HOLD (From: SELL)

Change in Recommendation

TP: Bt 31.00 (From: Bt 32.00)

Downside : 4.6%

3 FEBRUARY 2022

Osotspa Pcl (OSP TB)

Awaiting new drivers



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OSP's share price has fallen by 31% from its post-IPO peak in 2020. We foresee limited downside from here onward and upgrade our stock rating to HOLD. However, we still don't see any new growth drivers to boost its earnings beyond single-digit growth.

Upgrading to HOLD

We upgrade OSP to HOLD (from Sell) for two reasons. The first is that the stock price has fallen by 31% from its post-IPO peak of Bt47 in 2020 and by 16% YTD to trade at a more reasonable PE for a big-cap consumer stock at 26x. The second is that we expect some degree of business recovery along with the economic rebound. However, we still expect OSP's earnings growth path to be on an unexciting single-digit level. We project 8/9% EPS growth in 2022-23F assuming its potentially new businesses do not make meaningful contributions.

4Q21F preview

We estimate OSP's 4Q21F norm earnings at Bt895m, up 5% y-y and 26% q-q, a turnaround from the weak earnings growth of 23% y-y and the 14% q-q drop in 3Q21 when there was the lockdown. In 4Q21F, while energy drink sales improved significantly, personal-care item sales were still relatively weak. Overseas revenue (14% of total revenue in 2020), which is mainly from energy drinks, turned around in 4Q21F too after the lockdown was eased. Myanmar is OSP's biggest energy drink market abroad at for 9% of total sales in 2020, on our estimate. Sales actually grew for the whole of 2021F on market share gains as a result of lower supply of competitors' exported products amid lockdowns and coup tensions. OSP has its own factory there.

Single-digit growth path

We forecast OSP's earnings to grow 8% this year. Please see the revenue breakdown in Exhibit 1. Key drivers are 1) 6% sales growth of its C-Vitt vitamin-based drink and flat domestic energy drink sales; 2) 15% growth in personal-care item sales; 3) a 13% overseas sales recovery from the lockdown easing. As there are no longer hiccups in exporting to Myanmar this year, unlike in 2021, we expect Carabao Group (CBG, BUY, Bt103) to regain some energy drink sales market share there. That said, Myanmar's overall energy drink market is still not mature, growing by around 15% p.a. and we expect OSP to still enjoy some growth. OSP expects overall sales growth of 5-10% but foresees margin pressure from higher prices of e.g., aluminum and natural gas.

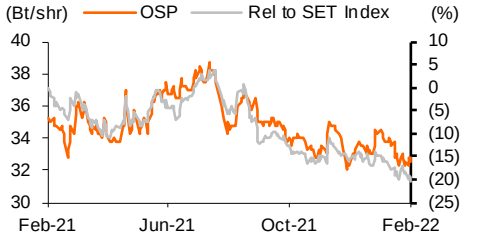
We prefer CBG

We prefer CBG to OSP. CBG has a stronger earnings growth profile of 55% in 2022F and a far higher ROE of 38% but a lower PE of 23x. The stronger growth is due to CBG's higher export exposure at 45% of sales in 2021F vs. OSP's at only 14%. CBG's key markets abroad are Cambodia, Myanmar and China. Not only do exports normally grow faster than domestic sales, but they offer higher margins. We also like the fact that CBG has its own distribution network.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	25,583	26,432	28,186	30,103
Net profit	3,504	3,429	3,707	4,028
Norm profit	3,504	3,429	3,707	4,028
Consensus NP	—	3,253	3,665	4,047
Diff frm *cons (%)*	—	*5.4*	*1.1*	*(0.5)*
Prev. Norm profit	—	3,653	4,019	4,439
Chg frm prev (%)	—	*(6.1)*	*(7.8)*	*(9.3)*
Norm EPS (Bt)	1.2	1.1	1.2	1.3
Norm EPS grw (%)	8.7	(2.1)	8.1	8.7
Norm PE (x)	27.9	28.5	26.3	24.2
EV/EBITDA (x)	20.8	21.0	19.0	17.7
P/BV (x)	5.1	5.0	5.0	4.9
Div yield (%)	3.4	3.3	3.8	4.1
ROE (%)	18.9	17.8	19.0	20.4
Net D/E (%)	(13.5)	(5.4)	(8.3)	(11.2)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 3-Feb-22 (Bt)	32.50
Market Cap (US$ m)	2,943.8
Listed Shares (m shares)	3,003.8
Free Float (%)	46.6
Avg Daily Turnover (US$ m)	9.3
12M Price H/L (Bt)	38.75/32.00
Sector	Food
Major Shareholder	Osathanugrah family 58%

Sources: Bloomberg, Company data, Thanachart estimates

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Thanachart Securities

Upgrading to HOLD

We upgrade OSP to HOLD

We upgrade our rating on shares of Osotspa Pcl (OSP) to HOLD (from Sell) with a DCF-based 12-month TP, using a 2022F base year, of Bt31/share (from Bt32).

Without COVID disruption, OSP's earnings likely to grow 8% this year

First, though we don't expect further COVID disruption this year, we expect OSP to be unexciting with single-digit growth level of 8/9% in 2022-23F

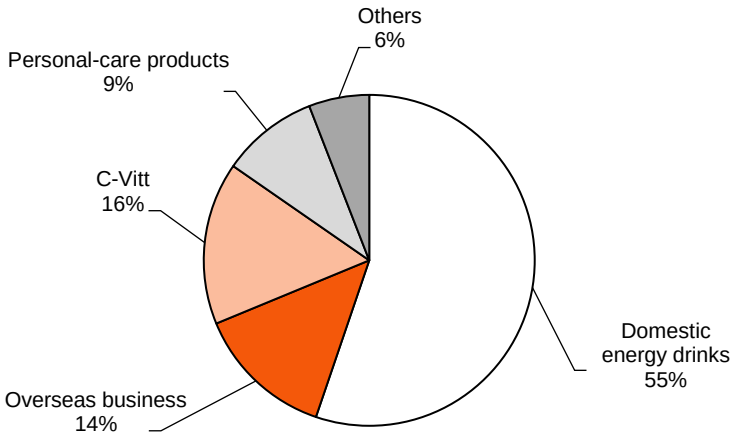
1) We expect OSP's domestic energy drink sales to grow at a flattish level of 2% along with the already-full penetration of Thailand's energy drink market while there has been no meaningful market share shift between the three largest players, OSP, Carabao Group (CBG, BUY, Bt103) and Red Bull Thailand (non-listed).

2) As for its C-Vitt vitamin-based drink, we expect sales to grow 6% this year after the health-consciousness-led high base during the COVID period with growth of 47% growth in 2020 and 7% in 2021F.

3) As for the overseas energy drink business which is mainly in Myanmar, OSP gained market share and sales grew in 2021 after supply hiccups suffered by its main competitor CBG amid the coup and COVID disruption. OSP has its own factory in Myanmar. This year, we expect CBG, which plans to aggressively target Myanmar after weak sales in 2021, to regain some market share. That said, we forecast OSP to still be able to achieve a decent growth as Myanmar's energy drink market is still growing by around 15% p.a.

4) COVID in Thailand mainly hit OSP's personal-care products business given the lower necessity of these products. Sales therefore fell by 5% in 2020 and 15% in 2021. OSP plans to adapt its products to match changing consumer behavior and recover back some growth in 2022F.

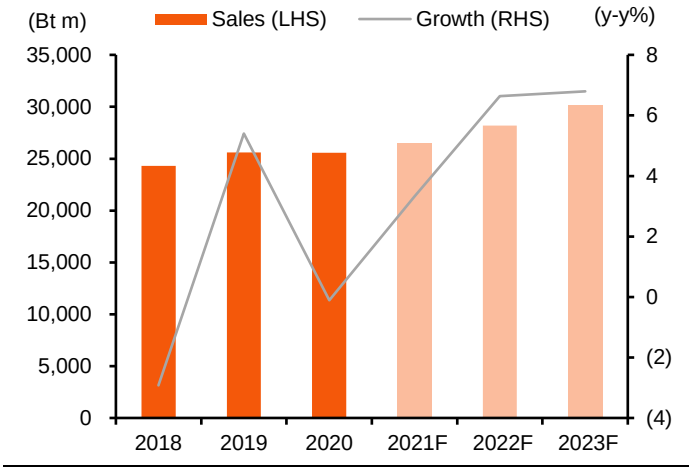
Ex 1: Sales Breakdown



Sources: Company data, Thanachart estimates

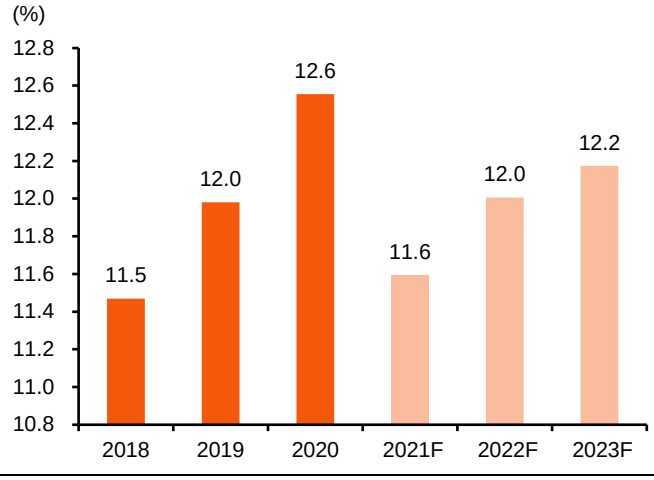
In all, OSP expects its sales to grow by around 5-10% this year but it foresees margin pressure because of rising prices of e.g., aluminum and natural gas.

Ex 2: OSP's Sales Growth



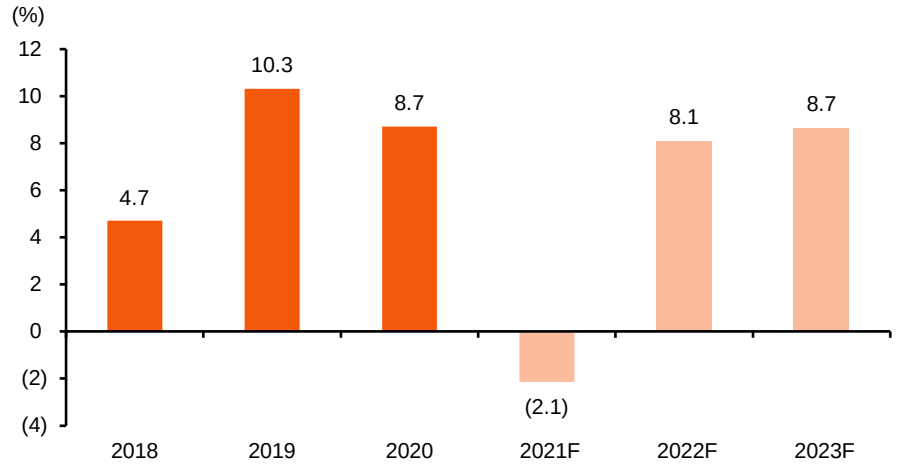
Sources: Company data, Thanachart estimates

Ex 3: Net Margin Trend



Sources: Company data, Thanachart estimates

Ex 4: Earnings Growth



Sources: Company data, Thanachart estimates

OSP's valuation looks fairly priced to us

Second, we don't regard OSP as expensive anymore after its share price fell by 31% from its post-IPO peak in 2020 and by 16% in 2021. But we also don't see it as cheap either at 26x PE which looks to be at fair value to us for a big-cap consumer stock like OSP with a strong brand reputation spanning over 100 years.

Ex 5: Share Price Since Listing

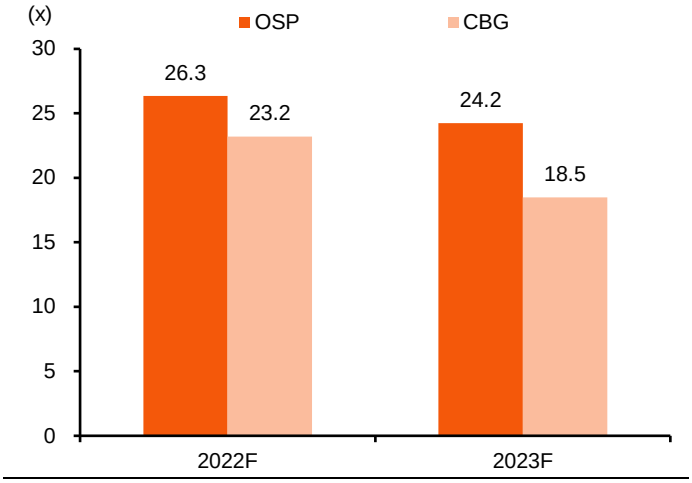


Source: Bloomberg

We prefer CBG

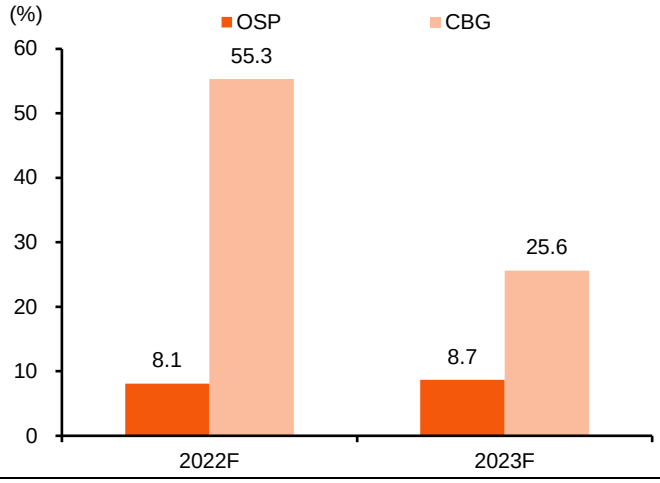
We see CBG as a more attractive choice. It offers stronger earnings growth of 55% in 2022F, a much higher ROE of 38% but trades at a lower PE of 23x. Not only does CBG have higher exposure to the faster-growing export markets, but the company is planning to launch seven or eight new beverage products in Thailand and is pursuing new distribution clients, leveraging on its in-house distribution networks.

Ex 6: OSP's Vs. CBG's PE



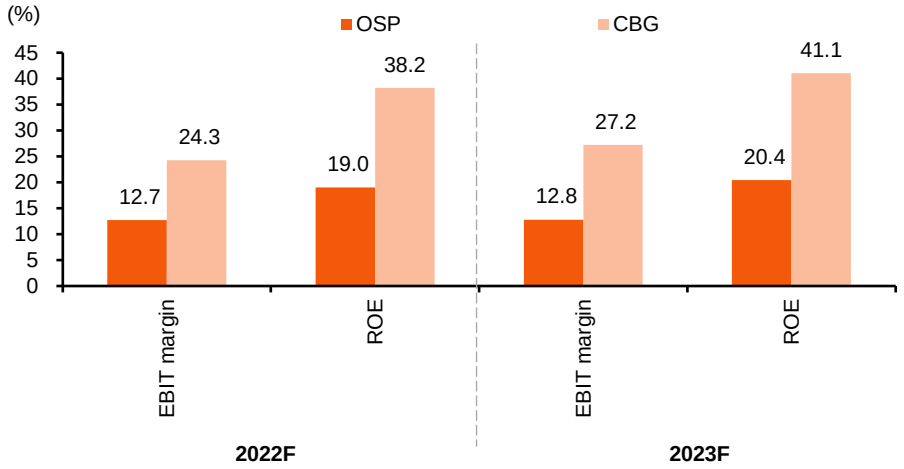
Source: Thanachart estimates

Ex 7: OSP's Vs. CBG's EPS Growth



Source: Thanachart estimates

Ex 8: OSP's Vs. CBG's EBIT Margin And ROE



Source: Thanachart estimates

Ex 9: Revisions To Our Key Assumptions

	2019	2020	2021F	2022F	2023F
Sales (Bt m)					
New	25,610	25,583	26,432	28,186	30,103
Old			26,170	27,689	29,621
Change (%)			*1.0*	*1.8*	*1.6*
Gross margin (%)					
New	34.9	35.3	34.6	35.0	34.8
Old			34.8	35.5	35.4
Change (pp)			*(0.2)*	*(0.5)*	*(0.7)*
SG&A (%)					
New	22.2	22.3	22.4	22.3	22.0
Old			21.7	21.6	21.2
Change (pp)			*0.7*	*0.7*	*0.7*
Normalized profit (Bt m)					
New	3,224	3,504	3,429	3,707	4,028
Old			3,653	4,019	4,439
Change (%)			*(6.1)*	*(7.8)*	*(9.3)*

Sources: Company data, Thanachart estimates

Ex 10: 12-month DCF-based TP Calculation Using A Base Year Of 2019F

(Bt m)	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	Terminal Value
EBITDA	5,057	5,382	5,913	6,494	7,107	7,722	8,296	9,013	9,753	10,393	11,098	—
Free cash flow	4,234	4,604	5,096	5,684	6,307	6,958	7,583	8,296	9,062	9,803	9,489	128,593
PV of free cash flow	4,223	3,908	3,984	4,094	4,092	4,140	4,137	4,151	4,159	4,126	3,486	47,237

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.8
WACC (%)	8.5
Terminal growth (%)	2.0
Enterprise value - add investments	91,738
Net debt (2021F)	(1,051)
Minority interest	105
Equity value	92,684
# of shares (m)	3,004
Equity value/share (Bt)	**31**

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 11: Valuation Comparison With Regional Peers

			EPS growth		PE		P/BV		EV/EBITDA		Div yield	
Name	**BBG code**	**Country**	**21F**	**22F**	**21F**	**22F**	**21F**	**22F**	**21F**	**22F**	**21F**	**22F**
			(%)	**(%)**	**(x)**	**(x)**	**(x)**	**(x)**	**(x)**	**(x)**	**(%)**	**(%)**
Beverage												
Suntory Beverage & Food	2587 JP	Japan	30.6	6.3	20.5	19.3	1.7	1.6	4.6	7.4	1.7	1.8
Coca-Cola	KO US	US	17.2	6.3	26.8	25.2	11.7	11.1	23.3	21.5	2.7	2.8
PepsiCo	PEP US	US	13.1	7.8	28.1	26.1	14.9	13.0	19.3	18.0	2.4	2.5
Sappe PCLs	SAPPE TB	Thailand	14.1	11.2	17.9	16.1	2.6	2.4	8.4	7.7	2.5	3.0
Carabao Group PCL*	CBG TB	Thailand	(18.9)	55.3	36.0	23.2	9.7	8.2	26.0	17.5	1.9	2.9
Osotspa PCL*	OSP TB	Thailand	(2.1)	8.1	28.5	26.3	5.0	5.0	21.0	19.0	3.3	3.8
Average			**9.0**	**15.8**	**26.3**	**22.7**	**7.6**	**6.9**	**17.1**	**15.2**	**2.4**	**2.8**
Supply Chain Management												
Indofood CBP Sukses	ICBP IJ	Indonesia	(0.6)	11.1	15.2	13.6	3.0	2.7	10.9	10.1	3.0	3.4
Average			**(0.6)**	**11.1**	**15.2**	**13.6**	**3.0**	**2.7**	**10.9**	**10.1**	**3.0**	**3.4**
Personal Care												
Johnson & Johnson	JNJ US	US	7.1	4.6	16.5	15.7	5.7	5.2	12.6	12.1	2.5	2.7
Colgate-Palmolive	CL US	US	3.4	8.4	25.0	23.0	75.7	11.9	16.6	15.7	2.3	2.4
Procter & Gamble	PG US	US	4.4	8.5	27.5	25.4	9.0	8.8	19.5	18.2	2.2	2.3
Unilever NV	UNA NA	Netherlands	na	5.3	18.2	17.3	8.4	7.8	12.5	12.0	3.7	3.9
Average			**5.0**	**6.7**	**21.8**	**20.4**	**24.7**	**8.4**	**15.3**	**14.5**	**2.7**	**2.8**
Average - All			**6.8**	**12.1**	**23.7**	**21.0**	**13.4**	**7.1**	**15.9**	**14.5**	**2.6**	**2.9**

Sources: Bloomberg, Thanachart estimates

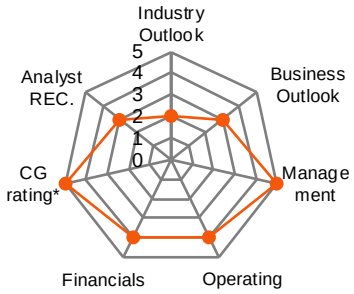
Note: * Thanachart estimates, using normalized EPS

COMPANY DESCRIPTION

Osotspa Public Company Limited (OSP) produces and distributes non-alcoholic beverages. The company offers energy drinks and other beverages such as ready-to-drink coffee, sport drinks and functional drinks. OSP also provides personal-care products in the baby care and women's beauty product categories. The company also has an OEM business. OSP sells its products in Thailand and abroad.

Source: Thanachart

COMPANY RATING



Rating Scale	
Very Strong	5
Strong	4
Good	3
Fair	2
Weak	1
None	0

Source: Thanachart; *no CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Solid brands in the domestic energy-drink and personal-care product markets.
- Strong and experienced management team.
- Very healthy balance sheet.

W — Weakness

- The energy-drink and personal-care markets are saturated with only low organic growth.
- Lack of pricing power for key products.

O — Opportunity

- Overseas expansion.
- Mergers and acquisitions.
- Health-consciousness trend emerging in Thailand.

T — Threat

- Currency fluctuations.
- Fierce competition in Thailand's energy-drink market.
- Rising sugar tax for energy drinks and other sweet beverage products.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	39.08	31.00	-21%
Norm profit 21F (Bt m)	3,253	3,429	5%
Norm profit 22F (Bt m)	3,665	3,707	1%
Consensus REC	**BUY: 15**	**HOLD: 4**	**SELL: 1**

Sources: Bloomberg consensus, Thanachart estimates

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021-22F earnings are similar to the Bloomberg consensus numbers but our TP is significant lower, which we attribute to us having a less bullish view on OSP's earnings growth prospects.

RISKS TO OUR INVESTMENT CASE

- Higher- or lower-than-expected growth of the company's domestic energy drinks and personal-care product businesses.
- Further COID disruption would be a downside risk to our numbers.
- Successful expansion into new business lines poses potential upside to our earnings.

Source: Thanachart

Improving margin mainly on cost-savings plan

Strong balance sheet

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	25,610	25,583	26,432	28,186	30,103
Cost of sales	16,664	16,554	17,286	18,318	19,642
Gross profit	**8,946**	**9,029**	**9,147**	**9,868**	**10,462**
% gross margin	34.9%	35.3%	34.6%	35.0%	34.8%
Selling & administration expenses	5,688	5,710	5,919	6,288	6,612
Operating profit	**3,258**	**3,319**	**3,228**	**3,580**	**3,850**
% operating margin	12.7%	13.0%	12.2%	12.7%	12.8%
Depreciation & amortization	958	1,244	1,380	1,477	1,532
EBITDA	**4,216**	**4,563**	**4,608**	**5,057**	**5,382**
% EBITDA margin	16.5%	17.8%	17.4%	17.9%	17.9%
Non-operating income	541	546	542	564	602
Non-operating expenses	0	0	0	0	0
Interest expense	(13)	(65)	(86)	(71)	(36)
Pre-tax profit	**3,786**	**3,799**	**3,683**	**4,072**	**4,415**
Income tax	718	587	619	688	751
After-tax profit	**3,068**	**3,212**	**3,065**	**3,384**	**3,665**
% net margin	12.0%	12.6%	11.6%	12.0%	12.2%
Shares in affiliates' Earnings	164	225	297	353	389
Minority interests	(9)	67	68	(30)	(25)
Extraordinary items	35	0	0	0	0
NET PROFIT	**3,259**	**3,504**	**3,429**	**3,707**	**4,028**
Normalized profit	**3,224**	**3,504**	**3,429**	**3,707**	**4,028**
EPS (Bt)	1.1	1.2	1.1	1.2	1.3
Normalized EPS (Bt)	1.1	1.2	1.1	1.2	1.3

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	9,338	9,179	8,259	8,683	9,060
Cash & cash equivalent	4,119	3,531	2,400	2,500	2,500
Account receivables	3,628	3,505	3,622	3,862	4,125
Inventories	1,523	2,077	2,168	2,248	2,356
Others	68	67	69	74	79
Investments & loans	3,887	2,782	2,852	2,922	2,992
Net fixed assets	8,925	12,358	13,478	13,001	12,469
Other assets	2,174	1,537	1,690	1,775	1,864
Total assets	**24,324**	**25,855**	**26,279**	**26,381**	**26,384**
LIABILITIES:					
Current liabilities:	5,256	4,557	4,683	4,908	5,222
Account payables	4,829	4,094	4,275	4,530	4,858
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	0	66	97	63	19
Others current liabilities	427	397	311	315	345
Total LT debt	**121**	**851**	**1,252**	**805**	**246**
Others LT liabilities	924	1,119	854	911	973
Total liabilities	**6,301**	**6,526**	**6,789**	**6,624**	**6,442**
Minority interest	152	105	105	135	160
Preferreds shares	0	0	0	0	0
Paid-up capital	3,004	3,004	3,004	3,004	3,004
Share premium	0	0	0	0	0
Warrants	0	0	0	0	0
Surplus	11,491	12,575	12,575	12,575	12,575
Retained earnings	**3,376**	**3,645**	**3,806**	**4,043**	**4,203**
Shareholders' equity	17,871	19,224	19,385	19,622	19,782
Liabilities & equity	**24,324**	**25,855**	**26,279**	**26,381**	**26,384**

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	3,786	3,799	3,683	4,072	4,415
Tax paid	(830)	(671)	(568)	(692)	(719)
Depreciation & amortization	958	1,244	1,380	1,477	1,532
Chg In w orking capital	135	(1,166)	(27)	(64)	(44)
Chg In other CA & CL / minorities	199	350	225	356	381
Cash flow from operations	**4,248**	**3,557**	**4,693**	**5,149**	**5,566**
Capex	(3,365)	(4,677)	(2,500)	(1,000)	(1,000)
Right of use	0	0	0	0	0
ST loans & investments	0	0	0	0	0
LT loans & investments	(1,279)	1,105	(70)	(70)	(70)
Adj for asset revaluation	0	(58)	0	0	0
Chg In other assets & liabilities	24	782	(417)	(27)	(26)
Cash flow from investments	**(4,620)**	**(2,848)**	**(2,987)**	**(1,097)**	**(1,096)**
Debt financing	(21)	796	432	(482)	(602)
Capital increase	0	0	0	0	0
Dividends paid	(3,124)	(3,304)	(3,269)	(3,470)	(3,868)
Warrants & other surplus	(352)	1,210	0	0	0
Cash flow from financing	**(3,496)**	**(1,298)**	**(2,837)**	**(3,952)**	**(4,470)**
Free cash flow	**883**	**(1,120)**	**2,193**	**4,149**	**4,566**

VALUATION

PE is at a fair level in our view

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	30.3	27.9	28.5	26.3	24.2
Normalized PE - at target price (x)	28.9	26.6	27.2	25.1	23.1
PE (x)	30.0	27.9	28.5	26.3	24.2
PE - at target price (x)	28.6	26.6	27.2	25.1	23.1
EV/EBITDA (x)	22.2	20.8	21.0	19.0	17.7
EV/EBITDA - at target price (x)	21.1	19.8	20.0	18.1	16.9
P/BV (x)	5.5	5.1	5.0	5.0	4.9
P/BV - at target price (x)	5.2	4.8	4.8	4.7	4.7
P/CFO (x)	23.0	27.4	20.8	19.0	17.5
Price/sales (x)	3.8	3.8	3.7	3.5	3.2
Dividend yield (%)	3.1	3.4	3.3	3.8	4.1
FCF Yield (%)	0.9	(1.1)	2.2	4.3	4.7
(Bt)					
Normalized EPS	1.1	1.2	1.1	1.2	1.3
EPS	1.1	1.2	1.1	1.2	1.3
DPS	1.0	1.1	1.1	1.2	1.3
BV/share	5.9	6.4	6.5	6.5	6.6
CFO/share	1.4	1.2	1.6	1.7	1.9
FCF/share	0.3	(0.4)	0.7	1.4	1.5

Sources: Company data, Thanachart estimates

EPS growth trend doesn't look exciting

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	5.4	(0.1)	3.3	6.6	6.8
Net profit (%)	8.4	7.5	(2.1)	8.1	8.7
EPS (%)	(3.7)	7.5	(2.1)	8.1	8.7
Normalized profit (%)	10.3	8.7	(2.1)	8.1	8.7
Normalized EPS (%)	(2.1)	8.7	(2.1)	8.1	8.7
Dividend payout ratio (%)	92.2	94.3	94.3	100.0	100.0
Operating performance					
Gross margin (%)	34.9	35.3	34.6	35.0	34.8
Operating margin (%)	12.7	13.0	12.2	12.7	12.8
EBITDA margin (%)	16.5	17.8	17.4	17.9	17.9
Net margin (%)	12.0	12.6	11.6	12.0	12.2
D/E (incl. minor) (x)	0.0	0.0	0.1	0.0	0.0
Net D/E (incl. minor) (x)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Interest coverage - EBIT (x)	255.4	50.8	37.4	50.2	105.6
Interest coverage - EBITDA (x)	330.5	69.8	53.4	70.9	147.7
ROA - using norm profit (%)	13.5	14.0	13.2	14.1	15.3
ROE - using norm profit (%)	17.9	18.9	17.8	19.0	20.4
DuPont					
ROE - using after tax profit (%)	17.1	17.3	15.9	17.4	18.6
- asset turnover (x)	1.1	1.0	1.0	1.1	1.1
- operating margin (%)	14.8	15.1	14.3	14.7	14.8
- leverage (x)	1.3	1.4	1.4	1.4	1.3
- interest burden (%)	99.7	98.3	97.7	98.3	99.2
- tax burden (%)	81.0	84.5	83.2	83.1	83.0
WACC (%)	8.5	8.5	8.5	8.5	8.5
ROIC (%)	25.8	20.2	16.2	16.2	17.8
NOPAT (Bt m)	2,640	2,806	2,686	2,975	3,195
invested capital (Bt m)	13,873	16,610	18,334	17,989	17,547

Sources: Company data, Thanachart estimates

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