC	TOA	UEC	YCI
AHC	BEAUTY	CITY	EASON	GTB	KC	MJD	PJW	SALEE	SOLAR	TCCC	TOPP	UKEM	YNP
AIT	BEC	CK	ECF	GULF	KCM	MK	PLANET	SAM	SPA	TCJ	TPAC	UMI	YUASA
AJA	BEM	CKP	EE	GYT	KDH	MM	PLE	SAMART	SPALI	TCOAT	TPBI	UMS	ZIGA
AKR	BFIT	CMO	EFORL	HFT	KIAT	MODERN	PMTA	SAMCO	SPCG	TEAM	TPCH	UNIQU	ZMICO
ALLA	BGRIM	CMR	EIC	HOTPOT	KKC	MPG	POLAR	SAMTEL	SPG	TFD	TIPL	UP	
ALT	BGT	CNT	EMC	HPT	KOOL	MPIC	POMPUI	SAPPE	SPORT	TFMAMA	TIPIP	UPF	
AMA	BH	COLOR	EPG	HTECH	KTIS	NC	PORT	SAWAD	SPVI	TGPRO	TPOLY	UPOIC	
AMARIN	BIG	COMAN	ERW	HUMAN	KWG	NCH	PPM	SAWANG	SQ	TH	TPP	UT	
AMATA	BIZ	CPH	ESSO	HYDRO	LALIN	NDR	PRAKIT	SCI	SSC	THAI	TR	UTP	
AMC	BKD	CPL	ESTAR	ICHI	LDC	NETBAY	PRECHA	SCP	SSP	THANA	TRC	UV	
ANAN	BLISS	CPT	ETE	ICN	LH	NEW	PRIN	SDC	STANLY	THG	TRITN	UVAN	
APCS	BM	CRANE	EVER	IEC	LOXLEY	NEWS	PRM	SE	STAR	THIP	TRT	VARO	
APEX	BOL	CRD	F&D	IHL	LPH	NFC	PTL	SEAFCO	STEC	THL	TRUBB	VCOM	
APURE	BPP	CSP	FANCY	III	LRH	NOBLE	RAM	SELIC	STHAI	THMUI	TSF	VI	
AQ	BSBM	CSR	FLOYD	INGRS	LST	NOK	RCI	SF	STPI	TIC	TSI	VNG	

Source: Thai Institute of Directors

ข้อมูลบริษัทที่เข้าร่วมโครงการแนวร่วมปฏิบัติของภาคเอกชนไทยในการต่อต้านทุจริต (Thai CAC) ของสมาคมส่งเสริมสถาบันกรรมการบริษัทไทย (ข้อมูล ณ วันที่ 17 ต.ค.)

- ได้ประกาศเจตนารมณ์เข้าร่วม CAC
- ได้รับการรับรอง CAC

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