

17 August 2020

Consumer Non-cyclical | Food & Beverage Products

## Osotspa (OSP TB)

**Buy** (Maintained)

### Setting Growth Boosters Ablaze; Maintain BUY

Target Price (Return): THB49.00 (+20%)  
 Price: THB40.80  
 Market Cap: USD3,933m  
 Avg Daily Turnover (THB/USD) 508m/16.2m

- **Keep BUY and THB49.00 FY20F TP, 20% upside and c.2% yield.** 2Q20 results were in line, supported by robust vitamin C drink sales and dividend received. We believe the unlocking of sales and margins from two new production lines for C-Vitt and the new beverage filling plant in Myanmar will boost Osotspa's 2H20F earnings and keep FY20F bottomline growth at 15%. We like its business expansion plans, which should allow OSP to keep its resilient growth outlook.
- **2Q20 results recap.** OSP's core profit stood at THB804m (+14% YoY, -4% QoQ), in line with our and Street's forecasts. Revenue dropped 6% YoY from sluggish energy drink sales (-16% YoY) (locally and Myanmar) and personal care products (-18% YoY) due to COVID-19. The group gained a higher energy drink market share of 54.9% for the quarter, while other key players' shares fell. Its rising star product, C-Vitt vitamin C drink, remained strong (+249% YoY) in sales, supporting its topline revenue and equity profits. OSP also attained a dividend of THB135m from its investment in Unicharm this quarter instead of 3Q vis-à-vis the previous year. 1H20 sales were flattish and core profit grew 4% YoY – accounting for 44% of our FY20F bottomline of THB3.72bn (+15% YoY).
- **Earnings boosters ignited.** Management has kept its double-digit sales growth target. We believe the opening of two new production lines for C-Vitt in June and inauguration of its beverage filling plant in Myanmar in July will be vital growth drivers in 2H20. For C-Vitt, doubling its production capacity should increase sales twofold this year (2019: c.THB2bn) and the product's lower sugar tax rate will likely be another catalyst to OSP's equity profits. The new facility in Myanmar – its own infrastructure development to replace original equipment manufacturer production – ought to materially improve product GPM in 3Q20-4Q20. We expect these factors to strongly boost earnings growth YoY and QoQ in 3Q20-4Q20 and continue in FY21.
- **New launches and efficiencies to also strengthen 2H outlook.** We believe OSP's energy drinks market share gain locally – as the No. 1 brand – should limit the impact of a consumption slowdown to sales in the short term. New product launches would be another topline support in 2H20F. This includes Shark Plus Vitamin C, C-Vitt jelly drink, Babi Mild Healthi Plus for hygienic care products, and the expansion of Slimma functional drinks from online to massive offline distribution channels. Cost savings and production efficiency enhancement regarding its Fit-Fast-Firm corporate campaign by c.THB800m pa are also intact, and the benefits are likely to accelerate in 2H20. We keep our FY20F sales growth and EBITDA margin at 11% and 20.8% (+0.8ppts).
- **Maintain BUY.** OSP's attractive 2020F-2022F ROEs of 20-22% are backed by its strong 14% 3-year earnings CAGR from product leadership, production capacity hikes, and margins expansion from operating efficiency improvements. We keep the prospective 39x FY20F P/E to drive our THB49.00 TP. Our DCF methodology derives THB42.00 as a solid support level to represent the stock's lower-range FY20F valuation.

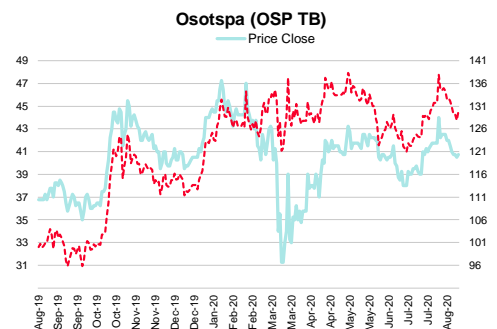
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.6	4.5	(1.2)	(8.9)	22.6
Relative	16.6	5.6	(4.8)	4.2	40.7
52-wk Price low/high (THB)				31.25 – 47.25	



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)	43.40	37.97	32.93	28.57	25.65
P/B (x)	6.7	6.7	6.4	6.0	5.5
P/CF (x)	119.05	19.20	26.05	23.34	21.04
Dividend Yield (%)	1.7	2.5	2.1	2.4	2.7
EV/EBITDA (x)	23.64	23.08	20.35	18.01	16.11
Return on average equity (%)	28.1	17.9	19.9	21.6	22.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	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</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)	43.40	37.97	32.93	28.57	25.65
DCF and prospective P/E	P/B (x)	6.7	6.7	6.4	6.0	5.5
	FCF Yield (%)	(0.2)	2.4	1.4	2.7	3.9
<b>Key drivers</b>	Dividend Yield (%)	1.7	2.5	2.1	2.4	2.7
i. Launches of new products;	EV/EBITDA (x)	23.64	23.08	20.35	18.01	16.11
ii. Expansion of production capacity;	EV/EBIT (x)	30.60	28.84	25.12	22.02	19.50
iii. Penetration into new market destinations;						
iv. Efficient corporate cost control programme.						
	<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)
	Pre-tax profit	3,748	3,986	4,575	5,207	5,800
<b>Company Profile</b>	Taxation	(686)	(718)	(823)	(885)	(986)
OSP 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. OSP also provides product manufacturing, packaging, and distribution services.	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	1,028	6,375	4,699	5,245	5,818
	Capex	(1,275)	(3,490)	(3,000)	(2,000)	(1,000)
	Cash flow from investing activities	(2,433)	(4,829)	(3,000)	(2,000)	(1,000)
	Dividends paid	(2,809)	(3,124)	(2,993)	(2,761)	(3,136)
	Cash flow from financing activities	5,516	(3,213)	(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 (%)	5.2	13.6	10.6	6.5	3.1
	Interest cover (x)	44.9	310.7	199.1	300.4	484.5

Source: Company data, RHB

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Figure 1: OSP's 2Q20 and 1H20 performance review

FYE Dec (THBm)	2Q19	1Q20	2Q20	YoY % chg	QoQ % chg	1H19	1H20	YoY % chg	Remarks
Turnover	6,295	6,687	5,909	-6.1	-11.6	12,661	12,596	-0.5	Sluggish sales for energy drinks despite market share gains. Its distribution of C-Vitt vitamin C drinks remained solid during the COVID-19 pandemic.
Gross profit	2,221	2,367	1,983	-10.7	-16.2	4,435	4,350	-1.9	Rising share of profits from the ramping up of C-Vitt production from May onwards, a THB135m dividend received from the investment in Unicharm, and a smaller opex improved EBIT and margins.
EBIT	886	1,021	913	3.1	-10.6	1,974	1,935	-2.0	
EBIT margin (%)	14.1	15.3	15.5			15.6	15.4		
EBITDA	1,118	1,304	1,210	8.2	-7.2	2,446	2,514	2.8	
EBITDA margin (%)	17.8	19.5	20.5			19.3	20.0		
Interest expense	(2)	(8)	(7)	199.8	-10.3	(5)	(15)	208.8	
Pre-tax profit	883	1,014	906	2.6	-10.6	1,969	1,920	-2.5	
Tax	(166)	(187)	(120)	-27.8	-36.2	(364)	-307	-15.8	
Core profit	708	837	804	13.7	-3.9	1,585	1,641	3.5	
Net profit	710	926	804	13.2	-13.1	1,599	1,730	8.2	Stabilised GPM, lowered opex, strong equity profit from C-Vitt production and dividend income supported bottomline growth, amid short-term challenges stemming from the pandemic.
Gross margin (%)	35.3	35.4	33.6			35.0	34.5		Efficient corporate cost control under the "Fit-Fast-Firm" programme and a decline in sugar tax rate lowered production expenses and limited the GPM drop.
SG&A/sales (%)	23.2	23.0	22.7			22.0	22.8		Lowered advertisement, marketing, and promotional activities during COVID-19.
Core profit margin (%)	11.2	12.5	13.6			12.5	13.0		
Net margin (%)	11.3	13.8	13.6			12.6	13.7		

Source: Company data, RHB

Figure 2: OSP'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)	42.00									

Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-07-29	Buy	49.0	44.0

Source: RHB, Bloomberg

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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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80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		ดีพอใช้	Satisfactory
50 - 59		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

ประกาศเจตนาธรรม 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.)

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- ได้รับการรับรอง CAC

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