

# Thailand Energy Drink Sector

## Game theory

Sector Valuation			Current price	Target price	Norm EPS growth		Norm PE		EV/EBITDA		Div yield	
Company	BBG Code	Rec.	(Bt)	(Bt)	2022F (%)	2023F (%)	2022F (x)	2023F (x)	2022F (x)	2023F (x)	2022F (%)	2023F (%)
Carabao Group	CBG TB	BUY	108.00	138.00	44.1	30.4	26.6	20.4	20.2	15.7	2.5	3.2
Osotspa Pcl	OSP TB	SELL	36.50	31.00	9.1	8.6	29.7	27.3	21.2	19.1	3.4	3.7

Source: Thanachart estimates, Based on 18 March 2022 closing prices

This report focuses on the energy drink sector. We interpret OSP's latest pricing strategy as a game theory that could be beneficial to CBG, which could choose to see its market share rise and follow its peers in raising product pricing or doing both in sequencing. We revise up our earnings estimates for CBG and reaffirm BUY.

### Pricing strategy

The Thai energy drink sector is worth around Bt27bn with three players dominating the market: Osotspa Pcl (OSP) with a 55% share, Carabao Group (20%), and Red Bull Thailand (non-listed) with 11%. Energy drinks in Thailand target low-income earners who need a cheap caffeine hit and the product price has been kept at Bt10/bottle for the past 30-plus years. Operators' gross margin is between 35-36%. OSP's big strategic move this year has been to lift its price base to Bt12. We interpret this as a game theory where OSP expects its competitors to follow suit, especially amid rising production costs, with everyone benefiting.

### Our view

We see this game panning out in four scenarios. *First*, OSP's best case is if CBG and others hikes prices too and all enjoy higher margins with the same market share. We see this scenario as least likely. With CBG's still high gross margin and ROE, we don't expect it to follow suit. *Second*, a still decent scenario for OSP is if CBG waits to gain some market share before following with a price increase. OSP would then lose some market share but enjoy net benefits to earnings from its price hike. This would be the best case for CBG which would see both higher share and higher margin. *Third*, a bad scenario for OSP is if CBG decides not to raise prices and gains so much market share that it erodes all OSP's price hike benefits. *Fourth*, the worst case for OSP is if it loses so much market share that it scraps its price hike. Then it would end up with lower market share and the same prices. In most scenarios, CBG stands to gain.

### Earnings scenarios

As this is just the beginning and we don't have a high conviction on the end-game scenarios above, we leave OSP's earnings unchanged. CBG has maintained its selling price so far and is starting to see volume growth in some areas. We lift CBG's earnings as it stands to gain in most scenarios. We revise up our earnings for CBG by 4/6/5% on a small market share gain without a price hike. Exhibits 7-11 show our earnings sensitivities for both companies under the four end-game scenarios.

### Prefer CBG

We reaffirm our BUY call on CBG as we believe the company stands to gain in all scenarios while we downgrade OSP to SELL (from Hold) on its expensive valuation after the share price rose after the announcement of the pricing strategy in late February. Valuation wise, CBG looks more attractive to us trading at 2022F PE of 27x vs. 44x EPS growth compared to OSP at 30x vs. 9% EPS growth.

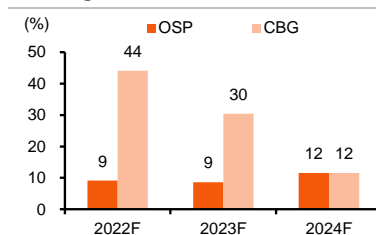


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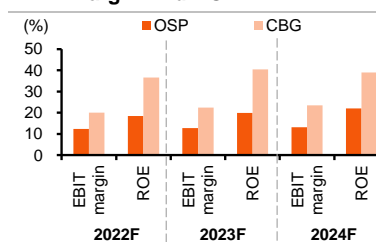
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### Earnings Growth



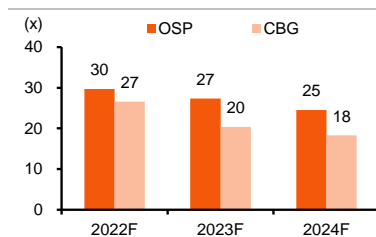
Sources: Company data, Thanachart estimates

### EBIT Margin And ROE



Sources: Company data, Thanachart estimates

### PE



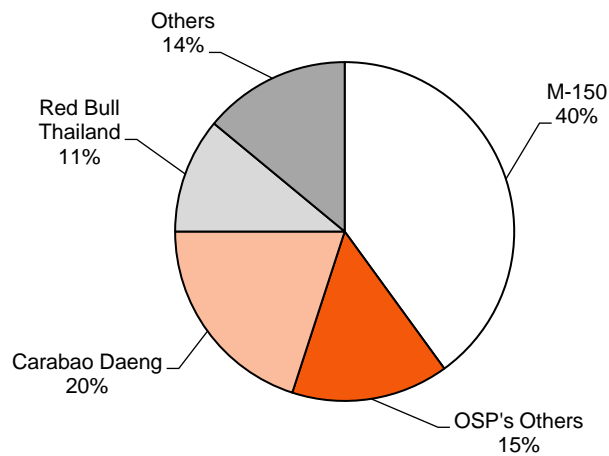
Sources: Company data, Thanachart estimates

Thailand's energy drink market has three main players

### A game theory

Thailand's energy drink market is worth around Bt27bn with the three largest players commanding an 84% market share. Osotspa Pcl (OSP) has the biggest market share at 55% and it has many products, i.e., M-150 (40% market share), Lipovitan (9%) and other products (6%). M-150, its long-standing product champion, sells at Bt10/bottle. Other products are either in the inch-premium segment or focus on specific groups, e.g., women. The second-largest player is Carabao Group Pcl (CBG). CBG has only one brand, Carabao Daeng, which has a 20% market share. Carabao Daeng is also sold at Bt10/unit. The third-largest player is Thailand Red Bull that commands an 11% market share. Its main brand Krating Daeng (Red Bull in Thai) is also sold at Bt10/unit. The other 14% of the market comprises many come-and-go small players.

Ex 1: Market Share Breakdown



Source: Company data

Ex 2: Examples Of Each Player’s Energy Drink Products

OSP

Main M-150



Lipovitan



Others



CBG

Carabao Daeng



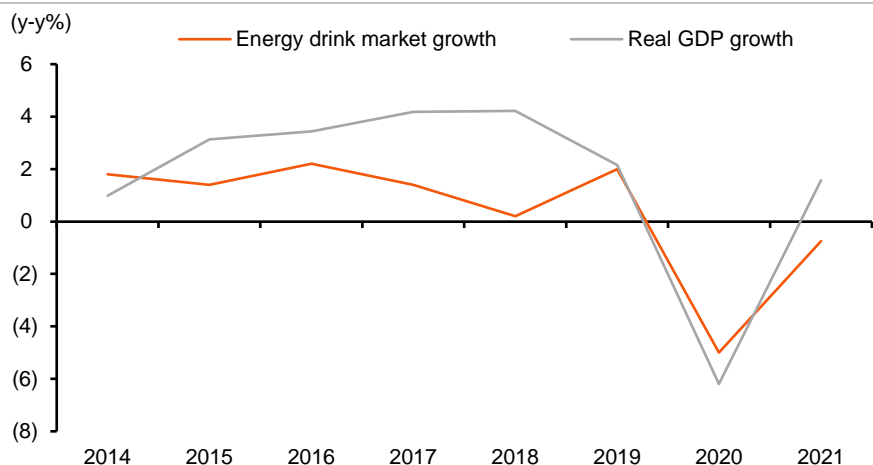
Red Bull Thailand

Krating Daeng (Red Bull in Thai)



Source: Company data

Energy drinks are mainly consumed by low-income earners who need cheap caffeine and the sweetness from sugar to keep them alert and give them energy for their labor-intensive jobs, e.g., long drives and construction work. The product price has been kept at Bt10/unit over the past 30-plus years despite rising wages and inflation in general over time. The key reason is that it is a price-sensitive product, although there is some level of brand loyalty too. Therefore, operators have been afraid to raise prices even though only a small increment could yield hefty additional profits. Another reason is that it is a high-margin product yielding around a 35-35% gross margin, therefore providing a big cushion to producers to deal with cost increases, e.g., wage hikes and normal inflation, each year.

**Ex 3: Energy Drink Market Growth Vs. GDP Growth**

Sources: NESDC, Company data, Thanachart compilation

That said, early this month OSP decided to raise the price of its main M-150 product to Bt12/unit from Bt10. The company expects other players to follow suit, especially amid the rising inflation trend, so that everyone will benefit.

We discuss each player's strategy so far below:

*OSP has raised its price  
and it believes others will  
follow suit*

**OSP's strategy:** OSP is now launching its new version of M-150 at a price of Bt12 (vs. Bt10 for the original version). The new product has 100% more vitamin B2 which OSP claims help boost people's brain function. OSP plans for it to replace the existing Bt10 version. From our observation, many traditional shops and some big wholesalers like Siam Makro (MAKRO TB, SELL, Bt41.25) have already replaced the old Bt10 version with the Bt12 M-150. OSP's strategic move is designed to raise the company's profitability and to respond to rising inflation (i.e., more expensive raw materials such as natural gas). Despite being aware that it faces the risk of losing some market share, OSP believes the pricing effect provides a big cushion (see the scenario analysis below). Also, OSP believes other players will eventually increase prices as well due to cost pressures and that raising prices would make it easier for everyone to benefit rather than having to compete for volume.

**Ex 4: New Vs. Old M-150**

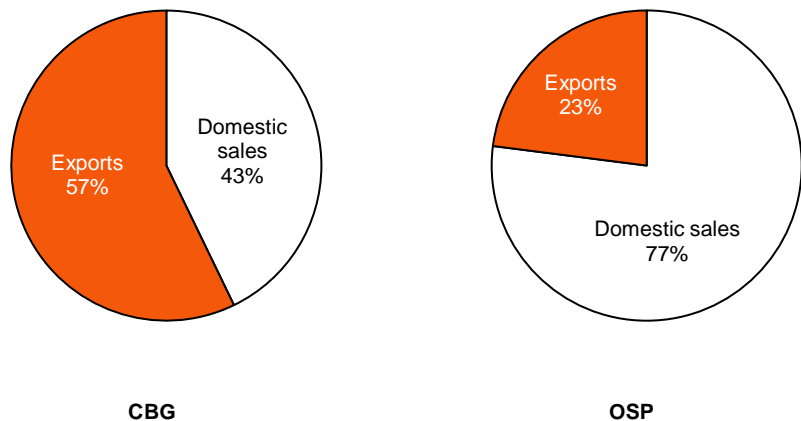
Source: Company data

*CBG has maintained its price and expects to gain market share*

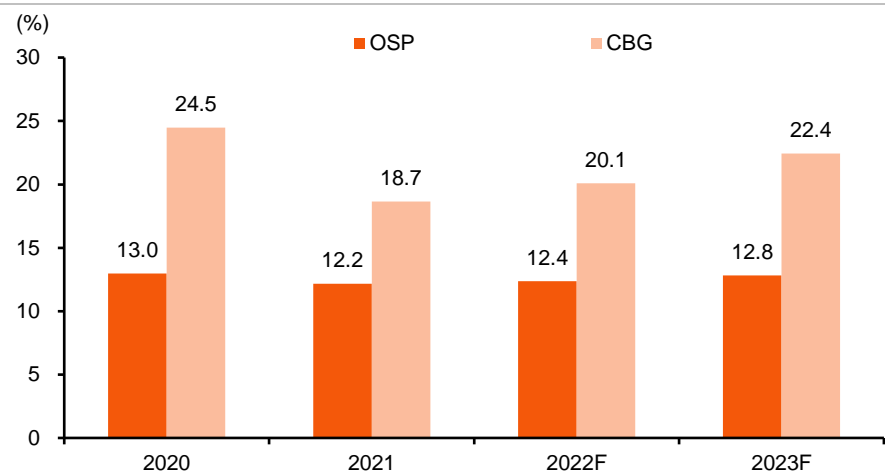
**CBG’s strategy:** CBG is the second-largest player with a 20% market share. It competes very actively with OSP in chasing market share. We spoke with CBG and it said its first reaction to OSP’s price increase was to maintain Carabao Daeng’s price at Bt10/unit. Although it also faces cost pressures amid the inflationary environment and while raising prices could make life easier for CBG in boosting sales, its main goal is to gain market share. Having a higher market share would offer long-term benefits, in CBG’s view. For instance, it could adopt more expensive, better marketing activities and promotional campaigns thanks to higher volume. Also, having a larger client base helps when CBG launches new products. Launching new products is one of CBG’s main growth strategies from this year onward. Another reason in our view is the fact that CBG generates a higher EBIT margin than OSP (Exhibit 6) thanks to its higher export sales, which by nature generate higher margins. Also, CBG’s factories are much newer, with more efficient machinery and automation vs. OSP’s decades-old ones. Lastly, CBG is the only player with in-house distribution vans and sales teams, which is cheaper than outsourcing.

So far, CBG has seen its sales increase by high-double digits in some areas after OSP raised its price. CBG’s next strategic move is to launch marketing campaigns to promote its low-price stance. On top of this, CBG plans to launch a new premium energy drink costing Bt12 to compete in the higher-end segment with OSP’s products.

Ex 5: CBG Vs. OSP’s Energy Drink Sales Breakdown



Sources: Company data, Thanachart estimates

**Ex 6: CBG Vs. OSP's EBIT Margin**

Sources: Company data, Thanachart estimates

**Other players:** Red Bull Thailand has not been active in Thailand as it has been focusing on the much larger energy drink business in Europe. We believe it will wait to see what the end game is here and then follow the market trend. As for other smaller players, they don't have much say and they will likely follow the market trend as well.

## Our view

### We see four scenarios

We see the game panning out in four scenarios which we discuss below. Note that we only include OSP and CBG in the analysis as we believe other smaller players will wait and follow the end game of the two largest players.

Note that in this report, we forecast CBG's market share gain of 3% to 23% with a new TP at Bt138/share (from Bt133). However, our case analysis in Exhibits 7-11 calculates CBG's potential changes in earnings and TP based on its existing market share of 20%. As for OSP, there are no changes in our numbers. We discuss more about this in the "Earnings scenarios" section below.

### Case 1: Best for OSP, good for CBG

**Case 1: This is the case OSP is hoping for.** OSP's best-case scenario is for CBG to follow suit with a price hike, and for both players to enjoy higher margins with the same market share. In this case, we would forecast OSP to enjoy more benefits than CBG as it has higher exposure to domestic energy drinks than CBG (see Exhibit 5). This is the case OSP hopes for, but we regard it as the least likely. As mentioned earlier, CBG's ultimate plan is to gain market share. Together with CBG's higher EBIT margin and ROE and the fact that it is already starting to gain market share after OSP raised its price in early March, we don't expect CBG to hike its price.

**Ex 7: Case 1 - Price Increases By All Players With The Same Market Share**

	Selling price (Bt/unit)		Market share (%)		Upside to earnings (%)		Target price (Bt/share)	
	Existing	New	Before	After	2022F	2023F	Current	Potential
OSP	10	12	40**	—	25	46	31	43
CBG	10	12	20	—	12	18	133	154

Sources: Company data, Thanachart estimates

Note: \*We assume it begins in 2H22

\*\*Includes only M-150

Our calculation on CBG is based on its existing market share of 20%

### Case 2: Best case for CBG, decent for OSP

**Case 2:** This is still a decent scenario for OSP, in our view, but the best case for CBG. That is, CBG waiting to gain some market share before following with price increases later. Offering a lower price for some time before raising it later, we believe CBG would gain new customers. As for OSP, it could lose some market share but still see net benefits to earnings from its price hike. We show in Exhibit 9 our sensitivity analysis of CBG's percentage market share gains at the new selling price. At the same time, OSP, with a higher selling price of Bt12, has a cushion to lose as much as 15% in market share, on our estimate, before this loss offsets the price hike benefit.

**Ex 8: Case 2 – OSP Raises Its Price First And Loses Market Share**

	Selling price (Bt/unit)		Market share (%)		Upside to earnings (%)		Target price (Bt/shr)	
	Existing	New	Before	After	2022F*	2023F	Current	Potential
	10	12	40	35	14	27	31	38
	10	12	40	30	5	8	31	33
	10	12	40	25	(5)	(9)	31	29

Sources: Company data, Thanachart estimates

Note: \*We assume it begins in 2H22

**Ex 9: Case 2 – CBG Raises Its Price Later After Some Market Share Gains**

Selling price (Bt/unit)		Market share (%)		Upside to earnings (%)		Target price (Bt/shr)	
Existing	New	Before	After	2022F*	2023F	Current	Potential
10	12	20	21	13	21	133	154
10	12	20	25	21	33	133	169
10	12	20	30	30	47	133	186

Sources: Company data, Thanachart estimates

Note: \*We assume it begins in 2H22

Our calculation on CBG is based on its existing market share of 20%

**Case 3: Bad for OSP,  
good for CBG**

**Case 3: This is the case CBG is hoping for.** A bad case for OSP is if CBG decides not to raise its price and gains so much market share that it erodes all OSP's price hike benefits. Note that CBG is now choosing to maintain its selling price at Bt10. CBG has seen its sales rise by high-double digit levels in some areas after OSP raised its price. Looking forward, CBG is planning to be aggressive in marketing activities to promote its low-price stance and launch new, premium products to compete with OSP as we mentioned earlier. However, it will take time to determine if this will eventually erode OSP's benefits. As mentioned in **Case 2 (Exhibit 8)**, on our calculation, M-150 needs to lose around a 15% market share (from 40% now), implying a 38% sales volume loss, for the impact from the price hike to be offset by falling sales volume. As for CBG, it said the total near-term benefit of the volume gain could be lower than if it raises its price (**Case 1**) but that its ultimate goal is to gain market share as it would provide long-term benefits. We believe most of OSP's market share loss will flow to CBG given its size, competitive advantages, and its proactiveness against other smaller players. Note that CBG mentioned its production factory has enough capacity to take in significant new orders.

**Ex 10: Case 3 – CBG Maintains Price And Gains Market Share**

Selling price (Bt/unit)		Market share (%)		Upside to earnings (%)		Target price (Bt/shr)	
Existing	New	Before	After	2022F*	2023	Current	Potential
10	—	20	21	1	2	133	136
10	—	20	23**	4	6	133	138**
10	—	20	25	6	10	133	142
10	—	20	30	13	20	133	153
10	—	20	25	19	30	133	166

Sources: Company data, Thanachart estimates

Note: \*We assume it begins in 2H22

: \*\* Our assumption

Our calculation on CBG is based on its existing market share of 20%



**Case 4: Worst for OSP,  
good for CBG**

**Case 4:** We believe the worst case for OSP is if it loses so much market share that it decides it has to scrap its price hike policy. This would result in OSP losing market share and reverting back the same price. See Exhibit 11 for our sensitivity analysis if OSP lowers its price back to Bt10/unit and loses market share.

**Ex 11: Case 4 – OSP Loses Market Share And Later Cuts Price Back To Bt10**

Selling price (Bt/unit)		Market share (%)		Upside to earnings (%)		Target price (Bt/shr)	
Existing	New	Before	After	2022F*	2023F	Current	Potential
10	—	40	<b>39</b>	(1)	(3)	31.0	30.4
10	—	40	<b>38</b>	(3)	(5)	31.0	29.8
10	—	40	<b>37</b>	(4)	(8)	31.0	29.1
10	—	40	<b>36</b>	(5)	(10)	31.0	28.8
10	—	40	<b>35</b>	(7)	(13)	31.0	27.9

Sources: Company data, Thanachart estimates

Note: \*Assume begins since 2H22

\*\*Include only M-150

## Earnings scenarios

**CBG stands to gain in all  
scenarios while OSP  
faces uncertainty**

As this is just the beginning, we still don't have a high conviction on how the end game will pan out. However, in our view, CBG stands to benefit in all scenarios while OSP still faces risk of losing meaningful market share. Energy drinks are mainly consumed by low-income earners and are therefore very price sensitive. On top of that, these low-income earners are currently the main victims of Thailand's COVID-led weak economy. Aside from the affordability issue, raising prices during this challenging time could taint brand perception.

**We raise our earnings for  
CBG but maintain them  
for OSP**

With the four cases mentioned above, though we believe CBG stands to benefit in all of them, we still conservatively assume CBG gains market share of 3% (implying +15% domestic energy drink sales) without a price hike. We therefore increase our earnings estimates for CBG by 4/6/5% in 2022-24F. We leave as potential upside the possibility of CBG actually gaining more market share. As for OSP, we leave our earnings unchanged given its uncertain end game. Please refer to Exhibits 7-11 for our sensitivity analysis.

**Ex 12: Our Assumption Revisions For CBG**

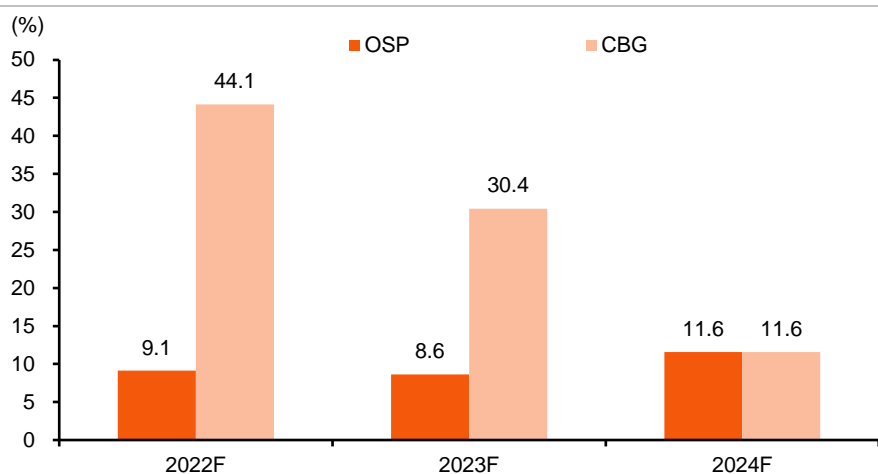
	2020	2021	2022F	2023F	2024F
<b>Sales (Bt m)</b>					
New	17,231	17,364	23,524	27,506	29,348
Old			23,101	26,603	28,418
Change (%)			1.8	3.4	3.3
<b>Gross margin (%)</b>					
New	41.0	35.6	33.1	33.9	34.4
Old			32.9	33.7	34.3
Change (pp)			0.1	0.2	0.1
<b>SG&amp;A to sales (%)</b>					
New	16.5	17.0	13.0	11.4	10.9
Old			13.2	11.8	11.3
Change (pp)			(0.2)	(0.4)	(0.4)
<b>Normalized profits (Bt m)</b>					
New	3,510	2,816	4,058	5,294	5,906
Old			3,910	4,993	5,603
Change (%)			3.8	6.0	5.4

Sources: Company data, Thanachart estimates

**Prefer CBG**

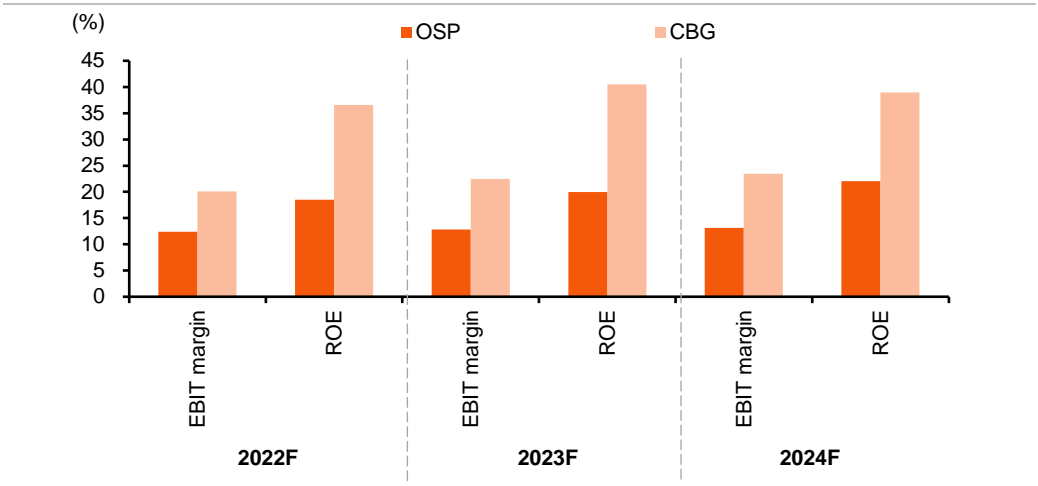
**CBG is more attractive in our view**

We reaffirm our BUY recommendation on CBG as we believe it stands to gain in all scenarios while we downgrade our rating on OSP to SELL from Hold as it faces an uncertain end game. At 44% EPS growth while trading at 27x PE, CBG looks more attractive than OSP's 9% EPS growth and 30x PE.

**Ex 13: CBG's Vs. OSP's Earnings Growth...**

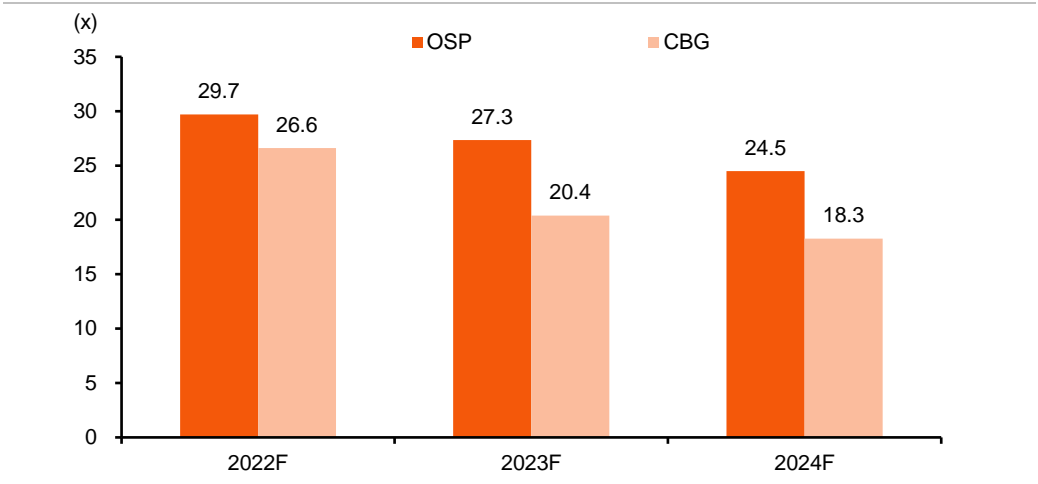
Sources: Company data, Thanachart estimates

Ex 14: ...EBIT Margin And ROE....



Sources: Company data, Thanachart estimates

Ex 15: ...And PE



Sources: Company data, Thanachart estimates

## Ex 16: Sector Valuation Comparison

		CBG	OSP	Industry
Rating		BUY	SELL	
Target price (Bt)	Thanachart	138.00	31.00	
	Consensus	114.79	38.51	
Consensus rec.	BUY	8.0	15.0	
	HOLD	6.0	5.0	
	SELL	1.0	0.0	
Sales (Bt m)	2021	17,364	26,762	44,127
	2022F	23,524	28,708	52,232
	2023F	27,506	30,883	58,389
	2024F	29,348	33,487	62,835
Norm profits (Bt m)	2021	2,816	3,383	6,199
	2022F	4,058	3,691	7,750
	2023F	5,294	4,010	9,304
	2024F	5,906	4,474	10,380
Sales growth (%)	2021	0.8	4.6	72.5
	2022F	35.5	7.3	18.4
	2023F	16.9	7.6	11.8
	2024F	6.7	8.4	7.6
Norm EPS growth (%)	2021	(19.8)	(3.5)	76.9
	2022F	44.1	9.1	25.0
	2023F	30.4	8.6	20.1
	2024F	11.6	11.6	11.6
Operating margin (%)	2021	18.7	12.2	14.7
	2022F	20.1	12.4	15.8
	2023F	22.4	12.8	17.4
	2024F	23.4	13.1	17.9
ROE (%)	2021	27.9	17.3	22.6
	2022F	36.6	18.5	27.5
	2023F	40.5	19.9	30.2
	2024F	39.0	22.0	30.5
Dividend yield (%)	2021	1.8	3.0	2.4
	2022F	2.5	3.4	2.9
	2023F	3.2	3.7	3.4
	2024F	4.1	4.1	4.1
P/BV (x)	2021	10.6	5.5	7.2
	2022F	9.0	5.5	6.8
	2023F	7.6	5.4	6.3
	2024F	6.7	5.4	6.0
Norm PE (x)	2021	38.4	32.4	35.1
	2022F	26.6	29.7	28.1
	2023F	20.4	27.3	23.4
	2024F	18.3	24.5	21.0
EV/EBITDA (x)	2021	28.4	22.8	25.6
	2022F	20.2	21.2	20.7
	2023F	15.7	19.1	17.4
	2024F	13.9	17.4	15.7
Net D/E (x)	2021	0.5	(0.1)	0.2
	2022F	0.3	(0.0)	0.2
	2023F	0.2	(0.0)	0.1
	2024F	(0.0)	(0.1)	(0.1)

Sources: Company data; Thanachart estimates

## Valuation Comparison

### Ex 17: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth		— PE —		— P/BV —		EV/EBITDA		— Div yield—	
			22F (%)	23F (%)	22F (x)	23F (x)	22F (x)	23F (x)	22F (x)	23F (x)	22F (%)	23F (%)
Yakult Honsha	2267 JP	Japan	9.4	3.6	24.4	23.5	2.4	2.3	13.3	12.7	1.1	1.2
Coca-Cola	KO US	US	6.1	7.4	24.4	22.7	9.7	10.0	21.4	20.0	2.9	3.0
PepsiCo	PEP US	US	6.9	8.7	24.3	22.4	12.6	12.1	17.2	16.0	2.8	2.9
Monster Beverage	MNST US	US	10.8	13.7	28.3	24.9	6.1	5.6	19.4	17.4	0.0	0.0
Carabao Group PCL*	CBG TB	Thailand	44.1	30.4	26.6	20.4	9.0	7.6	20.2	15.7	2.5	3.2
Osotspa PCL*	OSP TB	Thailand	9.1	8.6	29.7	27.3	5.5	5.4	21.2	19.1	3.4	3.7
<b>Average</b>			<b>14.4</b>	<b>12.1</b>	<b>26.3</b>	<b>23.5</b>	<b>7.6</b>	<b>7.2</b>	<b>18.8</b>	<b>16.8</b>	<b>2.1</b>	<b>2.3</b>

Sources: Company data, Thanachart estimates

Note: \* Thanachart estimates, using normalized EPS.

Based on 18-Mar-22 closing prices

## STOCK PERFORMANCE

	Absolute (%)				Rel SET (%)			
	1M	3M	12M	YTD	1M	3M	12M	YTD
SET INDEX	(2.0)	2.2	7.0	1.3	—	—	—	—
Food Sector	(1.9)	0.0	(4.0)	(1.5)	0.2	(2.2)	(11.0)	(2.7)
CBG TB	6.9	(10.4)	(20.6)	(9.6)	9.0	(12.6)	(27.6)	(10.9)
OSP TB	8.1	9.0	6.6	6.6	10.2	6.7	(0.4)	5.3

Source: Bloomberg

## SECTOR - SWOT ANALYSIS

**S — Strength**

- Energy drinks are a highly resilient product among Thai people
- The industry has high barriers to entry for new players

**W — Weakness**

- Only organic growth in the mature energy drink market
- Lack of pricing power

**O — Opportunity**

- Expansion abroad
- Launching new products

**T — Threat**

- Domestic consumption and economic conditions
- Cost pressures

## REGIONAL COMPARISON

Name	EPS growth		— PE —		— P/BV —		— EV/EBITDA —		— Div. Yield —	
	22F	23F	22F	23F	22F	23F	22F	23F	22F	23F
Japan	9.4	3.6	24.4	23.5	2.4	2.3	13.3	12.7	1.1	1.2
USA	7.9	9.9	25.7	23.3	9.5	9.2	19.3	17.8	1.9	2.0
Thailand	26.6	19.5	28.2	23.9	7.3	6.5	20.7	17.4	3.0	3.5
<b>Average</b>	<b>14.6</b>	<b>11.0</b>	<b>26.1</b>	<b>23.6</b>	<b>6.4</b>	<b>6.0</b>	<b>17.8</b>	<b>16.0</b>	<b>2.0</b>	<b>2.2</b>
CBG TB	44.1	30.4	26.6	20.4	9.0	7.6	20.2	15.7	2.5	3.2
OSP TB	9.1	8.6	29.7	27.3	5.5	5.4	21.2	19.1	3.4	3.7
<b>Average *- Thailand</b>	<b>26.6</b>	<b>19.5</b>	<b>28.2</b>	<b>23.9</b>	<b>7.3</b>	<b>6.5</b>	<b>20.7</b>	<b>17.4</b>	<b>3.0</b>	<b>3.5</b>

Sources: Bloomberg Consensus

Note: \* Thanachart estimate – using normalized EPS

**BUY** (Unchanged)  
Change in Numbers

**TP: Bt 138.00** (From: Bt133.00)  
**Upside : 27.8%**

**21 MARCH 2022**

# Carabao Group Pcl (CBG TB)

## A windfall

CBG is seeing its sales volume rise after its key rival raised the price of its main energy drink. While this looks like a windfall, it could be sustainable in our view as changes in market share are normally not a short-term thing. We conservatively lift our earnings estimates by 4-6% p.a. in 2022-24F and reaffirm BUY on CBG.



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### Game theory beneficiary

This report is a part of *Thai Energy Drink Sector – Game theory*, dated 21 March 2022, in which we discuss the game theory of the largest operator Osotspa Pcl's (OSP TB, Bt36.5, SELL) energy drink price hike. We see CBG, the second-largest energy drink producer, benefiting. Since early this month CBG has seen its domestic energy drink sales (27% of total sales) rise by high-double digits in some areas after OSP lifted the selling price of its main energy drink M150 to Bt12/unit from Bt10. CBG hasn't followed suit and it expects to gain market share. CBG also plans to launch a premium product at Bt12 with more vitamin content.

### 44% earnings growth this year

As we expect CBG to benefit in all four of our game theory scenarios, we raise our earnings by 4-6% in 2022-24F and DCF-based 12-month TP (2022F base year) to Bt138 (from Bt133). We see the upgrade as conservative as we assume a 3% market share gain. We reaffirm BUY on CBG for its earnings turnaround story of 44/30% earnings growth in 2022-23F despite factoring in an aluminum price rise. CBG is turning around from the low base last year from lockdowns in Thailand, Cambodia, Myanmar and China. It continues to see strong growth in distribution and bottle OEM sales (15% of EBIT) from market share gains of its main spirit client. Spirit sales have grown by over 100% in 1Q22 so far.

### Easing aluminum pressure

The price of aluminum, a raw material in can production at around 10% of CBG's COGS, has surged since 2021 amid global reopening demand and China's strict CO2 controls leading to production curbs. This year, pressure is from potential sanctions on Russia (10% of global exports). The price rose from an average of US\$2,477/tonne in 2021 to peak this year at US\$3,842 during the panic over the Russia-Ukraine war earlier this month, but it has eased to US\$3,502. We factor in a US\$3,500 aluminum price this year. Our sensitivity analysis suggest that each US\$100/tonne aluminum price rise would cut CBG's earnings by 1%

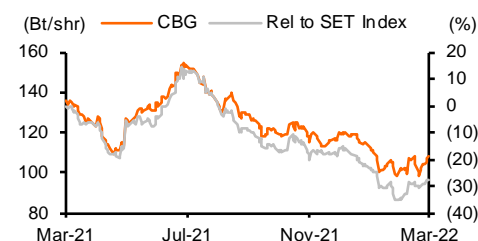
### China update

CBG sold around 100m cans and bottles of energy drinks, or Bt731m in sales (4% of total sales) in China in 2021. Sales peaked at 70m units in 2Q21 (vs. 50-100m p.a. in prior years) and fell to nearly nothing in 2H21 amid the COVID lockdown in China. Orders remained low during 1Q22 but CBG saw orders for around 50m units in 2Q22. CBG expects full-year sales of 200m units. Despite some COVID challenges remaining, CBG said that its client, Carabao China (50% owned by CBG's major shareholder), will remain aggressive as planned. We forecast sales of 180/220/240m units in 2022-24F.

### COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	17,364	23,524	27,506	29,348
Net profit	2,881	4,058	5,294	5,906
Consensus NP	—	3,369	3,904	4,415
Diff frm cons (%)	—	20.5	35.6	33.8
Norm profit	2,816	4,058	5,294	5,906
Prev. Norm profit	—	3,910	4,993	5,603
Chg frm prev (%)	—	3.8	6.0	5.4
Norm EPS (Bt)	2.8	4.1	5.3	5.9
Norm EPS grw (%)	(19.8)	44.1	30.4	11.6
Norm PE (x)	38.4	26.6	20.4	18.3
EV/EBITDA (x)	28.4	20.2	15.7	13.9
P/BV (x)	10.6	9.0	7.6	6.7
Div yield (%)	1.8	2.5	3.2	4.1
ROE (%)	27.9	36.6	40.5	39.0
Net D/E (%)	53.1	34.7	15.6	(0.5)

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price as of 18-Mar-22 (Bt)	108.00
Market Cap (US\$ m)	3,238.6
Listed Shares (m shares)	1,000.0
Free Float (%)	28.9
Avg Daily Turnover (US\$ m)	22.0
12M Price H/L (Bt)	154.50/98.50
Sector	FOOD
Major Shareholder	Sathientham Holding 25%

Sources: Bloomberg, Company data, Thanachart estimates

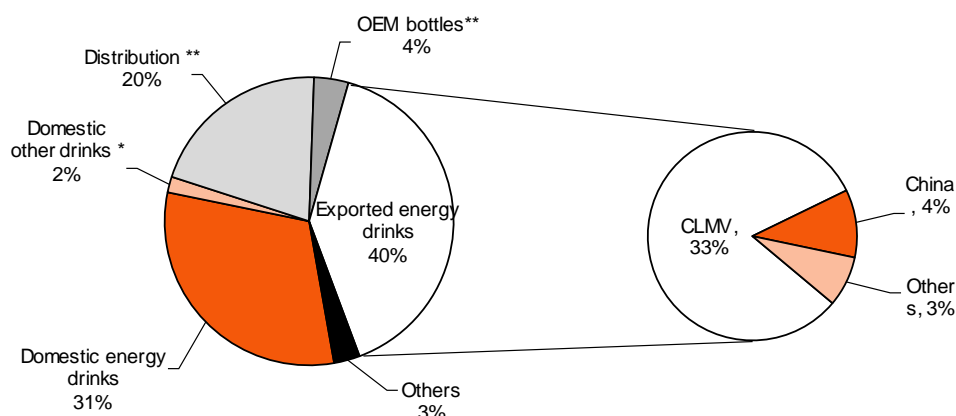
## A 44% earnings growth this year

### 44% EPS growth this year

We forecast CBG's earnings growing by 44% this year. We see drivers being both sales growth and EBIT margin expansion. Aside from expecting for demand resumption of its main energy drinks businesses in Thailand, Cambodia, Myanmar and China which was hit by the COVID-led lockdown in 3Q21, we expect other drivers being strong distribution, bottle OEM and the launch of its new products.

CBG uses in-house cash van and it also serve outside customers, including its family businesses such as spirits and convenience stores (CVS). The spirit business started in 2019 and contributed EBIT of Bt536m in 2021. The CVS business is also undergoing aggressive expansion. This year, CBG expects to add new customers. We still leave this as upside but believe they can make meaningful contribution to the company's bottom line.

Ex 1: Sales Breakdown In 2021



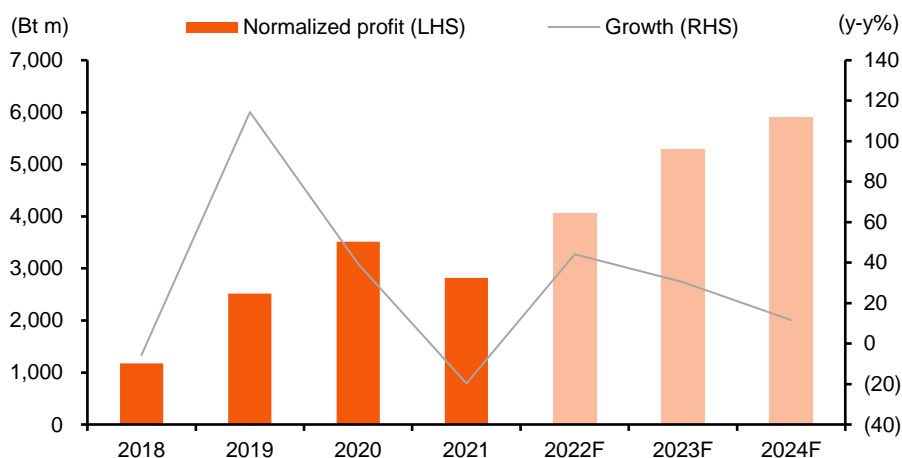
Sources: Company data, Thanachart estimates

Note: \* C-Lock vitamin drink and other drinks

\*\* Mainly for spirit products

On the margin side, despite rising aluminium prices, and therefore falling gross margin, CBG expects its EBIT margin to increase given a meaningful operating leverage impact at the SG&A level as the company invested most of these expenses in earlier years.

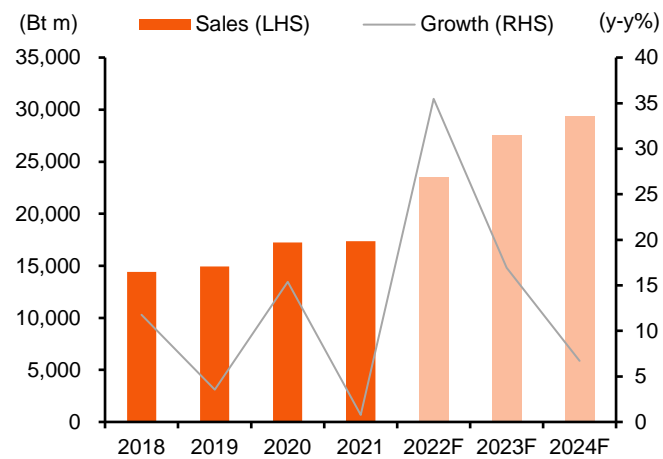
Ex 2: Earnings Growth



Sources: Company data, Thanachart estimates

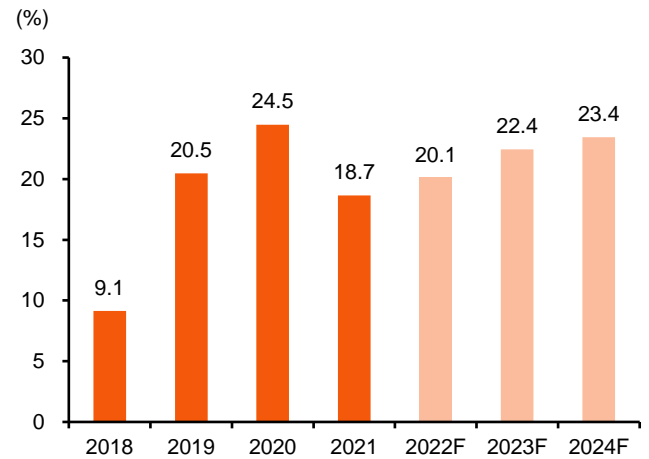


## Ex 3: Sales Growth



Sources: Company data, Thanachart estimates

## Ex 4: EBIT Margin



Sources: Company data, Thanachart estimates

## Ex 5: Earnings Revisions

	2020	2021	2022F	2023F	2024F
<b>Sales (Bt m)</b>					
New	17,231	17,364	23,524	27,506	29,348
Old			23,101	26,603	28,418
Change (%)			1.8	3.4	3.3
<b>Gross margin (%)</b>					
New	41.0	35.6	33.1	33.9	34.4
Old			32.9	33.7	34.3
Change (pp)			0.1	0.2	0.1
<b>SG&amp;A to sales (%)</b>					
New	16.5	17.0	13.0	11.4	10.9
Old			13.2	11.8	11.3
Change (pp)			(0.2)	(0.4)	(0.4)
<b>Normalized profits (Bt m)</b>					
New	3,510	2,816	4,058	5,294	5,906
Old			3,910	4,993	5,603
Change (%)			3.8	6.0	5.4

Sources: Company data, Thanachart estimates

**Ex 6: 12-month DCF-based TP Calculation Using A Base Year Of 2022F**

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA	5,514	6,982	7,704	8,432	9,284	10,272	11,146	11,923	12,722	13,576	14,378	—
Free cash flow	3,697	5,345	6,361	5,997	8,002	8,889	9,714	10,399	11,104	11,852	12,568	214,206
PV of free cash flow	3,687	4,570	5,028	4,383	5,408	5,593	5,657	5,606	5,542	5,476	5,374	81,780
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.0											
WACC (%)	8.2											
Terminal growth (%)	2.0											
Enterprise value - add investments	143,196											
Net debt (2021)	5,370											
Minority interest	(99)											
Equity value	137,925											
# of shares (m)	1,000											
<b>Equity value/share (Bt)</b>	<b>138.00</b>											

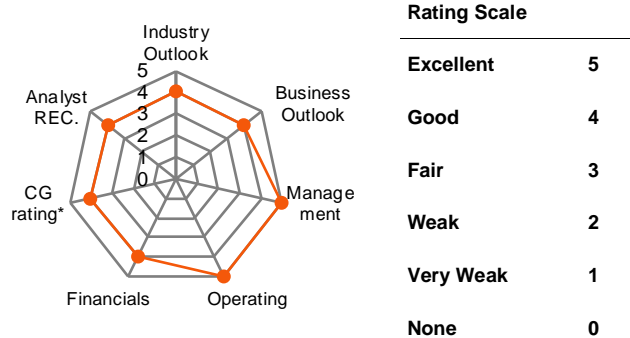
Sources: Company data, Thanachart estimates

## COMPANY DESCRIPTION

Carabao Group Pcl (CBG) is Thailand's second-largest energy drinks producer with a 20% market share. The company holds 100% stakes in three subsidiaries: CBD (energy drinks manufacturing company), APG (glass bottle production and procurement company), and DCM (distribution company). CBG started producing energy drinks in 2002 and now sells its products both domestically and abroad.

Source: Thanachart

## COMPANY RATING



Source: Thanachart; \*CG Rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

- Strong presence in the domestic beverage market.
- Robust balance sheet.
- Proactive management team.

### O — Opportunity

- Expansions abroad.
- Mergers and acquisitions.

### W — Weakness

- Only organic growth in a mature beverage market.
- Lack of pricing power.
- Heavily reliant on brand ambassador.

### T — Threat

- Domestic consumption and economic conditions.
- New competition in the beverage segment.
- Natural disasters.

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	114.79	138.00	20%
Net profit 22F (Bt m)	3,369	4,058	20%
Net profit 23F (Bt m)	3,904	5,294	36%
Consensus REC	BUY: 8	HOLD: 6	SELL: 1

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022-23F earnings are 20-36% ahead of the Bloomberg consensus numbers, which we attribute to us having a more aggressive view on its growth in China and a decent recovery in the Cambodia and Myanmar markets.

Sources: Bloomberg consensus, Thanachart estimates

## RISKS TO OUR INVESTMENT CASE

- Lower-than-expected growth in domestic sales and exports would represent the key downside risks to our earnings forecasts and TP.
- Lower-than-expected sales growth in the Myanmar and Vietnam markets would pose a secondary downside risk to our earnings forecasts.

Source: Thanachart

## INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	17,231	17,364	23,524	27,506	29,348
Cost of sales	10,173	11,181	15,741	18,183	19,265
<b>Gross profit</b>	<b>7,058</b>	<b>6,183</b>	<b>7,783</b>	<b>9,323</b>	<b>10,084</b>
% gross margin	41.0%	35.6%	33.1%	33.9%	34.4%
Selling & administration expenses	2,840	2,945	3,057	3,148	3,204
<b>Operating profit</b>	<b>4,218</b>	<b>3,239</b>	<b>4,727</b>	<b>6,175</b>	<b>6,880</b>
% operating margin	24.5%	18.7%	20.1%	22.4%	23.4%
Depreciation & amortization	668	753	823	852	871
<b>EBITDA</b>	<b>4,886</b>	<b>3,992</b>	<b>5,549</b>	<b>7,026</b>	<b>7,751</b>
% EBITDA margin	28.4%	23.0%	23.6%	25.5%	26.4%
Non-operating income	101	141	190	222	237
Non-operating expenses	0	0	0	0	0
Interest expense	(107)	(89)	(113)	(125)	(117)
<b>Pre-tax profit</b>	<b>4,211</b>	<b>3,291</b>	<b>4,803</b>	<b>6,272</b>	<b>7,000</b>
Income tax	667	513	764	997	1,113
<b>After-tax profit</b>	<b>3,544</b>	<b>2,778</b>	<b>4,039</b>	<b>5,275</b>	<b>5,887</b>
% net margin	20.6%	16.0%	17.2%	19.2%	20.1%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	(34)	38	19	19	19
Extraordinary items	15	65	0	0	0
<b>NET PROFIT</b>	<b>3,525</b>	<b>2,881</b>	<b>4,058</b>	<b>5,294</b>	<b>5,906</b>
<b>Normalized profit</b>	<b>3,510</b>	<b>2,816</b>	<b>4,058</b>	<b>5,294</b>	<b>5,906</b>
EPS (Bt)	3.5	2.9	4.1	5.3	5.9
Normalized EPS (Bt)	3.5	2.8	4.1	5.3	5.9

We project gross margin to rise over 2022-24F

We expect 44% EPS growth in 2022F

## BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
<b>ASSETS:</b>					
Current assets:	3,992	5,382	6,878	7,977	10,150
Cash & cash equivalent	947	1,134	1,000	1,200	3,000
Account receivables	1,420	1,756	2,378	2,781	2,967
Inventories	1,489	2,337	3,290	3,751	3,921
Others	136	155	209	245	261
Investments & loans	107	103	103	103	103
Net fixed assets	12,032	12,537	12,150	11,743	11,219
Other assets	956	1,164	1,715	1,885	1,965
<b>Total assets</b>	<b>17,087</b>	<b>19,186</b>	<b>20,845</b>	<b>21,708</b>	<b>23,436</b>
<b>LIABILITIES:</b>					
Current liabilities:	5,655	5,427	5,560	5,019	5,022
Account payables	1,573	1,769	2,490	2,876	3,048
Bank overdraft & ST loans	2,504	3,381	2,662	1,760	1,518
Current LT debt	1,090	0	0	0	0
Others current liabilities	488	278	408	383	457
<b>Total LT debt</b>	<b>894</b>	<b>3,123</b>	<b>2,459</b>	<b>1,626</b>	<b>1,402</b>
Others LT liabilities	380	525	964	1,010	1,032
<b>Total liabilities</b>	<b>6,929</b>	<b>9,075</b>	<b>8,983</b>	<b>7,655</b>	<b>7,457</b>
Minority interest	201	(99)	(118)	(137)	(156)
Preferreds shares	0	0	0	0	0
Paid-up capital	1,000	1,000	1,000	1,000	1,000
Share premium	0	0	0	0	0
Warrants	0	0	0	0	0
Surplus	3,905	3,680	3,680	3,680	3,680
<b>Retained earnings</b>	<b>5,051</b>	<b>5,530</b>	<b>7,300</b>	<b>9,510</b>	<b>11,455</b>
Shareholders' equity	9,956	10,209	11,979	14,189	16,135
<b>Liabilities &amp; equity</b>	<b>17,087</b>	<b>19,186</b>	<b>20,845</b>	<b>21,708</b>	<b>23,436</b>

Sources: Company data, Thanachart estimates

**CASH FLOW STATEMENT**

<b>FY ending Dec (Bt m)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
Earnings before tax	4,211	3,291	4,803	6,272	7,000
Tax paid	(592)	(741)	(548)	(1,023)	(1,040)
Depreciation & amortization	668	753	823	852	871
Chg In working capital	(652)	(987)	(855)	(477)	(186)
Chg In other CA & CL / minorities	72	(340)	(140)	(35)	(15)
<b>Cash flow from operations</b>	<b>3,708</b>	<b>1,977</b>	<b>4,083</b>	<b>5,588</b>	<b>6,630</b>
Capex	(1,828)	(1,259)	(400)	(400)	(300)
Right of use	(304)	(139)	(330)	(50)	(50)
ST loans & investments	0	0	0	0	0
LT loans & investments	(4)	4	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	133	151	184	(119)	(55)
<b>Cash flow from investments</b>	<b>(2,003)</b>	<b>(1,242)</b>	<b>(546)</b>	<b>(569)</b>	<b>(405)</b>
Debt financing	414	2,081	(1,383)	(1,735)	(465)
Capital increase	0	0	0	0	0
Dividends paid	(2,100)	(2,400)	(2,288)	(3,084)	(3,960)
Warrants & other surplus	(35)	(228)	0	0	0
<b>Cash flow from financing</b>	<b>(1,721)</b>	<b>(547)</b>	<b>(3,671)</b>	<b>(4,819)</b>	<b>(4,425)</b>
<b>Free cash flow</b>	<b>1,880</b>	<b>718</b>	<b>3,683</b>	<b>5,188</b>	<b>6,330</b>

**VALUATION**

<b>FY ending Dec</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
Normalized PE (x)	30.8	38.4	26.6	20.4	18.3
Normalized PE - at target price (x)	39.3	49.0	34.0	26.1	23.4
PE (x)	30.6	37.5	26.6	20.4	18.3
PE - at target price (x)	39.1	47.9	34.0	26.1	23.4
EV/EBITDA (x)	22.8	28.4	20.2	15.7	13.9
EV/EBITDA - at target price (x)	29.0	35.9	25.6	20.0	17.8
P/BV (x)	10.8	10.6	9.0	7.6	6.7
P/BV - at target price (x)	13.9	13.5	11.5	9.7	8.6
P/CFO (x)	29.1	54.6	26.4	19.3	16.3
Price/sales (x)	6.3	6.2	4.6	3.9	3.7
Dividend yield (%)	2.2	1.8	2.5	3.2	4.1
FCF Yield (%)	1.7	0.7	3.4	4.8	5.9
<b>(Bt)</b>					
Normalized EPS	3.5	2.8	4.1	5.3	5.9
EPS	3.5	2.9	4.1	5.3	5.9
DPS	2.4	1.9	2.7	3.5	4.4
BV/share	10.0	10.2	12.0	14.2	16.1
CFO/share	3.7	2.0	4.1	5.6	6.6
FCF/share	1.9	0.7	3.7	5.2	6.3

Sources: Company data, Thanachart estimates

## FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
<b>Growth Rate</b>					
Sales (%)	15.4	0.8	35.5	16.9	6.7
Net profit (%)	40.6	(18.3)	40.9	30.4	11.6
EPS (%)	40.6	(18.3)	40.9	30.4	11.6
Normalized profit (%)	39.4	(19.8)	44.1	30.4	11.6
Normalized EPS (%)	39.4	(19.8)	44.1	30.4	11.6
Dividend payout ratio (%)	68.1	65.9	65.9	65.9	75.0
<b>Operating performance</b>					
Gross margin (%)	41.0	35.6	33.1	33.9	34.4
Operating margin (%)	24.5	18.7	20.1	22.4	23.4
EBITDA margin (%)	28.4	23.0	23.6	25.5	26.4
Net margin (%)	20.6	16.0	17.2	19.2	20.1
D/E (incl. minor) (x)	0.4	0.6	0.4	0.2	0.2
Net D/E (incl. minor) (x)	0.3	0.5	0.3	0.2	(0.0)
Interest coverage - EBIT (x)	39.5	36.5	41.8	49.5	58.8
Interest coverage - EBITDA (x)	45.8	45.0	49.0	56.3	66.3
ROA - using norm profit (%)	22.0	15.5	20.3	24.9	26.2
ROE - using norm profit (%)	37.9	27.9	36.6	40.5	39.0
<b>DuPont</b>					
ROE - using after tax profit (%)	38.3	27.6	36.4	40.3	38.8
- asset turnover (x)	1.1	1.0	1.2	1.3	1.3
- operating margin (%)	25.1	19.5	20.9	23.3	24.2
- leverage (x)	1.7	1.8	1.8	1.6	1.5
- interest burden (%)	97.5	97.4	97.7	98.0	98.4
- tax burden (%)	84.2	84.4	84.1	84.1	84.1
WACC (%)	8.2	8.2	8.2	8.2	8.2
ROIC (%)	30.3	20.3	25.5	32.3	35.3
NOPAT (Bt m)	3,549	2,734	3,975	5,193	5,786
invested capital (Bt m)	13,497	15,579	16,100	16,375	16,055

Sources: Company data, Thanachart estimates

ROE looks attractive to us  
at 37% in 2022F

**SELL** (From: HOLD)

Change in Recommendation

**TP: Bt 31.00** (Unchanged)

**Downside : 15.1%**

**21 MARCH 2022**

## Osotspa Pcl (OSP TB)

### Uncertain end game

OSP's energy drink M-150's price has increased by 20% since early March. We see this as a game theory in which the outcome is linked to reactions from competitors. We see the end game as highly uncertain for OSP and keep our current forecasts for now. As the share price has exceeded our TP, we downgrade OSP to SELL.



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#### Raising selling price

This report is a part of the *Thai Energy Drink Sector – Game theory*, dated 21 March 2022. Having maintained the selling price of its largest product line M-150 energy drink at Bt10/unit for over 30 years, OSP is now planning to replace its existing product with the new Bt12 M-150 version. The new product offers 100% more vitamin B, which OSP claims helps boost brainpower. This strategy is to respond to inflation-led cost pressure and to raise its profitability. From our observation, OSP has started to lose market share in some areas to its largest competitor, Carabao Group Pcl (CBG, BUY, Bt108.5), which has decided to maintain its selling price at Bt10/unit to gain market share.

#### Uncertain end game

Energy drinks are a highly price-sensitive product as it is mainly consumed by low-income people who need cheap caffeine. However, OSP believes other players will eventually follow its price hike strategy given the inflation pressure and that all will benefit. In our view, OSP is facing an uncertain end game for its pricing strategy. In our sector report, we discuss four scenarios. The best case for OSP is that other players also raise prices and everyone enjoys a higher selling price with the same market share. The bad case is that CBG maintains its price and gains a large market share from OSP that erodes its pricing benefit.

#### Soft growth outlook

As for the existing business' outlook, we forecast an 9% EPS growth this year. 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 sales; and 3) 13% overseas sales turnaround from easing of lockdowns. A potential drag is that we expect CBG to gain some market share back in Myanmar from OSP. OSP gained market share during the lockdown last year as it has operations in Myanmar. CBG had to export its products from Thailand and faced some hiccups due to the lockdown. That said, Myanmar's overall energy drink market is still not mature, growing by around 15% p.a. We expect OSP to enjoy some of this growth.

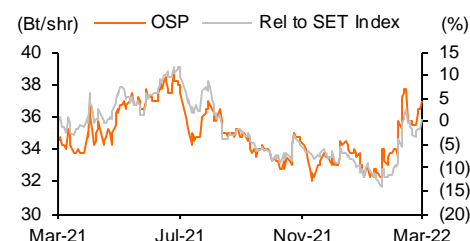
#### A valuation call

OSP's share price has risen by 10% after the price hike announcement in late February. The current share price has exceeded our Bt31 TP and we downgrade the stock to a SELL (from Hold). OSP is trading on 30x PE vs. only 9% EPS growth.

#### COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	26,762	28,708	30,883	33,487
Net profit	3,255	3,691	4,010	4,474
Norm profit	3,383	3,691	4,010	4,474
Consensus NP	—	3,638	4,005	4,416
Diff frm cons (%)	—	1.5	0.1	1.3
Prev. Norm profit	—	3,707	4,028	4,492
Chg frm prev (%)	—	(0.4)	(0.4)	(0.4)
Norm EPS (Bt)	1.1	1.2	1.3	1.5
Norm EPS grw (%)	(3.5)	9.1	8.6	11.6
Norm PE (x)	32.4	29.7	27.3	24.5
EV/EBITDA (x)	22.8	21.2	19.1	17.4
P/BV (x)	5.5	5.5	5.4	5.4
Div yield (%)	3.0	3.4	3.7	4.1
ROE (%)	17.3	18.5	19.9	22.0
Net D/E (%)	(8.6)	(0.5)	(4.8)	(10.0)

#### PRICE PERFORMANCE

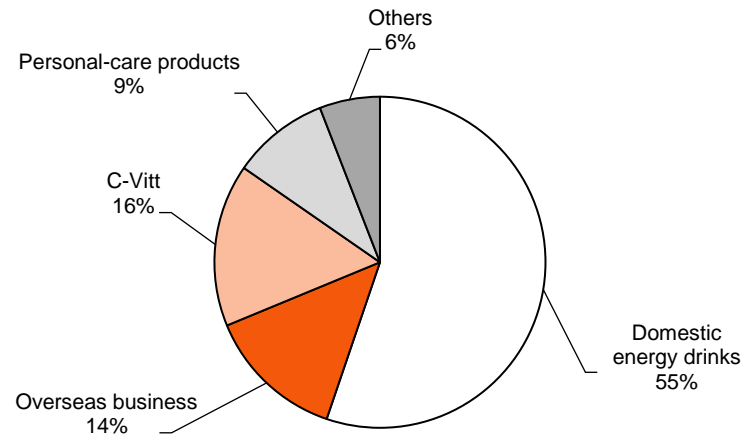


#### COMPANY INFORMATION

Price as of 18-Mar-22 (Bt)	36.50
Market Cap (US\$ m)	3,287.7
Listed Shares (m shares)	3,003.8
Free Float (%)	46.6
Avg Daily Turnover (US\$ m)	12.9
12M Price H/L (Bt)	38.75/32.00
Sector	Food
Major Shareholder	Osathanugrah family 58%

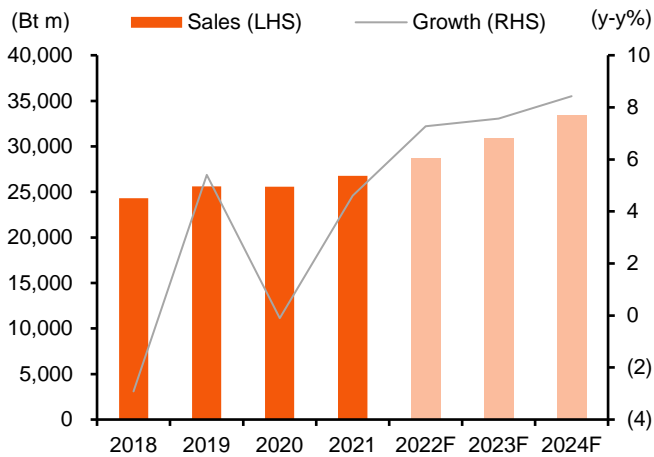
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Sales Breakdown



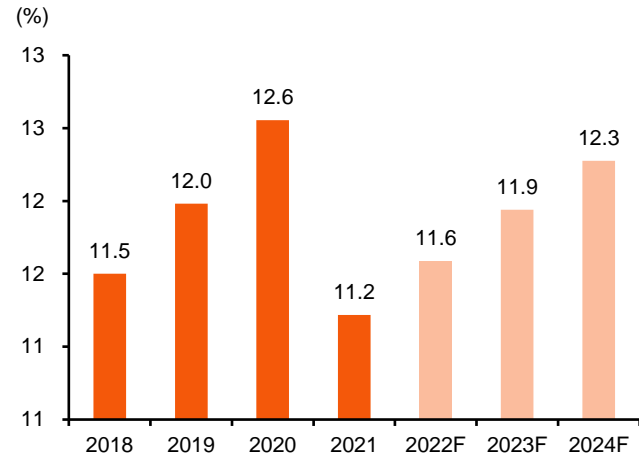
Sources: Company data, Thanachart estimates

Ex 2: OSP's Sales Growth



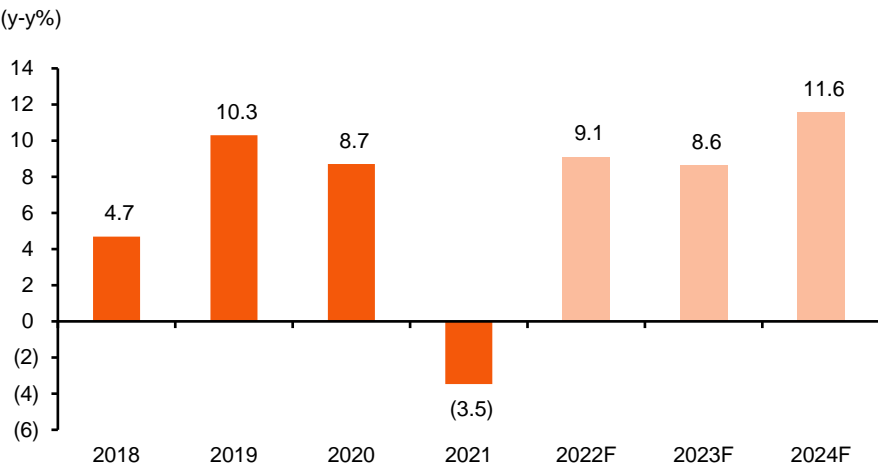
Sources: Company data, Thanachart estimates

Ex 3: Net Margin Trend



Sources: Company data, Thanachart estimates

Ex 4: Earnings Growth



Sources: Company data, Thanachart estimates



**Ex 5: 12-month DCF-based TP Calculation Using A Base Year Of 2019F**

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA	5,166	5,690	6,183	6,649	7,123	7,640	8,193	8,762	9,282	9,967	10,714	—
Free cash flow	2,296	4,885	5,381	5,879	6,380	6,939	7,530	8,136	8,727	9,467	10,236	132,259
PV of free cash flow	2,289	4,147	4,208	4,235	4,234	4,129	4,109	4,071	4,005	3,985	3,950	44,358
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.8											
WACC (%)	8.5											
Terminal growth (%)	2.0											
Enterprise value - add investments	90,992											
Net debt (2021)	(1,713)											
Minority interest	19											
Equity value	92,686											
# of shares (m)	3,004											
<b>Equity value/share (Bt)</b>	<b>31</b>											

Sources: Company data, Thanachart estimates

## COMPANY DESCRIPTION

Osotspa Public Company Limited 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. Osotspa 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

<b>Very Strong</b>	<b>5</b>
<b>Strong</b>	<b>4</b>
<b>Good</b>	<b>3</b>
<b>Fair</b>	<b>2</b>
<b>Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \*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.

### O — Opportunity

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

### W — Weakness

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

### 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
<b>Target price (Bt)</b>	38.51	31.00	-20%
<b>Norm profit 22F (Bt m)</b>	3,638	3,691	1%
<b>Norm profit 23F (Bt m)</b>	4,005	4,010	0%
<b>Consensus REC</b>	<b>BUY: 15</b>	<b>HOLD: 5</b>	<b>SELL: 0</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022-23F 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 COVID-19 disruption would be a downside risk to our numbers.
- Successful expansion into new business lines poses potential upside risk to our earnings.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

## INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	25,583	26,762	28,708	30,883	33,487
Cost of sales	16,554	17,527	18,774	20,135	21,837
<b>Gross profit</b>	<b>9,029</b>	<b>9,236</b>	<b>9,935</b>	<b>10,749</b>	<b>11,650</b>
% gross margin	35.3%	34.5%	34.6%	34.8%	34.8%
Selling & administration expenses	5,710	5,978	6,385	6,790	7,256
<b>Operating profit</b>	<b>3,319</b>	<b>3,257</b>	<b>3,550</b>	<b>3,958</b>	<b>4,394</b>
% operating margin	13.0%	12.2%	12.4%	12.8%	13.1%
Depreciation & amortization	1,244	1,471	1,616	1,731	1,789
<b>EBITDA</b>	<b>4,563</b>	<b>4,728</b>	<b>5,166</b>	<b>5,690</b>	<b>6,183</b>
% EBITDA margin	17.8%	17.7%	18.0%	18.4%	18.5%
Non-operating income	546	505	560	602	653
Non-operating expenses	0	0	0	0	0
Interest expense	(65)	(96)	(78)	(91)	(64)
<b>Pre-tax profit</b>	<b>3,799</b>	<b>3,666</b>	<b>4,033</b>	<b>4,470</b>	<b>4,983</b>
Income tax	587	664	706	783	873
<b>After-tax profit</b>	<b>3,212</b>	<b>3,002</b>	<b>3,326</b>	<b>3,687</b>	<b>4,111</b>
% net margin	12.6%	11.2%	11.6%	11.9%	12.3%
Shares in affiliates' Earnings	225	310	297	353	389
Minority interests	67	70	68	(30)	(25)
Extraordinary items	0	(128)	0	0	0
<b>NET PROFIT</b>	<b>3,504</b>	<b>3,255</b>	<b>3,691</b>	<b>4,010</b>	<b>4,474</b>
<b>Normalized profit</b>	<b>3,504</b>	<b>3,383</b>	<b>3,691</b>	<b>4,010</b>	<b>4,474</b>
EPS (Bt)	1.2	1.1	1.2	1.3	1.5
Normalized EPS (Bt)	1.2	1.1	1.2	1.3	1.5

Improving margin mainly  
on cost-savings plan

## BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
<b>ASSETS:</b>					
Current assets:	9,179	8,827	8,190	9,740	10,292
Cash & cash equivalent	3,531	2,493	1,400	2,500	2,500
Account receivables	3,505	3,660	3,926	4,223	4,579
Inventories	2,077	2,658	2,847	2,998	3,192
Others	67	16	17	19	20
Investments & loans	2,782	3,817	3,810	3,802	3,795
Net fixed assets	12,845	13,730	15,115	14,383	13,594
Other assets	1,050	767	844	886	931
<b>Total assets</b>	<b>25,855</b>	<b>27,142</b>	<b>27,959</b>	<b>28,812</b>	<b>28,611</b>
<b>LIABILITIES:</b>					
Current liabilities:	4,557	5,530	5,957	6,427	6,509
Account payables	4,094	4,822	5,165	5,540	6,008
Bank overdraft & ST loans	0	207	345	404	122
Current LT debt	66	100	167	196	59
Others current liabilities	397	400	280	288	319
<b>Total LT debt</b>	<b>851</b>	<b>473</b>	<b>787</b>	<b>922</b>	<b>279</b>
Others LT liabilities	1,119	1,236	1,145	1,232	1,336
<b>Total liabilities</b>	<b>6,526</b>	<b>7,238</b>	<b>7,889</b>	<b>8,581</b>	<b>8,123</b>
Minority interest	105	19	19	49	74
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	12,575	13,284	13,284	13,284	13,284
<b>Retained earnings</b>	<b>3,645</b>	<b>3,596</b>	<b>3,762</b>	<b>3,894</b>	<b>4,126</b>
Shareholders' equity	19,224	19,884	20,050	20,182	20,414
<b>Liabilities &amp; equity</b>	<b>25,855</b>	<b>27,142</b>	<b>27,959</b>	<b>28,812</b>	<b>28,611</b>

Strong balance sheet

Sources: Company data, Thanachart estimates

**CASH FLOW STATEMENT**

<b>FY ending Dec (Bt m)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
Earnings before tax	3,799	3,666	4,033	4,470	4,983
Tax paid	(671)	(667)	(681)	(767)	(847)
Depreciation & amortization	1,244	1,471	1,616	1,731	1,789
Chg In working capital	(1,166)	(8)	(112)	(74)	(81)
Chg In other CA & CL / minorities	351	422	218	343	392
<b>Cash flow from operations</b>	<b>3,558</b>	<b>4,884</b>	<b>5,073</b>	<b>5,703</b>	<b>6,236</b>
Capex	(5,164)	(2,357)	(3,000)	(1,000)	(1,000)
Right of use	0	0	0	0	0
ST loans & investments	0	0	0	0	0
LT loans & investments	1,105	(1,035)	7	7	7
Adj for asset revaluation	(294)	0	0	0	0
Chg In other assets & liabilities	1,268	330	(166)	45	60
<b>Cash flow from investments</b>	<b>(3,085)</b>	<b>(3,062)</b>	<b>(3,159)</b>	<b>(947)</b>	<b>(933)</b>
Debt financing	796	(264)	519	223	(1,061)
Capital increase	0	0	0	0	0
Dividends paid	(3,304)	(3,303)	(3,526)	(3,879)	(4,242)
Warrants & other surplus	1,447	709	0	0	0
<b>Cash flow from financing</b>	<b>(1,061)</b>	<b>(2,859)</b>	<b>(3,007)</b>	<b>(3,656)</b>	<b>(5,304)</b>
<b>Free cash flow</b>	<b>(1,605)</b>	<b>2,527</b>	<b>2,073</b>	<b>4,703</b>	<b>5,236</b>

**VALUATION***Expensive PE in our view*

<b>FY ending Dec</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
Normalized PE (x)	31.3	32.4	29.7	27.3	24.5
Normalized PE - at target price (x)	26.6	27.5	25.2	23.2	20.8
PE (x)	31.3	33.7	29.7	27.3	24.5
PE - at target price (x)	26.6	28.6	25.2	23.2	20.8
EV/EBITDA (x)	23.5	22.8	21.2	19.1	17.4
EV/EBITDA - at target price (x)	19.8	19.3	18.0	16.2	14.7
P/BV (x)	5.7	5.5	5.5	5.4	5.4
P/BV - at target price (x)	4.8	4.7	4.6	4.6	4.6
P/CFO (x)	30.8	22.4	21.6	19.2	17.6
Price/sales (x)	4.3	4.1	3.8	3.6	3.3
Dividend yield (%)	3.0	3.0	3.4	3.7	4.1
FCF Yield (%)	(1.5)	2.3	1.9	4.3	4.8
<b>(Bt)</b>					
Normalized EPS	1.2	1.1	1.2	1.3	1.5
EPS	1.2	1.1	1.2	1.3	1.5
DPS	1.1	1.1	1.2	1.3	1.5
BV/share	6.4	6.6	6.7	6.7	6.8
CFO/share	1.2	1.6	1.7	1.9	2.1
FCF/share	(0.5)	0.8	0.7	1.6	1.7

Sources: Company data, Thanachart estimates

## FINANCIAL RATIOS

*EPS growth trend doesn't  
look exciting*

FY ending Dec	2020A	2021A	2022F	2023F	2024F
<b>Growth Rate</b>					
Sales (%)	(0.1)	4.6	7.3	7.6	8.4
Net profit (%)	7.5	(7.1)	13.4	8.6	11.6
EPS (%)	7.5	(7.1)	13.4	8.6	11.6
Normalized profit (%)	8.7	(3.5)	9.1	8.6	11.6
Normalized EPS (%)	8.7	(3.5)	9.1	8.6	11.6
Dividend payout ratio (%)	94.3	101.5	101.5	100.0	100.0
<b>Operating performance</b>					
Gross margin (%)	35.3	34.5	34.6	34.8	34.8
Operating margin (%)	13.0	12.2	12.4	12.8	13.1
EBITDA margin (%)	17.8	17.7	18.0	18.4	18.5
Net margin (%)	12.6	11.2	11.6	11.9	12.3
D/E (incl. minor) (x)	0.0	0.0	0.1	0.1	0.0
Net D/E (incl. minor) (x)	(0.1)	(0.1)	(0.0)	(0.0)	(0.1)
Interest coverage - EBIT (x)	50.8	34.1	45.8	43.6	68.9
Interest coverage - EBITDA (x)	69.8	49.5	66.6	62.7	97.0
ROA - using norm profit (%)	14.0	12.8	13.4	14.1	15.6
ROE - using norm profit (%)	18.9	17.3	18.5	19.9	22.0
<b>DuPont</b>					
ROE - using after tax profit (%)	17.3	15.4	16.7	18.3	20.3
- asset turnover (x)	1.0	1.0	1.0	1.1	1.2
- operating margin (%)	15.1	14.1	14.3	14.8	15.1
- leverage (x)	1.4	1.4	1.4	1.4	1.4
- interest burden (%)	98.3	97.5	98.1	98.0	98.7
- tax burden (%)	84.5	81.9	82.5	82.5	82.5
WACC (%)	8.5	8.5	8.5	8.5	8.5
ROIC (%)	20.2	16.1	16.1	16.4	18.9
NOPAT (Bt m)	2,806	2,667	2,929	3,265	3,625
invested capital (Bt m)	16,610	18,171	19,949	19,203	18,374

Sources: Company data, Thanachart estimates

## General Disclaimers And Disclosures:

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**Note:** Our major shareholder TCAP (Thanachart Capital Pcl) which holding 50.96% of Thanachart Securities and also TCAP holding 100% of Thanachart SPV1 Co. Ltd. TCAP and Thanachart SPV1 Co. Ltd has stake in THANI for 60% and being the major shareholder of THANI.

**Note:** Thanachart Capital Public Company Limited (TCAP), TMBThanachart Bank Public Company Limited (TTB), are related companies to Thanachart Securities Public Company Limited (TNS). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds 23% of the shareholding in TMBThanachart Bank Pcl.

Thanachart Capital Public Company Limited (TCAP), Ratchthani Leasing Public Company Limited (THANI), MBK PUBLIC COMPANY LIMITED (MBK) and PATUM RICE MILL AND GRANARY PUBLIC COMPANY LIMITED (PRG ) are related companies to Thanachart Securities Public Company Limited (TNS) . Since TNS covers those securities in research report, consequently TNS incurs conflicts of interest.

## Disclosure of Interest of Thanachart Securities

### Investment Banking Relationship

Within the preceding 12 months, Thanachart Securities has lead-managed public offerings and/or secondary offerings (excluding straight bonds) of the securities of the following companies: Saksiam Leasing Pcl. (SAK TB), SCG Packaging Pcl (SCGP TB)

### Recommendation Structure:

Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

For sectors, an "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

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