

**DISCOUNTED CASH FLOW VALUATION OF
ICHITAN GROUP PUBLIC COMPANY LIMITED**



PORNCHANOK NGAMNIKUNCHALIN

**A THEMATIC PAPER SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR
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entitled
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ICHITAN GROUP PUBLIC COMPANY LIMITED**

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on
January 24, 2016



.....
Mr Pornchanok Ngamnikunchalin
Candidate

.....
Roy Kouwenberg,
Ph.D.
Advisor

.....
Piyapas Tharavanij,
Ph.D.
Chairperson

.....
Assoc. Prof. Annop Tanlamai,
Ph.D.
Dean
College of Management
Mahidol University

.....
Vasan Siraprapasiri,
M.Sc.
Committee member

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Pornchanok Ngamnikunchalin

DISCOUNTED CASH FLOW VALUATION OF ICHITAN GROUP PUBLIC COMPANY LIMITED

PORNCHANOK NGAMNIKUNCHALIN 5749158

M.M.

THESIS ADVISORY COMMITTEE: ASST. PROF. PIYAPAS THARAVANIJ,
Ph.D., ROY KOUWENBERG, Ph.D., VASAN SIRAPRAPASIRI, M.Sc.

ABSTRACT

This thematic paper demonstrated how to value the stock price of Ichitan Group Public Company Limited (ICHI) which applied the concept of discounted cash flow to firm model, creating a forecast and calculating a reasonable valuation of the firm's share price and at the end making decision whether to buy/hold/sell the company's stock.

Ichitan Group (ICHI) is a leading ready-to drink tea brand in Thailand, with a 44% market share in year 2014 which is one of the top three market share. Moreover, the company acquire "Bireley" the new product which expected to become the star that brings growth back to ICHI at 5% of revenue. However, the slowing down of ready to drink tea market and high competitive leads to high spending in advertising and promotion. The interesting point is that the unclear successful signs for investment in Indonesia.

The result from this paper shows the 3 years' future value of ICHI share price is expected to be valued higher than the current share price by 23.8%. The stock price is quite close to the current stock price at this moment. There are abilities to growth from Bireley and the concentrate in cost effective control. However, the unclear resulted from investment Indonesia. This results lead to my recommendation of "hold".

KEY WORDS: ICHI / Valuation / Discounted Cash Flow / Fast-moving consumer goods 64 pages.

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LIST OF ABBREVIATIONS

| | |
|--------|--|
| BV | Book value |
| CAGR | Compound Annual Growth Rate |
| CAPEX | Capital Expenditure |
| CCI | Consumer Confidence Index |
| COGS | Cost of Goods Sold |
| D/E | Debt/Equity |
| EBIT | Earnings before Interest and Taxes |
| EBITDA | Earnings before Interest, Taxes and Depreciation |
| EPS | Earning per share |
| EV | Enterprise value |
| GDP | Gross Domestic Products |
| Ke | Cost of equity |
| Kd | Cost of debt |
| N/I | Net Income |
| NOPAT | Net Operating Profit after Taxes |
| NOWC | Net Operating Working Capital |
| P/E | Price/Earning |
| Rf | Risk free |
| ROA | Return on Assets |
| ROE | Return on Equity |
| RTD | Ready to drink |
| SET | Stock Exchange of Thailand |
| SG&A | Selling, General and Administrative Expense |
| SWOT | Strength, Weakness, Opportunity and Threats |
| WACC | Weighted Average Cost of Capital |

CHAPTER I VALUATION

1.1 Highlights

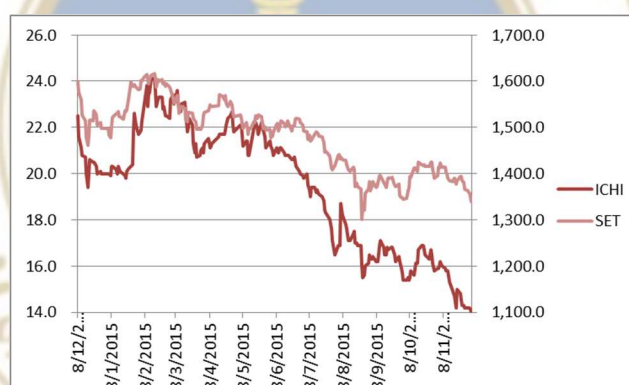
Share outstanding (billion shares): 1.300

Free float: 56.11%

Price Performance

52 week high/low 24.2/13.1

52 week return (%) 84.73%



Date 8 Dec 2015

Ticker: SET: ICHI

Recommendation: HOLD

Price: THB 13.10

Target Price: THB 16.22

Upside: 23.8%

Figure 1.1 ICHI stock performance

- **The leader of ready-to-drink tea market:** Over the past three years, ICHI has possess the number one market share of ready to drink tea by using innovative marketing tools that is effective without negative consequence to the outcome.
- **“Bireley” the new product:** It became star that brings growth back to ICHI at 5% of revenue to absorb with the slowing down of RTD tea market.
- **Effective cost control:** ICHI reduce cost of goods sold from 67% to 62% in 3Q15. Moreover the expand of the new line, which increase its capacities from 1,000 million bottle to 1,200 million bottle per year, is resulting in decreasing in OEM proportion on production.
- **The slowing down of ready to drink tea market:** Over the past 5 month, the RTD tea market had an impress growth at 14.6%. However, the negative growth occurred in 2014 due to the economy slow down and political crisis, which may reduce the purchasing power of customers.
- **High competitive leads to high cost:** ICHI has to increase marketing, advertising; promotion and big champagne expense to maintain its market share due to high competitive in the ready-to-drink tea market.
- **Unclear successful signs for foreign investment:** Although ICHI had invested in new market in Indonesia that has almost no competitor in PET bottle market. ICHI believe its product has the lower cost in distribution. However, many competitors already existing in RTD tea and no one have been a real leader, and there is no guarantee for the success in the future.

1.2 Financial Summary

Table 1.1 ICHI – Key financial indicators

| Financial Summary | | | | | | | |
|---------------------|-------|-------|-------|-------|-------|--------|--------|
| FY Ended 31 Dec | 2013A | 2014A | 2015E | 2016E | 2017E | 2018E | 2019E |
| Sales Revenue (Btm) | 6,484 | 6,179 | 6,957 | 7,928 | 9,041 | 10,313 | 11,769 |
| Gross Profit (Btm) | 2,059 | 2,114 | 2,463 | 2,807 | 3,411 | 3,891 | 4,440 |
| Net Profit (Btm) | 884 | 1,079 | 899 | 1,264 | 1,671 | 1,929 | 2,220 |
| EPS (Bt) | 0.68 | 0.83 | 0.69 | 0.97 | 1.29 | 1.48 | 1.71 |
| ROA (%) | 15% | 14% | 10% | 12% | 15% | 15% | 16% |
| ROE (%) | 58% | 26% | 14% | 18% | 21% | 22% | 22% |
| D/E (%) | 77% | 58% | 58% | 58% | 58% | 58% | 58% |

1.3 Business Description

Ichitan Group Public Company Limited (hereinafter referred to as “the Company” or “Ichitan”) which was formerly known as “Mai Tan Company Limited” has been established since 3 September 2010 with the registered capital of Baht 500 Million to operate fusion Japanese-styled steak and food restaurant, Japanese-styled fresh chocolate shop business and beverage business. However, the Company divested its restaurant business in January 2013 to solely focus on the beverage business as the Company aspires to be Thailand’s leader of the quality green tea business.

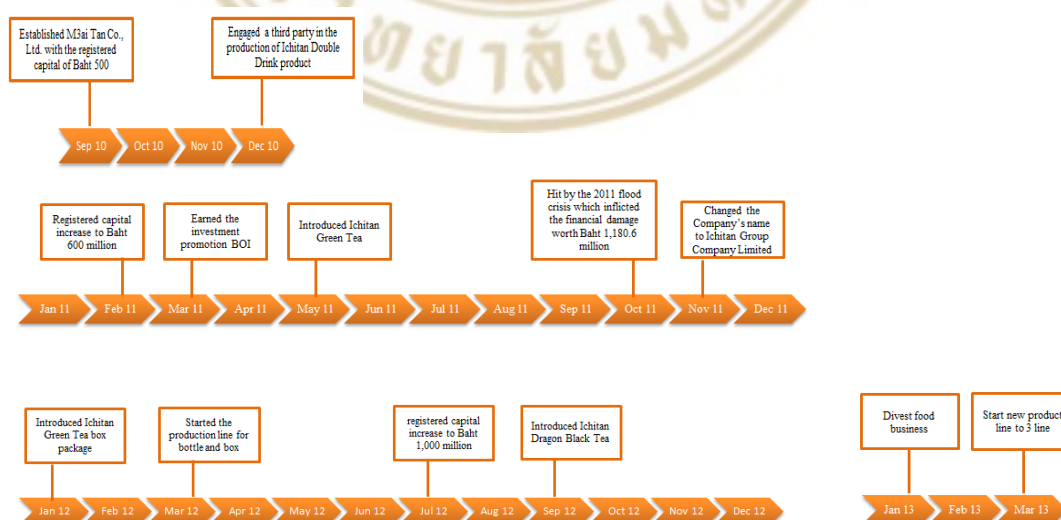
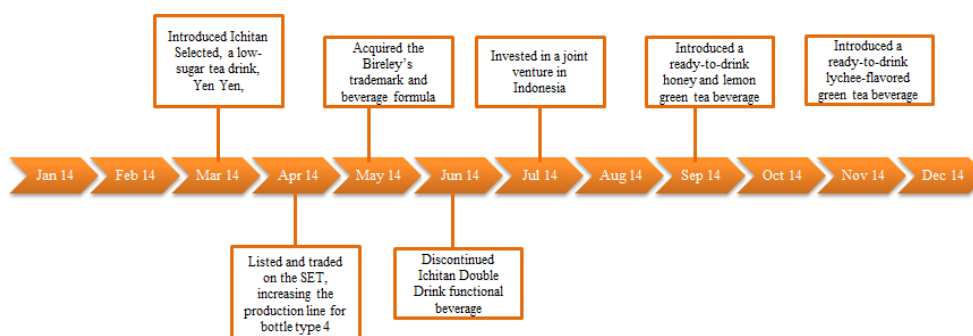


Figure 1.2 Key milestone

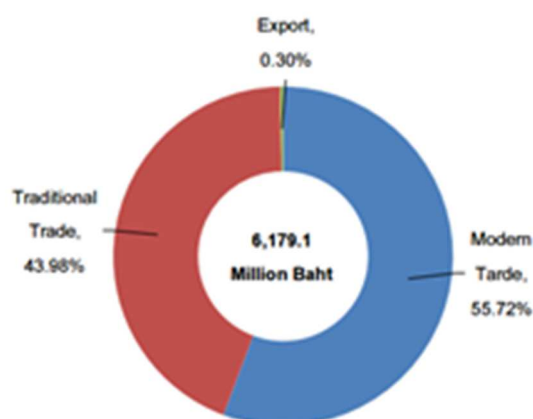
Source: Company data



Source: Company data

Figure 1.2 Key milestone

Ichitan Group Public Company Limited operates beverage business, and manufactures and sells ready-to-drink green tea beverage. The Company's revenue is primarily from the sales of ready-to-drink tea beverages that stood at Baht 6,179.1 million in 2014 which is 99.5% of the total sales. ICHI had concentrate mainly in domestic sale slightly higher portion in modern trade at 55.72%, in traditional trade at 43.98% and only 0.03% for export sale Laos, Cambodia, and Burma. However, export has expected to growth in future due to new brand Bireley and investment with JV in Indonesia.



Source: Company data

Figure 1.3 Revenue structure

1.3.1 Vision and mission

Ichitan Group Public Company Limited aspires to be a leader in the quality beverage business and innovation and grow sustainably with the quality society.

As a mission-led business, the Company aims to offer not only quality products to consumers but also meaningful contribution to the betterment of the society and the quality of life in synchronized pace with profitability growth.

For Consumers: Ichitan aims to offer quality drinks, which are good for the health of consumers to maximize their satisfaction.

For Shareholders: Ichitan aims to foster innovation in our business undertaking to continuously enhance our operational efficiency, develop and expand our distribution channels, and tap into new business opportunities to optimize our profitability.

For Society: Ichitan aims to be a role model of a socially responsible organization that gives back to the society for the advancement of Thailand.

For Employees: Ichitan aims to actively encourage its employees to continuously develop themselves into professionals as the development will contribute to their better life quality and stronger sense of engagement with the organization.

1.3.2 Business goal

The Company aspires to be a leader in the quality beverage business and innovation and grow sustainably with the quality society. In the next 5 years, the Company will focus on the development of product quality and new products to expand our product variety, cater to the consumer demand growth, and enhance our competitiveness in context of the ASEAN Economic Community (AEC). The Company targets to introduce 3-4 new products each year through our in-house research and development projects and new brand acquisition as and when appropriate. As work process and operational efficiency improvement is one of our

key priorities, the Company plans to integrate cutting-edge technology with our production platform to save time, enhance efficiency and contribute to the society.

1.3.3 ICHI's brands

Currently, ICHI group products can be divided into 2 brands which are Ichitan brand that available both in bottle and box types and Bireley which available only in bottle.

Ichitan Brand

- **Ichitan Green Tea** is quality ready-to-drink green tea and is available in 12 selections: (1) Original (2) Honey Lemon (3) Kikucha (Chrysanthemum) (4) Genmai (5) Sugar-Free (6) Midori Punch (7) Super Berry (8) Apple-Kiwi (9) Corn (10) Japanese Plum (11) Sugar-Free OoLong Tea (12) Lychee.



Source: Company data

Figure 1.4 Ichitan Green Tea

- **Ready-to-drink black tea**, “Ichitan Dragon Black Tea”, is available in 3 flavors: (1) Lemon (2) Strawberry (3) Mulberry.



Source: Company data

Figure 1.5 Ready-to-drink black tea

- **Yen Yen** : The herbal drink “Yen Yen by Ichitan” offers 2 flavors: (1) YenYen cool herb green tea (2) YenYen honey-mixed chrysanthemum.



Source: Company data

Figure 1.6 Yen Yen

- **Ichitan Selected** : The Low-sugar offers 2 flavors: (1) Matcha (2) Oolong



Source: Company data

Figure 1.7 Ichitan Selected

- **Bireley Brand**, the concentrate mix juice for orange and grape.



Source: Company data

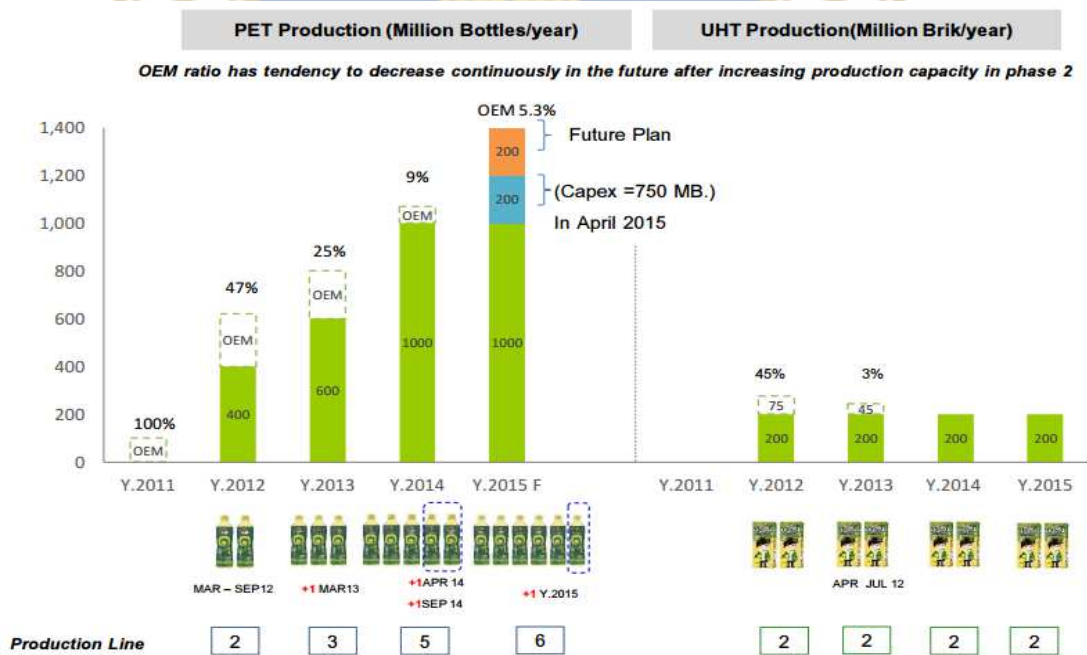
Figure 1.8 Bireley Brand

1.3.4 Production capacity

As of 31 December 2014, the total production capacity of the Company was as follows:

- Total of 4 bottling lines with the aggregate capacity of 1,000 million bottles per year.
- Total of 2 UHT boxing lines with the aggregate capacity of 200 million boxes per year.

Besides in-house production capacity, the Company outsources production to external suppliers where the production capacity is lower than the sales forecast. In 2014, the Company implemented phase 2 of production capacity increase project which resulted in the addition of an extra bottling line. It was expected that the outsourcing activities will further decrease to 2% or lower in 2015.



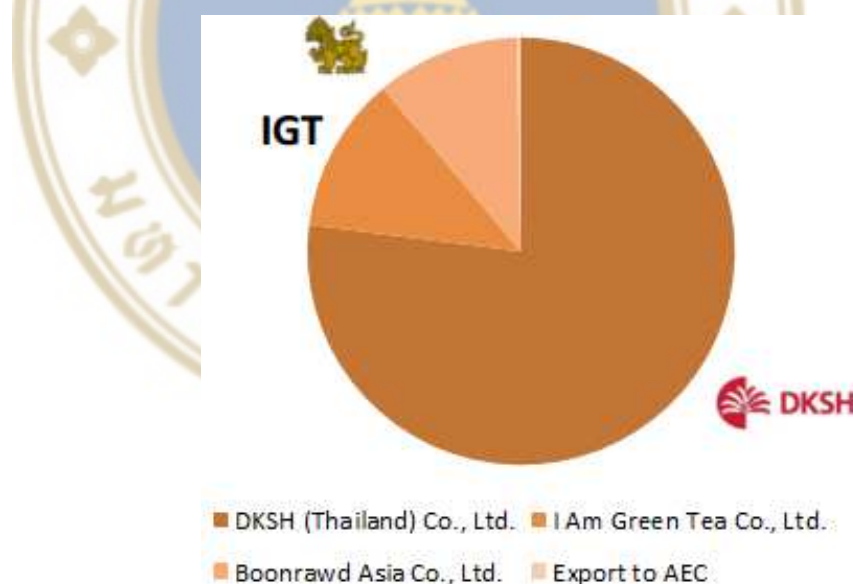
Source: Company data

Figure 1.9 Production capacity

1.3.5 Distribution channels

At the present, the Company sells all products through 4 distribution channels as follows:

- DKSH (Thailand) Co., Ltd. is the main distributor of the Company. Goods distributed by DKSH accounted for 76.98% of the total sales of the Company in 2014. DKSH mainly distributed products through modern trade and traditional trade channels. The Company has entered into a long-term distribution contract with DKSH.
- I Am Green Tea Co., Ltd. distributed 11.83% of the total sales in 2014, focusing on selling through dealer networks, restaurants, traditional trade shops, cash vans and other channels not covered by other distributors.
- Boonrawd Asia Co., Ltd. distributed 10.88% of the total sales in 2014, focusing on the distributor network, traditional trade, channel, and outlets in Boonrawd's network.
- Export to AEC countries such as Laos, Cambodia, Myanmar, etc.



Source: ICHI's annual

Figure 1.10 Distribution channels structure

1.3.6 Business strategies

Brand Strategy: As there is minimal differentiation in Thailand's green tea market in terms of products' appearance and taste. Therefore, the outstanding product design and powerful branding considered key differentiators and contributors to customer base protection. Ichitan also aims to position itself as a quality brand and thus consistently convey such brand image to the market through the 360-degree marketing strategy.

Product Strategy: To highlight the standpoint of the quality brand, the Company strictly controls quality in every process, from the research and development and raw materials selection to the production, which employs advanced technology to preserve ingredients' freshness and deliver quality products to consumers. As for packaging, the Company pays attention to the details of package designs that respond to customers' needs and the needs for food safety and convenience.

Effective Inventory and Cost Management: In addition to the economies of scale from the spread of fixed costs such as machinery amortization and land lease expenses over more units of output, the Company has employed the cold aseptic filling system, an advanced technology, in its production process to further reduce production cost. The technology offers the benefits of (1) lighter materials used (2) longer, continuous production up to 120 hours before each cleaning session which makes production (3) automation features which offers labor-cost saving advantage. As for the inventory management, the Company has implemented the automated storage & retrievable system which leads to higher efficiency and lower labor costs.

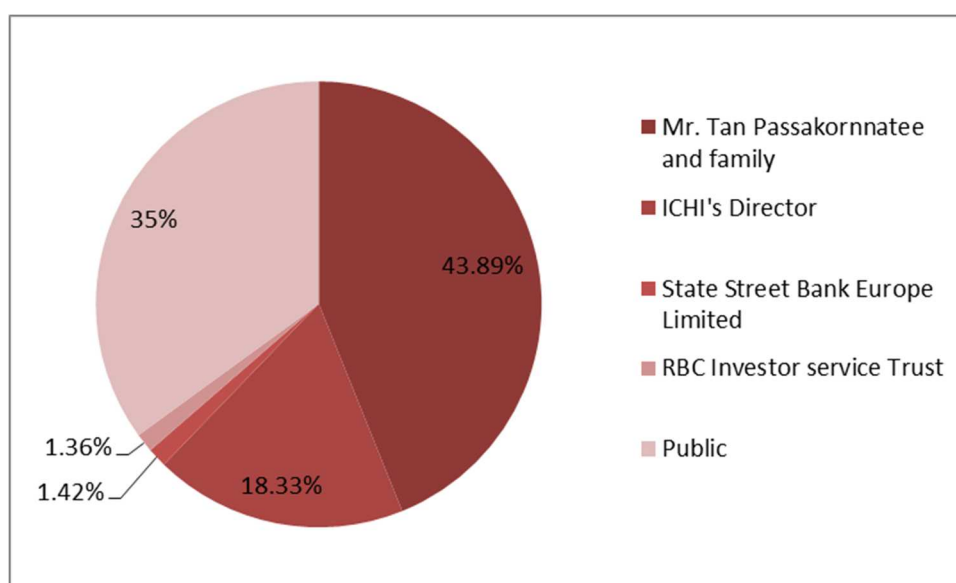
Sale and Distribution Management: In order to make products available to the customers in a timely manner and avoid the issue of product shortage, the Company has exercised controls throughout the finished goods distribution process, from the production site to distributors and retailers. The Company has also kept track of and analyzed sales performance and inventory turnover to support effective stock management. Sales and marketing strategy has been carefully crafted and customized

to the each zone. The Company has planned to penetrate the AEC markets more aggressively.

Marketing and Sales Strategy: Marketing and Sales Promotion Plan: The sales of beverage business are subject to seasonal factors and typically reached a peak in summer. Therefore, to promptly respond to the shift in consumers' demand, the Company uses the above the line and below the line marketing strategies in summer months and offers trade discounts to distributors in other months when lower consumption is typically seen. Furthermore, the Company has implemented the proactive marketing plan to increase market shares and concurrently focused on PR communications to portray Ichitan as a quality product brand. To emphasize product position, we have 4 different types of sales promotions: sales promotion specific to retailers, sales promotions specific to distributors, nationwide campaigns, and online sales promotions. Our annual budget allocation to these activities is based on the sales forecast. Pricing and Trade Discounts: As mentioned above, ready-to-drink beverage business is sensitive to seasonal factors. Thus, it is essential for the Company to regularly review and align its trade discount strategy to the changing market demands. However, the selling price is probably not as flexible due to the intense competition.

1.3.7 Shareholder structure

Mr. Tan Passakornnatee and his family is the major shareholder of ICHI. As of December 2015, Mr. Tan Passakornnatee and his family own altogether total of 43.89% of the common shares. ICHI's directors own 31.79% of the outstanding shares. State Street Bank Europe Limited and RBC Investor service Trust own 1.42% and 1.36 of the outstanding shares respectively. The public owns the remaining 35.00% (Figure 1.11).



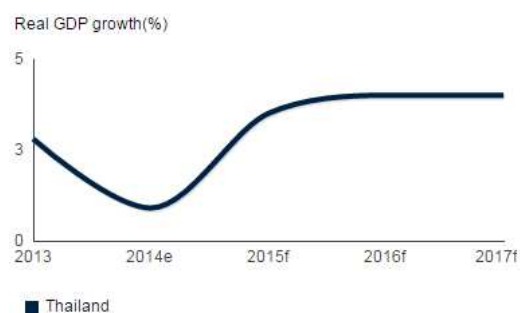
Source: The Stock Exchange of Thailand

Figure 1.11 Shareholder structure

1.4 Macro-Economic Analysis

1.4.1 Constant GDP growth expected, positive outlook on investment and consumption with trade surplus.

Government expenditure in Thailand rebounded in the first half of 2015, but private consumption recorded feeble growth, and private fixed investment was flat. Consumer confidence declined through July. Private investment is subdued because of lackluster prospects for exports, soft consumption spending, and spare industrial capacity. Gross domestic Product (GDP) grew by a modest 2.9% in the first half. The consumer price index fell by 0.9% in the first 8 months and has expected to decline slightly for the full year. Core inflation has remained positive. The trade surplus combined with stronger income from tourism to be more than double the current account surplus for the same period in 2014.



Source: world bank estimates

Figure 1.12 Real GDP growth forecast

1.4.2 Economy glance and outlook

In the latter half of 2014, the Thai economy recovered gradually after the easing of political uncertainty. Domestic spending and the tourism sector improved, while the government resumed its normal operation. Additionally, investment in telecommunications and retail businesses gathered pace to meet the expected growing future demand.”

For 2015 The Thai economy in 2014 expanded only by 0.7 percent, owing to internal and external constraints that inhibited growth. Looking ahead, the Thai economy in 2015 has projected to perform better than in 2014. Private spending, benefited by the decline in oil prices, and the revived tourism sector are expected to be the main engines of growth. Government spending would also add to the growth momentum, contributing to improved business sentiments and investment climate. Inflation is likely to remain low due mainly to falling global oil prices and subdued inflationary pressure from domestic demand.

| Selected economic indicators (%) | 2015 | | 2016 | |
|--|----------|--------|----------|--------|
| | ADO 2015 | Update | ADO 2015 | Update |
| GDP Growth | 3.6 | 2.7 | 4.1 | 3.8 |
| Inflation | 0.2 | -0.7 | 2.0 | 1.5 |
| Current Account Balance (share of GDP) | 4.0 | 5.0 | 1.5 | 2.0 |

Source: Asian Development Bank

Figure 1.13 Economic indicators

1.4.3 Impact from Asean Economic Community (AEC)

ASEAN Economic Community (AEC) create opportunities on investment. It is allowing free movement in 5 areas including product, service, investment, skilled labor and capital. Such free trade will create both winners and losers, subject upon their business and competitive potentials relative to that of their competitors with no tariffs and tax barriers. The advent of the AEC also allows the Company an opportunity to expand or transfer its production base to other ASEAN countries with abundant raw materials. To create and maintain its long-term competitive advantages, the Company will continue to learn about its competitors, reduce operating costs, and solidify its strengths and improve its weaknesses.

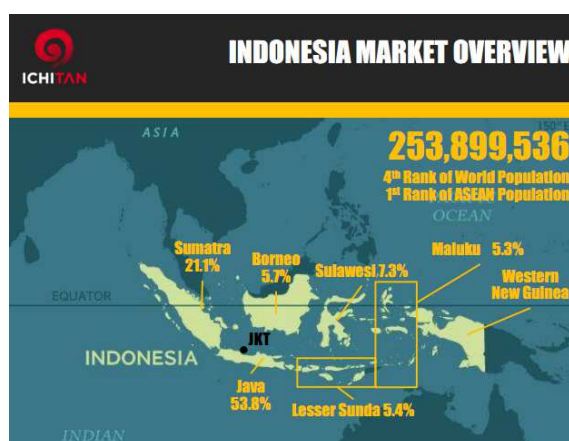


Source: <http://asean.org/asean-economic-community/>

Figure 1.14 The ASEAN Economic Community (AEC)

1.4.4 Indonesia opportunities

The attractions are clear that the lower labor costs, political stability and a large domestic market where consumer-spending power is growing. Also, there are huge amount of population at 254 million which is the fourth rank of the world.



Source: University of the Thai Chamber of Commerce

Figure 1.15 Thailand consumer confidence

1.4.5 Tourism sector recovery from regaining confidence in Chinese tourists

The number of tourist arrivals declined for the first time in four years due to prolonged domestic political uncertainty, along with deteriorating economic conditions and falling income of major tourist groups. However, the number of Chinese tourists, the number-one visitors to Thailand, picked up quickly after the domestic political situation was resolved. Despite moderating economic conditions in China, the number of Chinese tourists hit a historical record in the last quarter of the year, in part due to the Thai government measures to restore confidence and the three-month visa fee exemption for Chinese and Taiwanese tourists (August 9 – November 8, 2014). The strong rebound of Chinese tourists helped offset the fall in number of tourists from other countries, particularly Russian tourists—the third largest tourist group who were suffered by economic problems. The growth of Chinese tourists not only fueled the recovery of the Thai tourism sector in the latter half of 2014, it also contributed to a promising prospect for growth of the tourism sector in 2015.

| January - December 2014 | | | | |
|-------------------------|------------|--------|------------|--------|
| Nationality | 2014 | | 2013 | |
| | Number | %Share | Number | %Share |
| East Asia | 14,603,825 | 58.86 | 15,911,375 | 59.94 |
| ASEAN | 6,641,772 | 26.77 | 7,282,266 | 27.43 |
| China | 5,119,429 | 20.63 | 5,225,670 | 19.68 |
| Europe | 6,161,893 | 24.84 | 6,305,945 | 23.75 |
| The Americas | 1,099,709 | 4.43 | 1,166,633 | 4.39 |
| South Asia | 1,239,183 | 4.99 | 1,347,585 | 5.08 |
| Oceania | 942,706 | 3.80 | 1,021,936 | 3.85 |
| Middle East | 597,892 | 2.41 | 630,243 | 2.37 |
| Africa | 164,475 | 0.66 | 163,008 | 0.61 |
| Grand Total | 24,809,683 | 100.00 | 26,546,725 | 100.00 |

Source of Data : Department of Tourism

Source: Department of Tourism

Figure 1.16 Private consumption lingered below its normal level

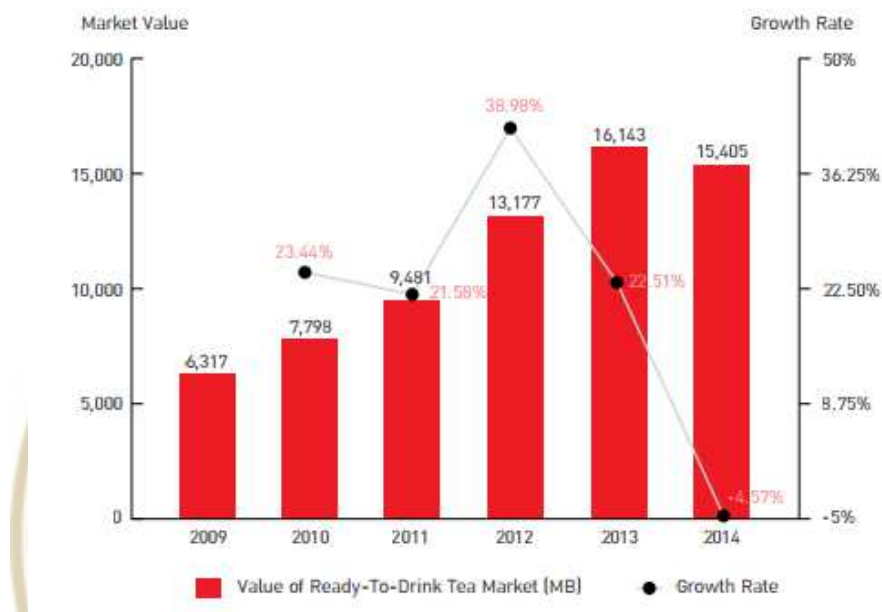
1.5 Industry Analysis

The whole retail business in 2014 was continuously affected from weak economy in the previous year. With regard to consumer behavior, consumers became more cautious in spending in this economic situation while most business operators tried to launch sales promotion in order to secure their market share. Nevertheless, retail business operators secured their business opportunity by establishing new branches in big communities and provinces due to dispersing population and expanded economy. As the Company's primary source of income is the ready-to-drink tea business which accounts for 99% of the total revenue in 2014, our analysis of industry conditions mainly focuses on the ready-to-drink tea section.

1.5.1 Ready-to-drink tea market in Thailand

In 2013, the ready-to-drink tea market recorded the total value of Baht 16,143 million, increasing 23% from the previous year and achieving the highest growth if compared to other beverage categories. In 2014, the ready-to-drink tea market was worth value only Baht 15,405 million in total, shrinking 4.57% from the prior year. This was the first negative growth of the business in 10 years after its consistent, buoyant growth with the CAGR of around 14.59% in the prior 5 years (2010 – 2014). The ready-to-drink tea market had seen continuous growth rate until in 2014 when the growth was stemmed by the domestic political conflicts and the economic conditions, which were pressured by the prices of agricultural commodities,

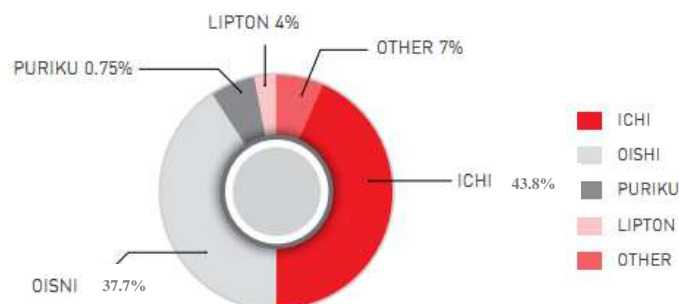
which had fallen, and the weakened purchase power of consumers. Besides, the competition had intensified in terms of sizing, promotional campaigns. However, it was expected that the ready-to-drink tea market can further expand on the back of new market entrants.



Source: Company Data

Figure 1.17 Ready-to-drink tea market growth

The top 3 leaders of ready-to-drink tea market in 2014 was Ichitan, Oishi and Puriku with the market share of 43.80%, 37.70% and 7.50% respectively. (Source: Retail Index of Nielsen, January 2015)



Source: Company Data

Figure 1.18 Ready-to-drink tea market share

1.5.2 Positive outlook likely to drive by healthier products

Health and wellness registered stronger current value growth in 2015 than in 2014 due to rising consumer health consciousness and increasing raw material costs. Various food scares across the globe as well as exposure to international health and product trends also raised consumer awareness of the importance of health and wellness products, including willingness to invest in them in order to improve wellbeing. Furthermore, rising consumer sophistication resulted in a shift to premium health and wellness products offering multiple benefits and high quality ingredients that can enhance the overall nutritional offering. Through the increasing needs for healthy drink, the “YenYen” product has been classified as healthy drink, there is positive outlook for this kind of product.

1.6 Competition Analysis

From the listed company in food and beverage sector, there are only 2 players in ready to drink tea which is Ichitan Group Plc. and Oishi group Plc. So, we choose another 2 big player in beverage business which is Tipco Foods Plc. and Sappe Plc. which has high correlation with ICHI at 0.99 and 0.92 respectively.

Oishi Group Plc. (OICHI): OICHI was established in 1999. It has 2 main businesses which are food business at 53% and beverage business at 47% from the total sale of 12,516 million baht. The first launch of Oishi green tea was in 2003. The Company's products portfolio covers all consumer's genders, ages and serving occasions. For Oishi Green Tea product, the target customers are young generations such as teenagers, college students and working age consumers who are in-trends and health conscious.



Source: OICHI's Annual report

Figure 1.19 Oishi's product

Tipco Foods (Thailand) Plc. ("TIPCO"): TIPCO Food's main businesses are producing and distributing of canned pineapple, concentrated pineapple juice, fruit juice under "TIPCO" brand. Its current registered capital is Baht 500 million. The main products are 40% juice Tipco Cool, Tipco Squeeze, Tipco 100% Pasteurized, Tipco 100% orange juice, Tipco 100% Veggie juice, Tipco Juice latte, Tipco 40% cool fit, Tipco Super Star, Tipco Nature up, Aura and Acquire Mineral water. Besides, TIPCO has jointed venture with Suntory, a well-known company in Japan, to expand its food and beverage especially fruit juice in PET bottle under "DAKARA" brand with its health food products.



Source: TIPCO's Annual report

Figure 1.20 Tipco's product

Sappe Plc. (SAPPE): SAPPE's businesses are producing and distributing innovation beverage. The company concentrates in healthy green product with high quality, good taste. It has 4 main product categories, functional beverage category, fruit juice category, functional powder category, and other RTD category. The main revenue comes from fruit juice category. The company's revenue mainly comes from export at 60.6 % which high portion from Asia about 46.2%. Its current registered capital is Baht 300 million.



Source: SAPPE's Annual report

Figure 1.21 Sappe's product

Regarding the marketing strategy, ICHI positions its products as high quality beverage made from carefully selected, premium quality raw materials. The manufacturing, bottling and boxing processes meet the food hygiene standards. The strengths of the products are as follows:

- High quality, healthy drinks made from organic green tea leaves certified by the Department of Agriculture, Ministry of Agriculture and Cooperatives.
- Trendy packaging with a variety of serving sizes to maximize the consumer's satisfaction and cater to the needs of each target group.
- Good flavour as right as Thai taste.
- Brand image as products that foster sustainable growth of the business and the society

From ICHI positioning we can imply that Tipco and Sappe are the company optional product for healthy trend beverage for fruit juice. However, ICHI main product is Ready-to-drink tea, so OISHI is the company direct competitor. These 2 companies have very intense completion in many channels such as product, price, size and promotion champagne

1.6.1 Competitive positioning

Rivalry indicates very important impact on ICHI. Porter's Five Force analysis (Data 2.7) shows strong and aggressively competitive environment in the market. There are various products in the ready to drink green tea market, provided plenty choices to customer. Green tea drink does not considered as necessity product for daily life, so customers have high bargaining power to this kind of product. The bargaining power has even more strengthened by the high competitiveness of green tea market and increasing household income. According to the concentrate on the quality of raw materials such as tealeaves, cane sugar and water to ensure all ingredients meet high quality standards. The competitiveness among suppliers is high, ICHI has entered into sale and purchase agreement with 2-3 suppliers and tealeaves from these supplies are of equivalent substitutes for each other. This will reduce the bargaining power of supplier. However, the products in ready to drink tea market are not much different; there are only few main producers in Thai market. Therefore, the substitute product still could be the big threat to ICHI Company. The barrier to entry to the ready to drink tea market is not high due to the low cost of startup and no high level technology required. However, the volume of Thai market each year has not expected to grow at a high rate due to the economic slowdown and market saturation. Moreover, intensity of competitive rivalry is high due to the competitor of ICHI is not just OISHI Company inside Thailand but there are many import ready to drink tea product available in various market place. The products are not much different and the prices of products are similar. The company becomes price taker in the market due to the high level of rivalry.

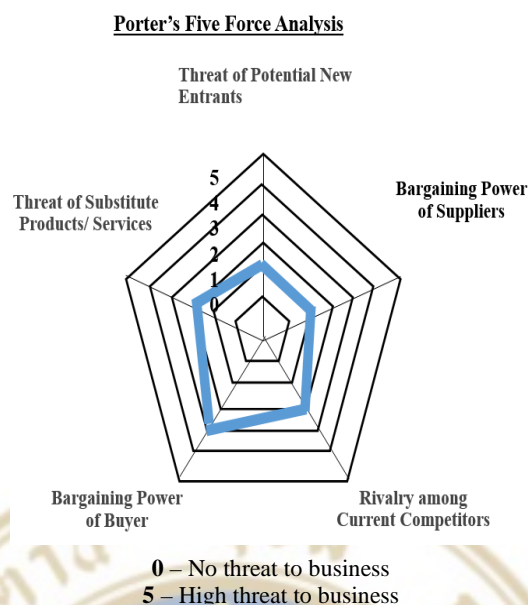


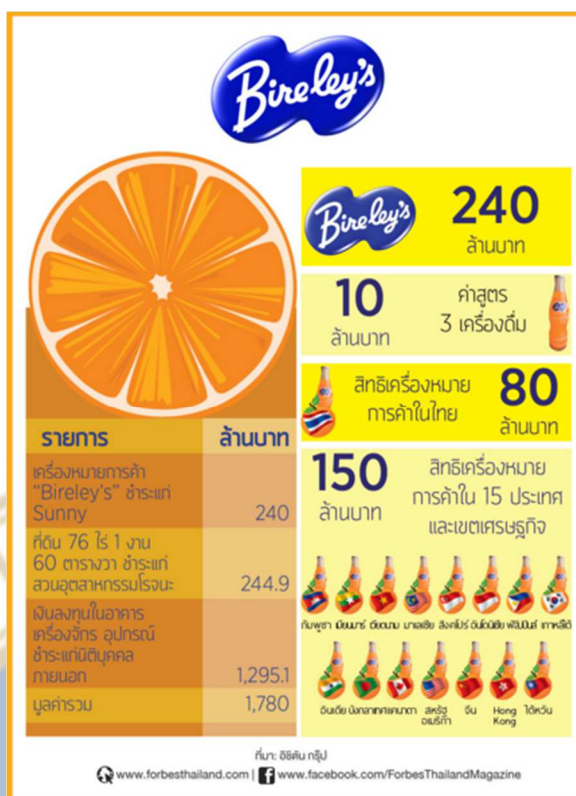
Figure 1.22 Five-force analysis

1.7 Investment Summary

1.7.1 Reduce cost and increasing capacity from expansion

ICHI has built 5 production lines in 2014 and there will be one project to increase productivity 20% for each new manufacturing line being built. There will be another expansion plan in 2017. Each expansion line will cost around 750 million Baht, and the OEM is decreasing gradually from 100% in 2011 to only 5.3% in 2015. After 2017, the company plans to keep the OEM rate at 2%. The increasing capacity of production could reduce its cost to adopt the future inflation or tax effect.

1.7.2 Main revenue driver – Yen Yen and acquired Bireley ICHI has developed YenYen, which is herbal juice from China, which has been spread overall Thailand. New generation tend to have more concern about health problems. The herbal drink could increase customer's confidence and keep them being brand loyal. ICHI paid 80 Million baht to acquire Bireley in Thailand, another 10 million baht for another 15 countries and 10 million for juice formula. This product is new, but this could be the future star for ICHI to grow in the abroad market.

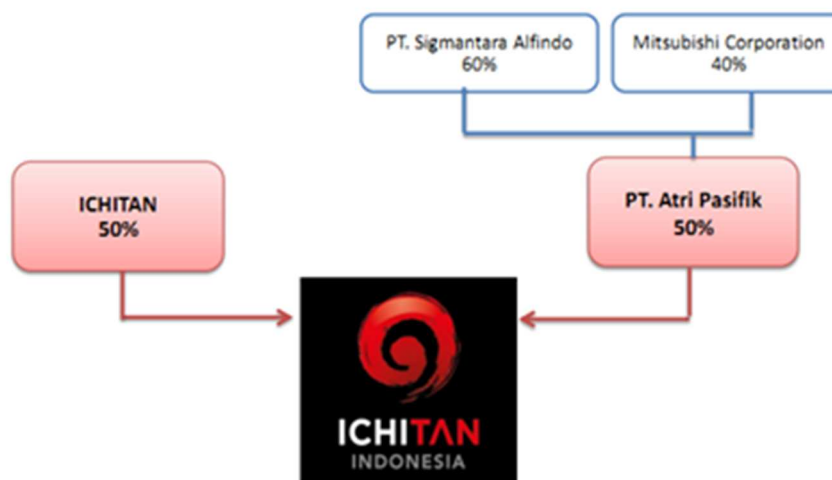


Source: http://www.forbesthailand.com/leader_inside.php?leaderboard_id=14ay

Figure 1.23 Yen Yen acquisition

1.7.3 Indonesia penetration and future outlook

ICHI expand its product to the 1st ranked population country in ASEAN – Indonesia. There is joint venture that 50% present of the Indonesia Company controlled by ICHI. The current market in Indonesia is very unclear for ICHI. It is trying to penetrate the market with bearing 60 million losses this year. The company believes the more they loss the more they will gain in the future, this is because all products sold there were imported from Thailand, so there will be a huge amount of cost. When the sales reach the target of ICHI, they plan to build production line in Indonesia to reduce the cost. According to the company date and group analysis, we believe the company has a high chance to expand its business in Indonesia due to the increasing “loss” occurred which implies the demand for the market is increasing. If the company decided to build its line of production, we expect to be at least 2 line which will cost around 750 million baht each



Source: ICHI's opportunities day

Figure 1.24 Investment with joint venture in ICHITAN Indonesia

1.8 Valuation

The way to calculate value of the firm is the discounted cash flow valuations, which evaluate a firm value via firm's activities. In this case, free cash flow to firm model is favorable.

1.8.1 Discounted Cash Flow Model: FCFF

From our calculation, the valuation from discounted cash flow method is the most appropriate because it takes into account the fundamental component of the firm such as net operating profit after-tax, net capital expenditure, and working capital. Also, the company free cash flow will discount by the WACC that concern about the cost of debt and cost of equities. The result is the enterprise value of the company. After subtracting EV from the value of interest bearing debts, non-operating assets, non-controlling interests, and value of equity, the result will be the value of equity of the firm. Therefore, our calculation of the stock price by using the discounted cash flow method, we concluded that the current appropriate price should be around 16.22 baht per share.

So the recommendation is to hold the stock in the market since the current value is quite close to the current stock price. Also, there are abilities to growth if the resulted from Indonesia turn out well.

In calculation, the discounted cash flow approach, as shown in the formula below

$$EV + \text{non-operating assets} = \text{value of debt} + \text{value of equity}$$

The key elements in free cash flow model are 3-year forecasted cash flow, Terminal value, Capital expenditure, Change in net working capital and weighted average cost of capital.

Table 1.2 Target price breakdown

| | Value (THB) |
|-------------------------|-------------|
| EV | 23,121,982 |
| (+)Non-operating assets | 156,695 |
| (-)value of debt | 2,197,599 |
| value of equity | 21,081,078 |
| no shares | 1,300,000 |
| Price of stock | 16.22 |

As of 8 December, 2015

1.8.2 Key assumptions

1.8.2.1 Three-year forecasted cash flow

Revenue growth rate: ICHI revenue mainly from Ichitan green tea brand and Birelay. For the green tea business, it is quite difficult to increase the price of product so growth comes from increase in volume. We based the next 5 years sale growth rate on CAGR over the past 5 years of ready to drink green bottle green tea market. However, the growth for the year 2015 will growth only 5.3% from announcement of quarter 3 financial statement due to the economic which still not recover yet. For Birelay brand the company had start the product in second quarter of 2015 and growth of mix fruit drink is 5%. According to Birelay brand has just rebrand and operated by ICHI so it has opportunities to growth which quite not effect by the consumer spending and reduce by drop in population growth rate. So, we forecast at 5% for growth.

Proportionated cost of sales: The company's cost of goods sold variance by the increase of OEM where the company out sourcing for operation. The cost from OEM will higher than its own operation. In 2015 production line 6 has started, so the cost of goods sold reduce from 67.02% to 64.6% of total sale (data from announcement of quarter 3 financial statement). So, we will apply 64.6% for year 2015-2016 and 62.27% for year 2017 due to the expansion another production line in year 2017.

Selling and administrative expense to sales: The forecast figures of selling expense for the year 2015 will use 16.9% data from announcement of quarter 3 financial statements due to the unrecover economy and use 2 year average for the year 2016-2017 which we believe that the economy might get better soon at 13.44%. Administrative expense was calculated by averaging the percentage of these items to sales over the past 2 years at the rate is 3.03%.

1.8.2.2 Terminal value, TV, discounted at 9.39%

For the period after 2019, we expected perpetuity sale growth rate at expected real GDP of the year in Thailand at 3.57%.

1.8.2.3 Capital expenditure, CAPEX

In the year 2015, the company has just increase 1 operation line which cost 750 million baht and plan for another line in 2017. So capex will be 20% of the PPE original cost due to the year 2014 company had increase 2 production line capex was 40% of the PPE original cost.

1.8.2.4 Change in net working capital

Net working capital is combination of three factors which is inventories, account receivables, and account payable. During the forecasting period, for the years with high revenue growth, the company will normally require more net working capital to support the growth in it operation. According to the forecast, we use average percentage of sale of the year 2013-2014 in forecast those three factors.

1.8.2.5 Weighted average cost of capital

The cost of debt was determined by comparing the current percentage of interest expense to interest bearing debts, which is around 4.14% Before-tax K_d , with the weighted average cost of debt mainly from long term loan. According to ICHI receive tax exemption from BOI for 8 year, so the After-tax K_d equal to 4.14%. For the cost of equity, we use the risk-free rate at 2.7% from 10 year government bond, the return at 11.5% based on from Bloomberg which resulted the market risk premium at 8.81% the adjusted beta at 1.03 from SETSMART. As a result, we calculate cost of equity equal to 11.78% by using CAPM model. Corporate all relative variables $W_d=31.23%$, $W_e=68.77%$, After-tax $K_d=4.14%$ and $K_e=11.78%$ into the WACC formula, WACC is estimated at 9.39%. WACC will be using to be the discount rate of FCFE in DCF model.

Table 1.3 WACC computation

| Calculation of WACC | |
|------------------------------------|--------------|
| Risk free rate | 2.70% |
| Beta | 1.03 |
| market risk premium | 8.81% |
| cost of equity (K_e) | 11.78% |
| cost of debt before taxes | 4.14% |
| tax rate | 0.00% |
| cost of debt after taxes (K_d) | 4.14% |
| weight of debt (W_d) | 31.23% |
| weight of equity (W_e) | 68.77% |
| WACC of the target firm | 9.39% |
| constant growth (gs) | 3.57% |

Table 1.4 Cost of debt computation

| Source of funds | Amount (MB) | Weight (%) | int rate (%) |
|-------------------------|--------------|-------------|--------------|
| S-T debt | | | |
| OD and short-term loan | 192 | 7.3% | 3.25% |
| cur. portion of LT loan | 384 | 14.5% | 4.21% |
| L-T debt | | | |
| LT loan | 2,066 | 78.2% | 4.21% |
| total IBD | 2,642 | 100% | 4.14% |

Table 1.5 Discounted cash flow model

| FCFF Calculation | | | |
|---------------------------|-------------------|-------------|-------------|
| (MB) | 2015 | 2016 | 2017 |
| EBIT | 1,058,310 | 1,458,458 | 1,904,256 |
| Less: Taxes on EBIT | - | - | - |
| NOPAT | 1,058,310 | 1,458,458 | 1,904,256 |
| Add: Depreciation | 504,221 | 567,649 | 582,292 |
| Less: Changes in NWC | (5,487) | 148,166 | 169,632 |
| Less: Capital expenditure | 1,359,008 | 764,983 | 784,716 |
| FCFF | 209,009 | 1,112,959 | 1,532,200 |
| Terminal Value | | | 27,266,415 |
| Net FCFF | 209,009 | 1,112,959 | 28,798,615 |
| EV | 23,121,982 | | |
| (+)Non-operating assets | 156,695 | | |
| (-)value of debt | 2,197,599 | | |
| value of equity | 21,081,078 | | |
| no shares | 1,300,000 | Million | |
| Price of stock | 16.22 | | |

1.9 Financial Statement Analysis

1.9.1 Summary figures from financial statements (Size analysis)

ICHI was listed in SET since 2014, the financial statements data before 2013 was very unstable, and so we decided only to use the data in 2013 and 2014 to make analysis.

1.9.1.1 Statements of income

Total revenue in 2013 was 6,484 million but the revenue decreased 5% to 6,179 million due to the political uncertainty. The selling expense decrease 157 million making the EBIT in 2014 is actually higher than 2013. Moreover, the financing cost decreases 63 million due to the debt repayment lead to the net income increasing at 22% in 2014. The gross profit is 34% of total profit since the production capacity of the company is increasing according to the 20% more productivity will be added after the project is done in 2015. We believe the cost of sales would be even lower so the gross profit and net income would have a upward trend in the future.

Table 1.6 Summary figures from Statements of income (Size analysis)

| Statements of income | 2013 | 2014 | Diff | |
|---|----------------|----------------|------------|------------|
| | MB | MB | MB | % |
| Revenue from sales | 6,484 | 6,179 | (305) | -5% |
| Cost of sales | (4,425) | (4,065) | 360 | -8% |
| Gross profit | 2,059 | 2,114 | 55 | 3% |
| Interest income | 1 | 9 | 8 | 593% |
| Other income | 46 | 20 | (26) | -56% |
| Profit before expenses | 2,107 | 2,144 | 37 | 2% |
| Selling expenses | (931) | (774) | 157 | -17% |
| Administrative expenses | (130) | (250) | (120) | 92% |
| Total expenses | (1,062) | (1,025) | 37 | -3% |
| Profit from operations | 1,045 | 1,119 | 74 | 7% |
| Finance costs | (162) | (99) | 62 | -38% |
| Profit before income tax expense | 884 | 1,020 | 136 | 15% |
| Income tax expense | - | 59 | 59 | |
| Profit for the period | 884 | 1,079 | 195 | 22% |
| Basic earnings per share | 1 | 1 | 0 | 22% |

Source: Company data

1.9.1.2 Statements of financial position

Total asset increased 38% to 9,008 million in 2014 due to increasing inventory and property plant and equipment. Current asset was 22% of total assets and non-current asset weight 78% respectively. Total liability experienced a steep downward falls in the amount of 1,759 million. Current liability decreased 16% from 2013, Non-current liability decreased 47% from 2013, and the total liability decreased 38% in 2014. The portion of current liability is 36%, non-current liability is 54% of the total liability. Since the company starts to be listed in 2014. The equity portion of ICHI has a difference of 4,226 million due to the share premium earned by the initial public offering. The share premium contributed 3,515 million to the total equity.

Table 1.7 Summary figures from Statements of financial position (Size analysis)

Source: SET and Bloomberg

| Assets | 2013 | 2014 | Diff | | Liabilities and shareholders' equity | 2013 | 2014 | Diff | |
|-----------------------------------|--------------|--------------|--------------|------------|---|-------|-------|---------|-------|
| | MB | MB | MB | % | | MB | MB | MB | % |
| Current assets | | | | | Current liabilities | | | | |
| Cash and cash equivalents | 84 | 152 | 68 | 81% | Bank overdrafts and short-term loans | 356 | 28 | (328) | -92% |
| Trade receivables | 809 | 910 | 101 | 12% | Trade payables | 289 | 519 | 230 | 80% |
| Inventories | 338 | 676 | 337 | 100% | Other payable | 189 | 126 | (63) | -33% |
| Other current assets | 203 | 178 | (24) | -12% | Accrued expenses | 141 | 186 | 46 | 32% |
| other receivable | 99 | 78 | (21) | -21% | Current portion of long-term liabilities | 231 | 154 | (77) | -33% |
| Refundable value added tax | 93 | 88 | (5) | -5% | Other current liabilities | 9 | 8 | (1) | -10% |
| other | 11 | 12 | 1 | 10% | Total current liabilities | 1,214 | 1,022 | (192) | -16% |
| Total current assets | 1,434 | 1,916 | 482 | 34% | Non-current liabilities | | | | |
| | | | | | Long-term provisions | 2,351 | 1,780 | (570) | -24% |
| | | | | | Long-term loan from related parties | 1,000 | - | (1,000) | -100% |
| | | | | | Employee benefits liabilities | 8 | 11 | 3 | 43% |
| Non-current assets | | | - | | Total non-current liabilities | 3,359 | 1,791 | (1,567) | -47% |
| Investments in associates | - | 118 | 118 | | Total liabilities | 4,573 | 2,813 | (1,759) | -38% |
| Property, plant and equipment-Net | 4,982 | 6,795 | 1,813 | 36% | Shareholders' equity | | | | |
| Intangible assets - Net | 3 | 87 | 84 | 3339% | Share capital | 1,000 | 1,300 | 300 | 30% |
| Deferred tax assets | - | 59 | 59 | | Share premium | - | 3,515 | 3,515 | |
| Other non-current assets | 123 | 34 | (89) | -73% | Retained earnings | 968 | 1,380 | 411 | 42% |
| Total non-current assets | 5,107 | 7,093 | 1,986 | 39% | Total shareholders' equity | 1,968 | 6,195 | 4,227 | 215% |
| Total assets | 6,541 | 9,008 | 2,467 | 38% | Total liabilities and shareholders' equity | 6,541 | 9,008 | 2,467 | 38% |

1.9.2 Common size analysis

The common size analysis could show us the comparable results of each company with different size. Although OISHI has almost the size as ICHI, but OISHI also contains revenue from food and other industries. Common size analysis could give us a better view of the difference between these 3 companies.

1.9.2.1 Statements of income

ICHI typically has more portion in cost of sales comparing with OISHI, this may results from ICHI more heavily rely on OEM to produce its products. But it is also trying to expand its capacity of production; we believe the cost of sales of ICHI will be lower since 2015. OISHI got around four more present gross profits than ICHI, but OISHI has lots more administrative expenses making OISHI got only 4.28% net income from total revenues. ICHI's net income is 17.46% of total revenue which is much better compare with OISHI.

Table 1.8 Summary figures from Statements of income (Common Size analysis)

| | ICHI | OISHI |
|-------------------------|---------|---------|
| Revenue from sales | 100.00% | 100.00% |
| Cost of sales | -65.79% | -61.11% |
| Dividend income | 0.00% | 4.12% |
| Interest income | 0.15% | 1.29% |
| Other income | 0.33% | 0.98% |
| Selling expenses | -12.53% | -12.33% |
| Administrative expenses | -4.05% | -27.39% |
| Other expenses | 0.00% | 0.00% |
| Finance costs | -1.61% | -1.29% |
| Income tax expense | 0.96% | -0.08% |

Source: Company data

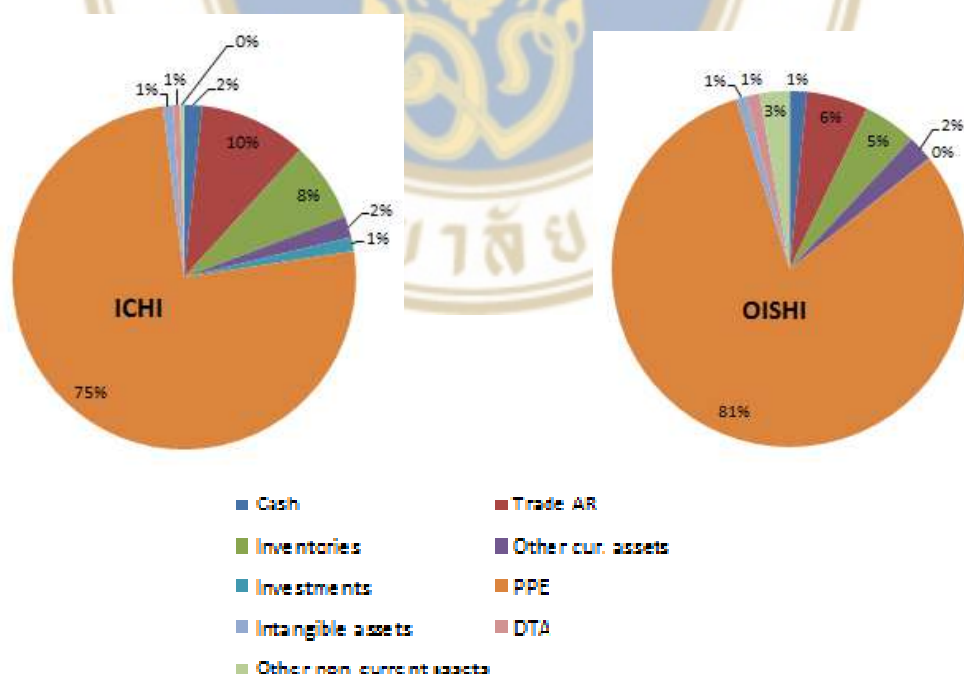
1.9.2.2 Statement of financial position

Trade receivables of ICHI is 10.1% of total asset almost twice of trade receivables than OISHI which is 5.6%, this is a big gap which implies ICHI has lower capability to negotiate with its customers. PPE is 75.43% of ICHI comparing 80.78% for OISHI, slightly lower, with more expanding plan of ICHI, the portion of PPE may increase in the near future. Inventory of ICHI occupies 7.5% of the total asset which is twice of OISHI'. This may imply the inventory of ICHI is not efficiently allocated, there may obsolete inventory occurs. Cash and cash equivalents, intangible asset and other asset elements are in the similar proportion. For the liability side, the trade payables are 5.76% and 1.91, other liabilities are 5.7% and 28.9% for ICHI and OISHI respectively. Much less trade payables may imply ICHI doesn't have much power in negotiating with its raw material supplier, making its operating cycle much longer than OISHI'S. ICHI has 39.02% of share premium compare 6.67% of OISHI due to its IPO in 2014. Finally ICHI's retained earnings is 15.31% comparing to 28.55 which is much less. It implies ICHI has a worthier ability to manage its net working capital.

**Table 1.9 Summary figures from Statement of financial position
(Common Size Analysis)**

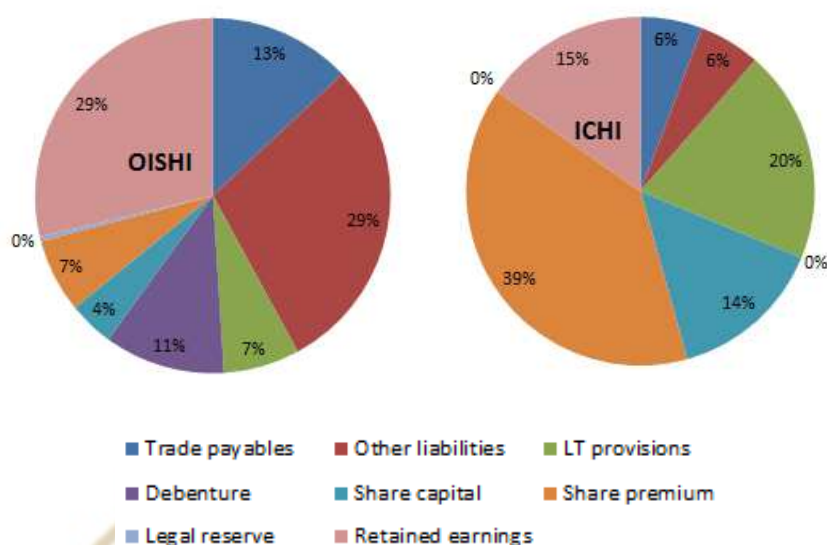
| Asset | ICHI | OISHI |
|-----------------------------------|--------|--------|
| Cash and cash equivalents | 1.68% | 1.56% |
| Trade receivables | 10.10% | 5.60% |
| Inventories | 7.50% | 4.84% |
| Other current assets | 1.98% | 2.32% |
| Investments in sub., asso. | 1.31% | 0.04% |
| Property, plant and equipment-Net | 75.43% | 80.78% |
| Intangible assets | 0.96% | 0.92% |
| Deferred tax assets | 0.66% | 1.23% |
| Other non-current assets | 0.37% | 2.70% |
| Liabilities | ICHI | OISHI |
| Trade payables | 5.76% | 12.91% |
| Other liabilities | 5.70% | 28.90% |
| Long-term provisions | 19.76% | 6.89% |
| Debtenture | 0.00% | 10.95% |
| Share capital | 14.43% | 4.11% |
| Share premium | 39.02% | 6.67% |
| Legal reserve | 1.44% | 0.41% |
| Retained earnings | 13.87% | 28.55% |

Source: Company data



Source: Company data

Figure 1.25 Common size - Statement of financial position (Asset)



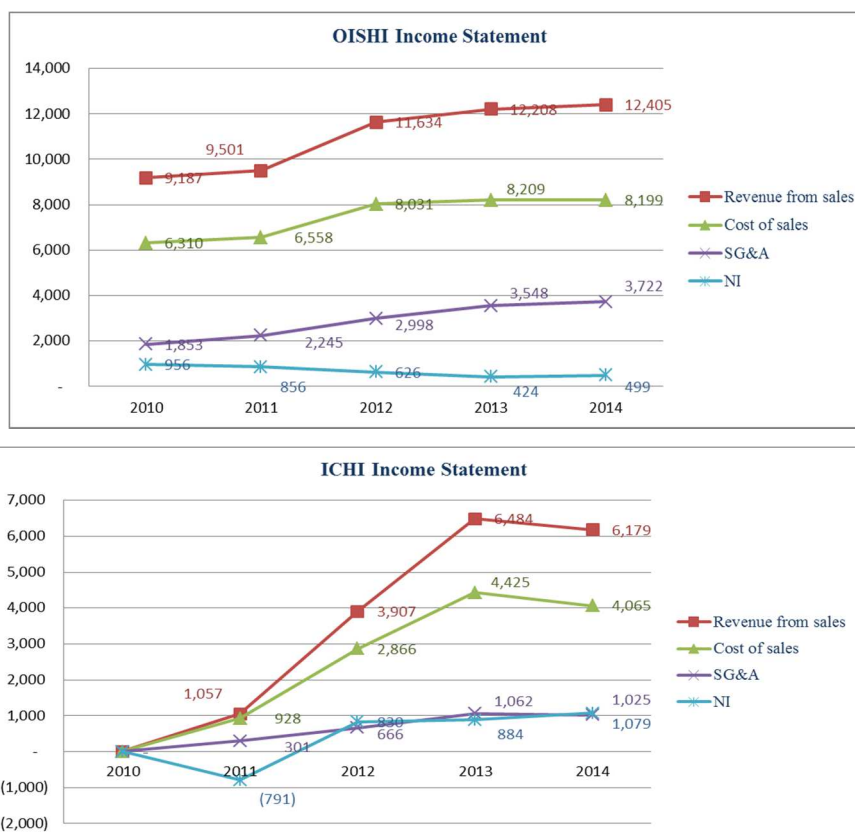
Source: Company data

Figure 1.26 Common Size – Statement of financial position (Liabilities and owner equities)

1.9.3 Trend analysis

1.9.3.1 Statements of income

ICHI has very inelastic graph of overall revenue curve from 2011 to 2014. The numbers increased 485% due to the success of ICHI's fast growth and big market share. Cost of sales and SG&A are also in a steep upwards growth with sales. ICHI has very unstable profit before 2013, but after 2013 net income tends to be stable around 850 million per year. OISHI have a more stable upward revenue curve than ICHI, COGS, SG&A and net income are all moving accordingly. The revenue of sales increased 46% from 2010 to 2014 but OISHI already has a good background since 2010 compare with ICHI. As mentioned in common size analysis, OISHI has much higher SG&A expenses than ICHI making its net income almost 4 times lower than ICHI's.

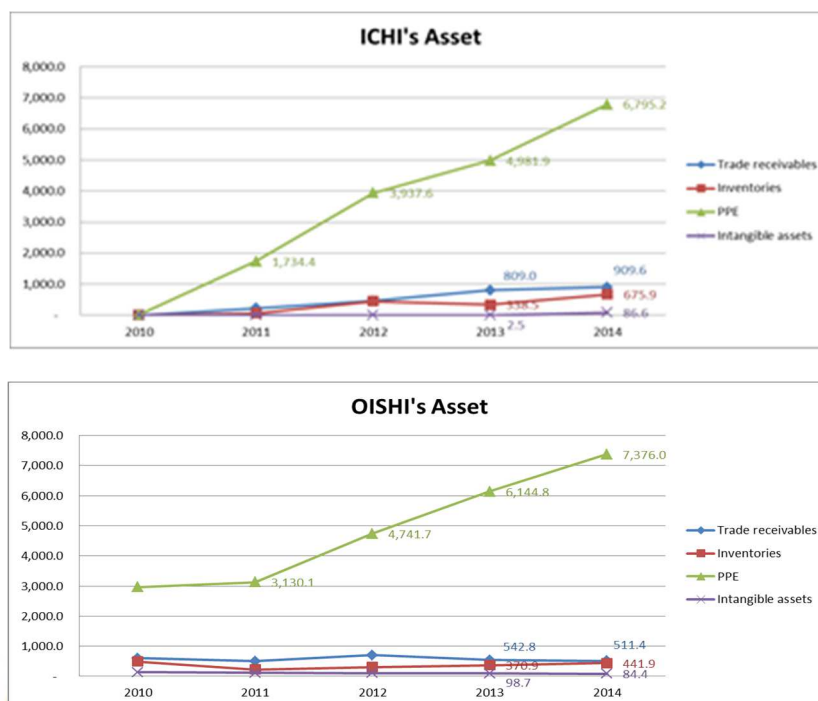


Source: Company data

Figure 1.27 Statements of income - Trend analysis

1.9.3.2 Statements of financial position

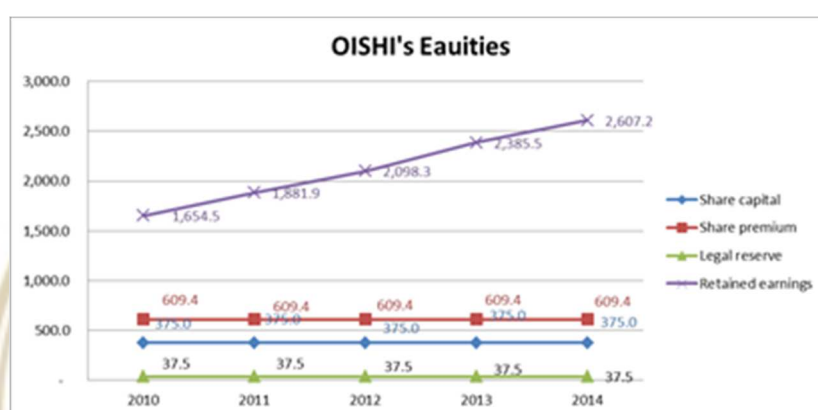
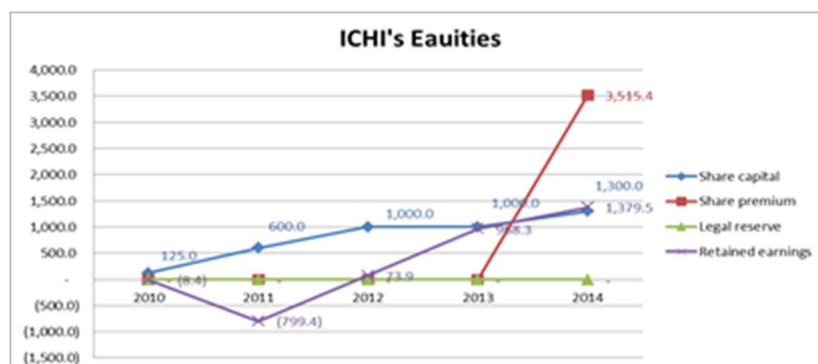
Both companies have very similar Statements of financial position trend curve in asset part. Both PP&E are very inelastic, ICHI has steeper curve due to the strong growth in the last 5 years. ICHI promote its PP&E from 22.9 to 6,795 million baht within 5 ears, OISHI increased its PP&E from 2,966 to 7,376 in last 5 years. Trade receivables, intangible asset and inventory are all in a stable trend for OISHI, these items are having slightly upward trend due to its very high growth. The amount of trade receivable and inventory implies ICHI has worse net working capital management than OISHI which we already discussed in common size analysis.



Source: Company data

Figure 1.28 Statements of financial position trend analysis - Assets

Both companies have very similar Statements of financial position trend curve in asset part. Both PP&E are very inelastic, ICHI has steeper curve due to the strong growth in the last 5 years. ICHI promote its PP&E from 22.9 to 6,795 million baht within 5 ears, OISHI increased its PP&E from 2,966 to 7,376 in last 5 years. Trade receivables, intangible asset and inventory are all in a stable trend for OISHI, these items are having slightly upward trend due to its very high growth. The amount of trade receivable and inventory implies ICHI has worse net working capital management than OISHI which we already discussed in common size analysis.



Source: Company data

Figure 1.29 Statements of financial position trend– Liabilities and Equity

For equity part, ICHI has a very fluctuating trend with retained earnings and share premium. The later one is due the IPO, but the retained earning falls to negative 799 million for ICHI is because of the natural disaster happened that year. Then the retained earnings increased hugely in 2013 due to its speedy expansion. OISHI has very stable share premium, share capital and legal reserve. The retained earnings is upward sloping from 1654 million in 2010 to 2607 million in 2014. In total, OISHI tend to be more stable than ICHI because of its aggressive business strategy and growing speed affect its stability over all. ICHI has higher net income trend but lower retained earnings than OISHI does.

1.9.4 Financial ratios - Return

We would like to choose Profitability ratio of gross profit margin, EBIT margin and net profit margin between ICHI and OISHI during the past 2010 to 2014.

The gross profit margin for ICHI is approaching to OISHI in the last 4 years. After 2012, two companies keep very stable gross profit margin around 30%, OISHI has higher gross profit margin than ICHI.

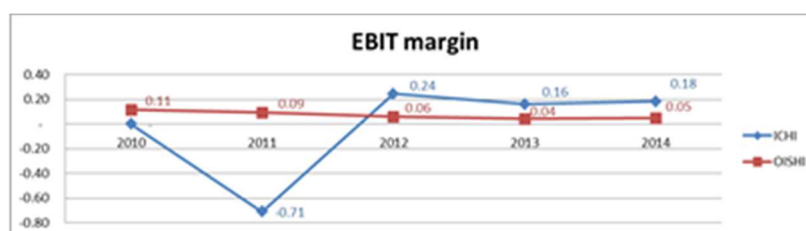


Source: Company data

Figure 1.30 Gross profit margin ratios

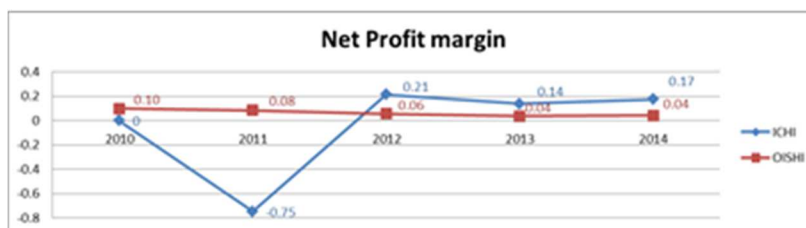
EBIT margin and Net profit margin for both companies are almost the same after 2012. ICHI has a huge loss at later days in 2010 making its EBIT margin and net profit margin negative in 2011. Overall ICHI got a higher EBIT margin and Net income margin due to much less SG&A.

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Source: Company data

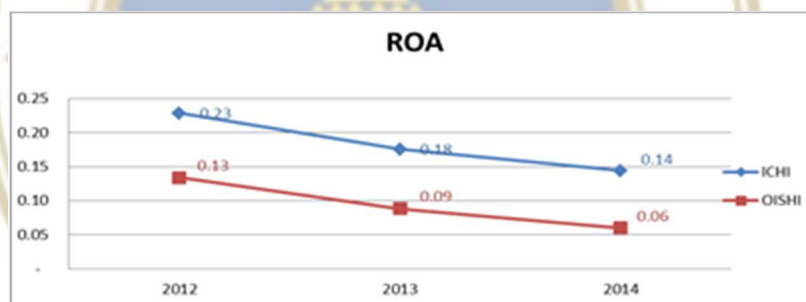
Figure 1.31 EBIT profit margin ratios



Source: Company data

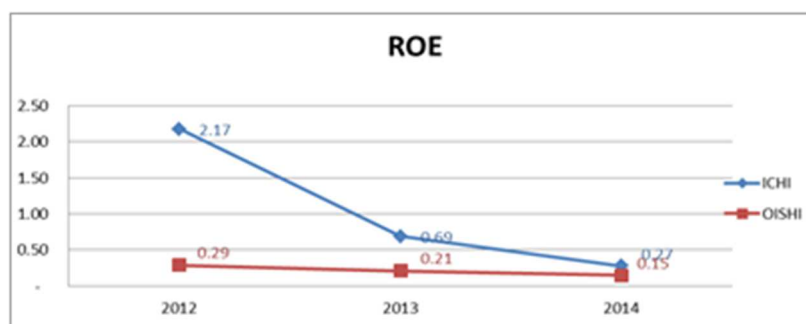
Figure 1.32 Net profit margin ratios

We should mainly focus on the performance of ICHI after 2012 due to very unstable situation it experiences before 2012. Also, the ICHI create loss on EBIT for the year 2011 which is difficult to compare with OI CHI. Both ICHI and OISHI ROA are in decreasing trend due to the increasing in PPE follow by the expansion of ready to drink green tea. ROE of ICHI has present in declining trend due to the issue more share in 2013 and issue stock in SET in 2014.



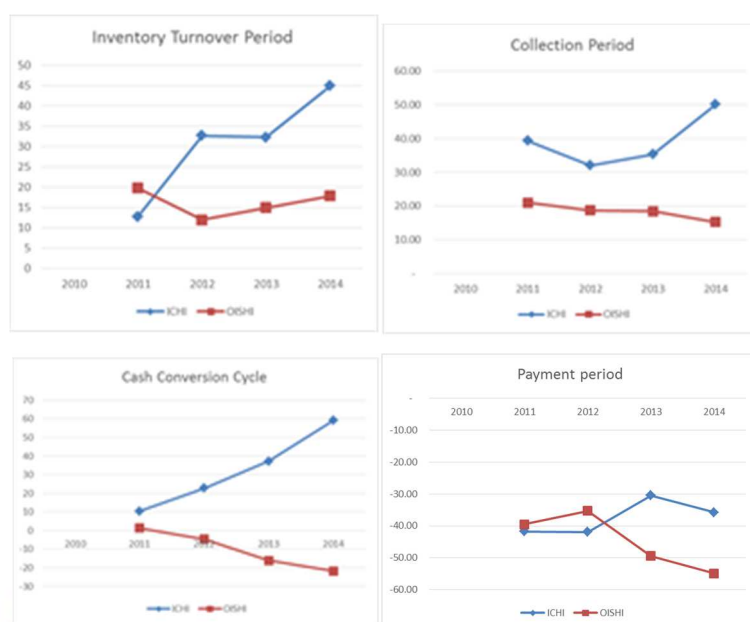
Source: Company data

Figure 1.33 Return on asset ratios



Source: Company data

Figure 1.34 Return on equities ratios



Source: Company data

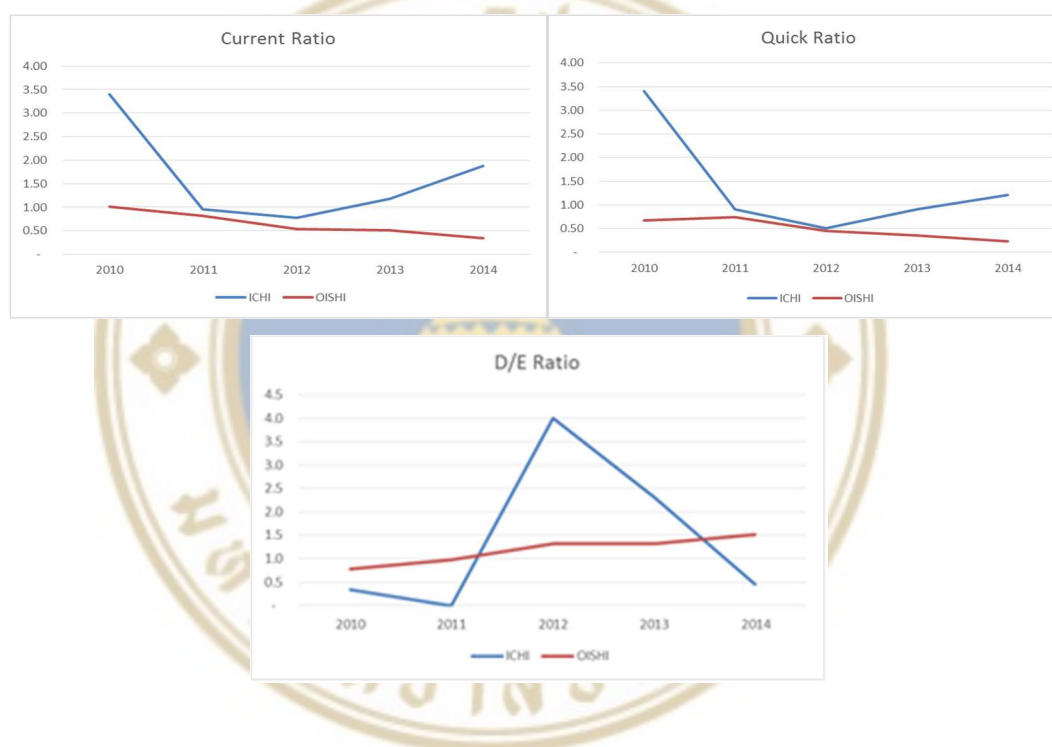
Figure 1.35 Liquidity measurement ratios

Since we found the problems of ICHI in inventory and account payable in common size analysis, the cash conversion cycle could help us to see the short term operating efficiency of these two companies. Recently 2 years from 2013 to 2014, ICHI's collection period is getting worse, almost the opposite direction with OISHI, this may be due to the negotiating power to its customers. Inventory turnover of ICHI is also worse, may result from political uncertainty in 2014. The last element payment period is in declining trend. OISHI got almost 3 times the payment period than ICHI, which implies OISHI got much more power in bargaining with its supplier. Overall, the cash conversion cycle of ICHI is like the inverted image of OISHI's, indicating ICHI's inefficient cash management.

1.9.5 Financial ratios - Risk

1.9.5.1 Short-term liquidity risk

Both current ratio and quick ratio in 2011 to 2012 are at the same level around one, however after 2012, ICHI is performing better than OISHI with increasingly number in both ratio. For both ratio, OISHI is in a downward sloping from 2010 to 2014 around 0.3, ICHI has 1.87 current ratio and 1.21 quick ratio in 2014 that means OISHI has better ability to fulfill short-term debt and less short-term liability risks.



Source: SET and Bloomberg

Figure 1.36 Short-term liquidity risk ratios

1.9.5.2 Long-term solvency risk

OISHI has very stable D/E slightly upward slope with a ratio around 1.5. ICHI has negative equity value in 2011, so there is no D/E ratio available in this year. After the fluctuating period before 2012, thereafter D/E ratio of ICHI is keeps decreasing tills 0.5 in 2014. That means ICHI has better ability to fulfill its long-term liability each year after 2012.

1.10 Investment Risks and Downside Possibilities

1.10.1 Risk from linkage between Ichitan brand and Mr. Tan

This linkage has strategically contributed to the brand recognition and awareness among consumers. The company recognizes potential threats consequential to the absence of such linkage and has attempted to mitigate the risk by strengthen the brand identity without tying it up with any individual. In order to achieve its goal, marketing team is phasing out the distinctive presence of Mr. Tan Passakornatee in new commercials and advertisements, except for certain new products which the company intends to convey to the general public, clients and consumers that they are Mr. Tan's product.

1.10.2 Risk from new product development

Continuous new product development is essential for the company. Its own laboratory for R&D worth up to 10 million baht to support the new product development projects which typically are not costly. The budget for marketing and promotional activities is rather high yet controllable and promotion campaigns for new product or a new product itself if its popularity remains unsatisfactory after more than 50 million Baht has spent on its marketing and promotional activities.

1.10.3 Risk from Shortage and Price Fluctuation of Raw Material

Key raw materials are tealeaves, fructose, and cane sugar and flavor ingredients that altogether account for 30% of the production cost. As the climate change affects agricultural productivity, the company might experience raw material shortage and the resultant price fluctuation. To mitigate the risk, the Company has developed a raw material sourcing plan and the Procurement Department has developed an annual production and sourcing plan as well as entered into sale and purchase agreements, usually with the validity period of at least 1 year, with major suppliers to secure adequate raw materials are reasonable prices. In addition, the Company has made agreements with at least 3 suppliers to avoid overdependence on any particular supplier as well as to prevent the shortage of raw material in the event that a suppliers cannot provide the Company with sufficient raw materials. With

regard to tealeaves, the Company has entered into tea leave procurement agreement with several suppliers and tea leaves from these supplies are equivalent substitutes for each other, given the fact that all products, despite varying flavor additives, use the same kind of fresh tea leaves and difference between green tea and black tea lies in the way tea leaves are processed. With this, the Company can effectively avoid overdependence on a particular supplier.

1.10.4 Risk from Food Safety Hazard

Food hygiene is among our top priorities as even a minor mistake can have material impact on the credibility of all Ichitan's products. It carefully selected ingredients and supervised every step ANNUAL REPORT 2014 43 of the production process to achieve the consumer confidence in the quality of our products, which meet international standards such as GMP, HACCP, ISO 9001: 2008 and HALAL. To assure food safety, batch samples are tested for 7 days in accordance with applicable standards before the release of each batch for distribution to the market and the samples are retained as reference. If test results of the batch samples indicate contamination, the entire batch will be destroyed. However, our products are manufactured in closed, hi-tech systems and no food contamination has been found.

1.10.5 Risk from Interest Rate Increase

As of 31 December 2014, the Company has the loan obligations worth Baht 1,963 million charged at the floating interest rate and thus is exposed to the risk of interest rate hike which might have adverse effect on the Company's financial performance. In April 2014, the Company launched an IP and successfully raised the capital worth Baht 3,900 million. The IPO proceeds were used to repay directors' loans and bank loans worth approximately Baht 3,000 million. The decrease of the outstanding loan obligations with banks to Baht 1,963 million as of 31 December 2014 as significantly reduced the Company's risk associated with the interest rate movement.

1.10.6 Risk from Dependence and Major distributors

At present, the Company's products have been distributed through the modern trade channel (accounting for 56% of the total sales of the year ended 31

December 2014) and the traditional trade channel (accounting for 44% of the total sales of the year ended 31 December 2014) by 3 major distributors, namely DKSH (Thailand) Co., Ltd., I AM Green Tea Co., Ltd., and Boon Rawd Asia Co., Ltd. under the distribution agreements, of which validity periods range from 3 – 5 years. The distribution volumes of the distributors for the year ended 31 December 2014 were 77% DKSH), 12% (I AM Green Tea) and 11% (Boon Rawd). Based on this fact, the Company is exposed to the risk of overdependence on the major distributors. The engagement of 3 distributors instead of only 1 distributor in the product distribution is a means of risk mitigation and the distribution agreement made with DKSH which has been the original distributor of the Company allows the Company to involve 2 more distributors. Given the positive relationship between the Company and the distributors and the Company's strict compliance with the distribution agreements, the Company is confident that the distributors will agree to renew their distribution agreements with the Company.

1.10.7 Risk from Intense Competition

As the beverage business benefits from the weather conditions of Thailand and has continuously recorded buoyant growth, many new players have entered the market. This has intensified the competition and harmed the profitability of manufacturers, especially those with inefficient management system. Pricing should be suitable and the Company does not support the price cut strategy. Rather, the Company aims to in customers through creative marketing and promotional campaigns. For the green-tea products which can hardly be differentiated, the Company aims to make effective production and logistics management our key strength for higher profit. Product development is another key strength of Ichitan as evident in “Yen Yen by Ichitan” herbal drink, which is unbeatable by any competitors in terms of its unique taste and brand. The Company targets to launch new fruit juice products under “Bireley’s” trademark in 2015 to diversify our product portfolio and widen the opportunity horizon.

1.10.8 Risk from Liability for Excise Tax on Green Tea Beverage

The Company has been exempted from excise tax because the contents of fruit and vegetable juice mix in our green tea beverage products meet the requirements under the Notification of the Excise Department Re: Tax exemption criteria and conditions for fruit and vegetable juice beverages. However, the Excise Department is reviewing the excise tax rates for green tea and if it is concluded that green tea beverage products are not entitled to tax exemption, all green tea beverage manufacturers will be adversely affected as the increasing tax burden will hurt their bottom lines. To mitigate such potential undesirable impact, the Company will focus on cost control, advanced technologies and effective management which altogether can significantly reduce our operating expenses, thus offsetting the potential increase in tax expense in the future.

1.10.9 Risk from Flood Disaster

The 2011 flood crisis materially affected the Company's production and distribution plan. Rojana Industrial Park built a floodwall of 6 meters in height around its compound. The concrete wall base was 3 meters below the ground level and its top was also 3 meters above the ground level. In addition, the Company has taken out insurance which covers all possible damage and planned to invest in overseas joint venture and factory construction.

1.10.10 Risk from Majority Control by the Passakornnatee Group

As of 31 December 2014, the Passakornnatee group (inclusive of Mr. Tan Passakornnatee's nominees), as the Company's majority shareholder, owned 60.0% of the total paid-up capital. As the Passakornnatee group is nearly in full control of the decisions of the shareholders' meetings, the minority shareholders might be unable to counterbalance the power of the majority shareholder, except for matters requiring the three-fourths majority of shareholders. The Passakornnatee group does not have the right to vote on agenda items concerning related-party transactions related to the Passakornnatee group. On the one hand, the overwhelming power of the Passakornnatee group contravenes the principle of good corporate governance. On the other hand, it provides assurance that Mr. Tan Passakornnatee and his spouse will

continue their positions as executives of Ichitan which they have built with their own hands from scratch.

| Risk Matrix | | | |
|---------------|--|--|--|
| Impact | 1 | 2 | 3 |
| Probabilities | Negligible | Moderate | Severe |
| 68%-100% | | - Intense Competition | - Excise Tax on Green Tea Beverage |
| 34%-67% | | -new product development | - Majority Control by the Passakornmatee Group |
| 1%-33% | - Flood Disaster - Interest Rate Increase | - Shortage RM - Dependence distributors | |

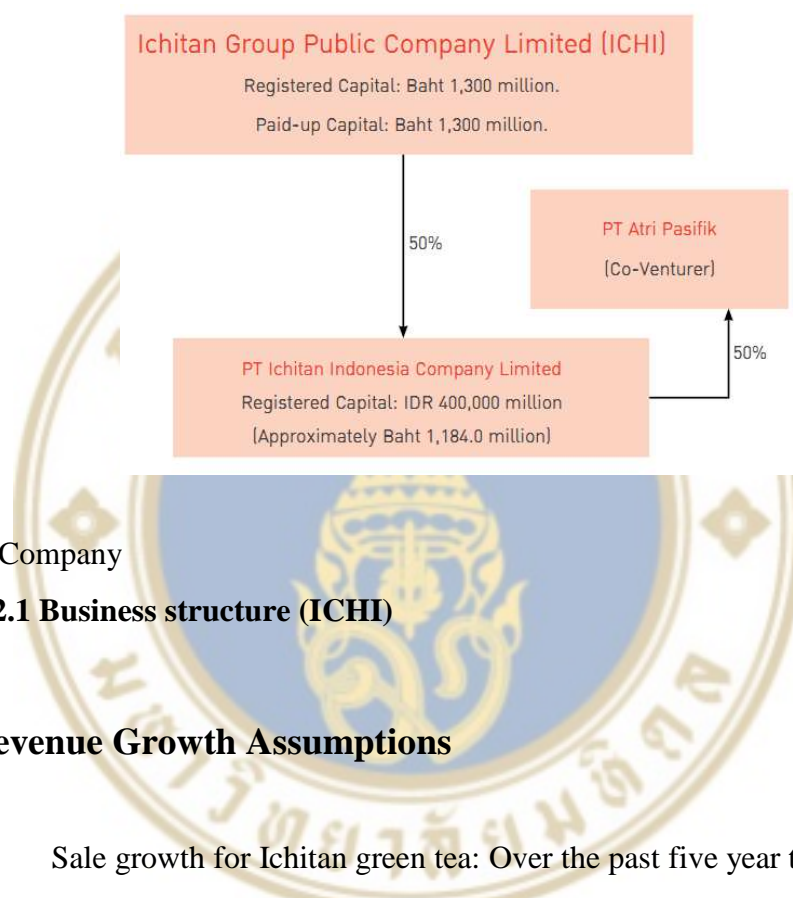
Figure 1.36 Risk Matrix



CHAPTER II

DATA

2.1 Business Structure (ICHI)



Source: Company

Figure 2.1 Business structure (ICHI)

2.2 Revenue Growth Assumptions

Sale growth for Ichitan green tea: Over the past five year the ready to drink tea market growth has increasing every year but it hit the first drop in the year 2014, so we decided to use CAGR which is the compound annual growth rate. CAGR is a useful measure of growth over multiple time periods.

$$\begin{aligned}
 \text{CAGR} &= \left(\frac{\text{Ending Value}}{\text{Beginning Value}} \right)^{\left(\frac{1}{\# \text{ of years}} \right)} - 1 \\
 &= (15,405 \div 7,799)^{1/5} - 1 = 14.59\%
 \end{aligned}$$

However, the growth for the year 2015 will growth only 5.3% from announcement of quarter 3 financial statement due to the slowing down of ready to drink tea market and economic which still not recovered yet.

Sales

In Q3/2015, the company has sales revenue 1,222.7 million baht, which is 10.1% decreased from Q3/2014 that had sales revenue 1,359.5 million baht. The sales revenue is decreased due to condition of the economy have not yet been recovered and an intense competition.

For the sales revenue of 9 Months of year 2015 and 2014 are 5,178.2 million baht and 4,919.8 million baht respectively. It is increased by 258.4 million baht or 5.3% due to launching of new brand product "Bireley's" and marketing activities in first 6 months.

Source: SET-Financial statement of 3rd quarter

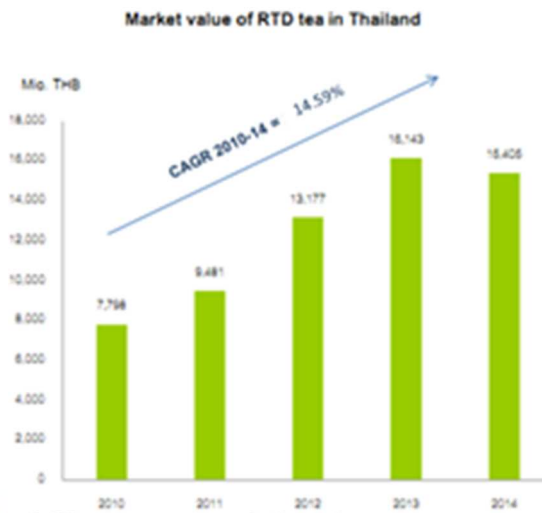
Sale growth for Bireley brand: The company had started the product in second quarter of 2015 and growth of mix fruit drink is 5%. According to Bireley brand has just rebrand and operated by ICHI so it has opportunities to growth which quite not effect by the consumer spending and reduce by drop in population growth rate. So, we forecast at 5% for growth.

Table 2.1 Expected growth

| Growth | 2015 | 2016 | 2017 |
|----------|------|--------|--------|
| Tea | 5.3% | 14.59% | 14.59% |
| Birele's | 5% | 5% | 5% |

Table 2.2 Revenue forecast

| ICHI | | | | |
|----------------------|------------------|------------------|------------------|------------------|
| Calculations | 2014 | 2015E | 2016E | 2017E |
| Revenue from sales | | | | |
| From RTD tea | 6,179,080 | 6,506,571 | 7,455,788 | 8,543,481 |
| From Birelav brand | | 450,000 | 472,500 | 497,306 |
| Total Revenue | 6,179,080 | 6,956,571 | 7,928,288 | 9,040,787 |



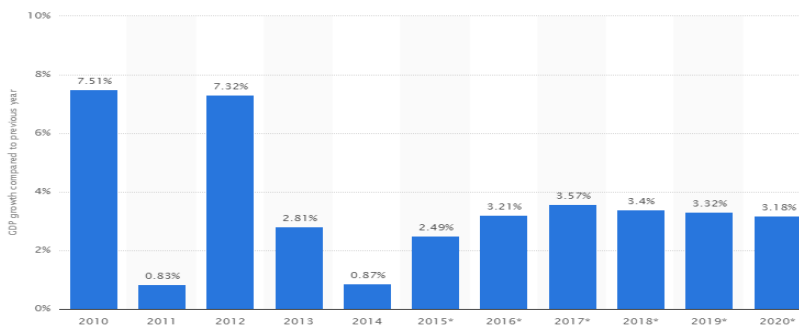
Source: Company data

Figure 2.2 Projection of sale growth (ICHI)



Source: <http://www.positioningmag.com/content/60176>

Figure 2.3 Market share and market value



Source: <http://www.statista.com/statistics/332051/gross-domestic-product-gdp-growth-rate-in-thailand/>

Figure 2.4 GDP growth breakdown

2.3 WACC Assumptions

Using the weighted average of market value of equity and book value of debt.

Table 2.3 Ke (Cost of equity)

| Calculation of WACC | |
|---------------------|--------|
| Risk free rate | 2.70% |
| Beta | 1.03 |
| market risk premium | -2.70% |
| cost of equity (Ke) | -0.08% |

Source: Bloomberg

Table 2.4 Kd (Cost of debt)

| | 2013 | 2014 (MB) | Average |
|-------------------------|-------|--------------|---------|
| OD and short-term loan | 356 | 28 | 192 |
| cur. portion of LT loan | 231 | 154 | 192 |
| S-T Debt | 587 | 182 | 384 |
| L-T Debt | 2,351 | 1,780 | 2,066 |
| Total IBD | 2,938 | 1,963 | 2,450 |
| S-T interest rate | | 3.09%-3.40% | 3.25% |
| L-T interest rate | | 3.53%-4.88% | 4.21% |

| Source of funds | Amount (MB) | Weight (%) | int rate (%) |
|-------------------------|----------------|---------------|-----------------|
| S-T debt | | | |
| OD and short-term loan | 192 | 7.3% | 3.25% |
| cur. portion of LT loan | 384 | 14.5% | 4.21% |
| L-T debt | | | |
| LT loan | 2,066 | 78.2% | 4.21% |
| total IBD | 2,642 | 100% | 4.14% |

Source: Company data

Therefore, the WACC,

Table 2.5 WACC calculation

| Calculation of WACC | |
|-------------------------------|--------|
| Risk free rate | 2.70% |
| Beta | 1.03 |
| market risk premium | 8.81% |
| cost of equity (Ke) | 11.78% |
| cost of debt before taxes | 4.14% |
| tax rate | 0.00% |
| cost of debt after taxes (Kd) | 4.14% |
| weight of debt (Wd) | 31.23% |
| weight of equity (We) | 68.77% |
| WACC of the target firm | 9.39% |
| constant growth (gs) | 3.57% |

2.4 Other Assumption

PPE: Assume depreciation expense at 7% the same as year 2014, Capex at 20% due to expansion line in the year 2015, 2017 the and 10% for normal maintenance plan.

Table 2.6 Forecast capital expenditure

| ICHI | | | | |
|-----------------------------|-----------|-----------|-----------|-----------|
| Calculations | 2014 | 2015E | 2016E | 2017E |
| PP&E | | | | |
| Net PP&E, beginning balance | 4,981,782 | 6,795,041 | 7,649,829 | 7,847,162 |
| Capital expenditures | 2,182,530 | 1,359,008 | 764,983 | 1,569,432 |
| Annual depreciation | 369,271 | 504,221 | 567,649 | 582,292 |
| PP&E, ending balance | 6,795,041 | 7,649,829 | 7,847,162 | 8,834,302 |
| depre assumption | 7% | 7% | 7% | 7% |
| capex assumption | 44% | 20% | 10% | 20% |

Table 2.7 Forecast retain earning

| ICHI | | | | |
|----------------------------|------|-----------|-----------|-----------|
| Calculations | 2014 | 2015E | 2016E | 2017E |
| Retained earnings | | | | |
| Beginning balance | | 1,249,510 | 1,728,950 | 2,397,562 |
| Net income | | 899,066 | 1,264,354 | 1,670,858 |
| Additional paid in capital | | (60,000) | (90,000) | (72,000) |
| Dividends paid | | (359,626) | (505,742) | (668,343) |
| Ending balance | - | 1,728,950 | 2,397,562 | 3,328,077 |
| Dividend policy | | 40% | 40% | 40% |

Take loss from investment in Indonesia

Table 2.8 Forecast loss from ICHI' Indonesia

| ICHI | | | | |
|---------------|------|----------|----------|-----------|
| Calculations | 2014 | 2015E | 2016E | 2017E |
| Joint-Venture | | | | |
| Beginning | | 117,683 | 57,683 | (32,317) |
| Take equities | | (60,000) | (90,000) | (72,000) |
| Ending | | 57,683 | (32,317) | (104,317) |

2.5 Major Shareholders and Free Float

| ผู้ถือหุ้นรายย่อย ณ วันที่ 13/03/2558 | |
|---|--------|
| จำนวนผู้ถือหุ้นรายย่อย (Free float) | 17,842 |
| % การถือหุ้นของผู้ถือหุ้นรายย่อย (% Free float) | 35.00 |
| หมายเหตุ: ข้อมูลผู้ถือหุ้นปรับตามรอบของการปิดสมุดทะเบียน | |
| ภาพรวมข้อมูลผู้ถือหุ้น ณ วันที่ 28/08/2558 ประเภทการปิดสมุดทะเบียน : XD | |
| จำนวนผู้ถือหุ้นทั้งหมด | 17,977 |
| % การถือหุ้นแบบไร้ใบหุ้น | 100.00 |

Source: SET

Figure 2.5 Major Shareholders and Free Float

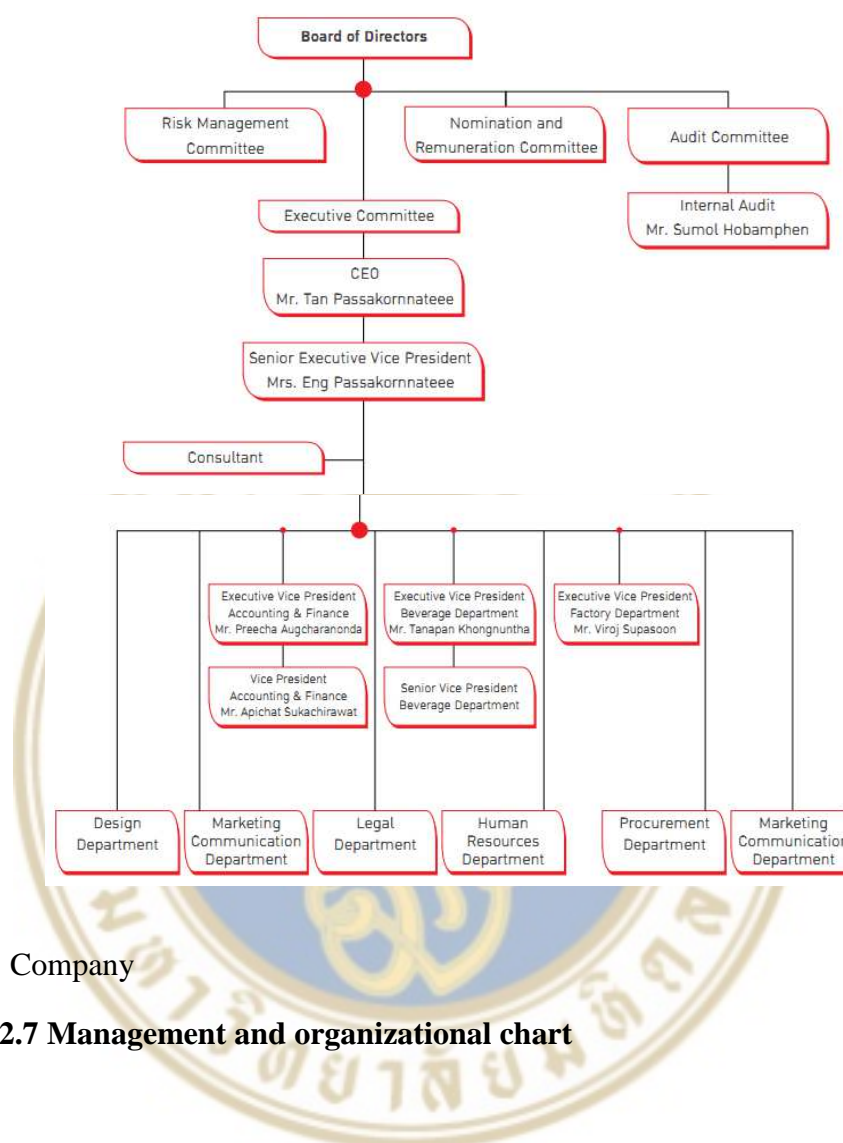
| ลำดับ | ผู้ถือหุ้นรายใหญ่ | จำนวนหุ้น (หุ้น) | % หุ้น |
|-------|----------------------------------|------------------|--------|
| 1. | นายตัน ภาสกรนที | 450,639,600 | 34.68 |
| 2. | นางอิ่ง ภาสกรนที | 120,000,000 | 9.23 |
| 3. | นายจรรุร สุขพันธุ์ถาวร | 80,000,000 | 6.15 |
| 4. | MR.YUEH-CHIN CHIU | 59,842,000 | 4.60 |
| 5. | นายจรรุวัฒน์ สุขพันธุ์ถาวร | 40,000,000 | 3.08 |
| 6. | น.ส.สุภาณี สุขพันธุ์ถาวร | 38,900,000 | 2.99 |
| 7. | น.ส.วีริษา ภาสกรนที | 30,000,000 | 2.31 |
| 8. | นายวุฒิไกร สายนาคร | 20,000,000 | 1.54 |
| 9. | STATE STREET BANK EUROPE LIMITED | 18,489,200 | 1.42 |
| 10. | RBC INVESTOR SERVICES TRUST | 17,693,500 | 1.36 |
| 11. | น.ส.ฐิติมา ศรีอุทัยศิริวงศ์ | 10,135,600 | 0.78 |
| 12. | บริษัท ไทยเอ็นวีดีอาร์ จำกัด | 10,036,380 | 0.77 |
| 13. | MR.CHI WEI KUO | 8,085,300 | 0.62 |
| 14. | MISSLAI, YI-LIN | 7,650,200 | 0.59 |
| 15. | น.ส.อรนุช รุ่งเรืองชัยนุรณ | 7,306,200 | 0.56 |
| 16. | นายวีโรจน์ สุภาสุรย์ | 7,277,400 | 0.56 |
| 17. | นายโกมล จิ่งรุ่งเรืองกิจ | 6,958,800 | 0.54 |
| 18. | นายธนพันธุ์ คงนันทะ | 6,670,000 | 0.51 |

Source: SET

Figure 2.6 Major Shareholders list



2.6 Management and organizational chart



Source: Company

Figure 2.7 Management and organizational chart

2.7 Corporate Governance (CG)

Corporate Governance

Corporate Governance Goal The Board has attached importance to the corporate governance principles and aimed to ensure the Company's proper compliance with the laws and applicable rules, practices and requirements to achieve transparency and fairness in all dimension of the Company's business operations.

Independent Director

The Board shall select independent directors in accordance with the qualification criteria under the Public Limited Companies Act B.E. 2535, the Securities and Exchange Act, the notifications of the SEC and the Market Supervisory Board, and any other applicable notifications and/or rules and regulations. The Company shall have at least 3 independent directors or one-third of its directors, whichever is higher.

Policy and Guideline on Use of Insider Information by Executive

The Company has established the Insider Information Policy to prevent and prohibit the use of insider information, especially the Company's non-public financial information, by limiting the number of employees having access to such information. The Company has also communicated to all executives their duties in this respect which include the obligation to report to the Company the holding of the Company's securities by themselves, including their spouse and dependent children. Internal Control System The Company has recognized the importance of the internal control system at operational and managerial levels as a key contributor to business excellence. Therefore, the Company has clearly determined the authority and duties of operating officers and executives in writing to support effective asset utilization and control, segregation of duties of operating officers, supervisors and controllers. Also, the Audit Committee is tasked with the review of the Company's internal control and internal audit systems to ensure appropriateness and effectiveness of the systems. ICHI has a very good internal control system and many transparent policies, but even though there is requirement of independent board member but the owner's family controls more than 60% shares of the company, that could not be considered as good corporate governance. Power controlled by the big shareholder could harm the interests of minority shareholders. Corporate Governance Goal The Board has attached importance to the corporate governance principles and aimed to ensure the Company's proper compliance with the laws and applicable rules, practices and requirements to achieve transparency and fairness in all dimension of the Company's business operations.

Independent Director

The Board shall select independent directors in accordance with the qualification criteria under the Public Limited Companies Act B.E. 2535, the Securities and Exchange Act, the notifications of the SEC and the Market Supervisory Board, and any other applicable notifications and/or rules and regulations. The Company shall have at least 3 independent directors or one-third of its directors, whichever is higher.

Policy and Guideline on Use of Insider Information by Executive

The Company has established the Insider Information Policy to prevent and prohibit the use of insider information, especially the Company's non-public financial information, by limiting the number of employees having access to such information. The Company has also communicated to all executives their duties in this respect which include the obligation to report to the Company the holding of the Company's securities by themselves, including their spouse and dependent children. Internal Control System The Company has recognized the importance of the internal control system at operational and managerial levels as a key contributor to business excellence. Therefore, the Company has clearly determined the authority and duties of operating officers and executives in writing to support effective asset utilization and control, segregation of duties of operating officers, supervisors and controllers. Also, the Audit Committee is tasked with the review of the Company's internal control and internal audit systems to ensure appropriateness and effectiveness of the systems. ICHI has a very good internal control system and many transparent policies, but even though there is requirement of independent board member but the owner's family controls more than 60% shares of the company, that could not be considered as good corporate governance. Power controlled by the big shareholder could harm the interests of minority shareholders.

2.8 SWOT Analysis

Strengths:

- The leader Mr. Tan is famous in Thailand as a celebrity to the ICHI brand.
- ICHI is increasing its production capability to reduce OEM rate for more profit margin.
- Efficient inventory and modern management system enhance the productivity.
- Yen Yen herbal tea helps to penetrate the market with whole new concept.

Weaknesses:

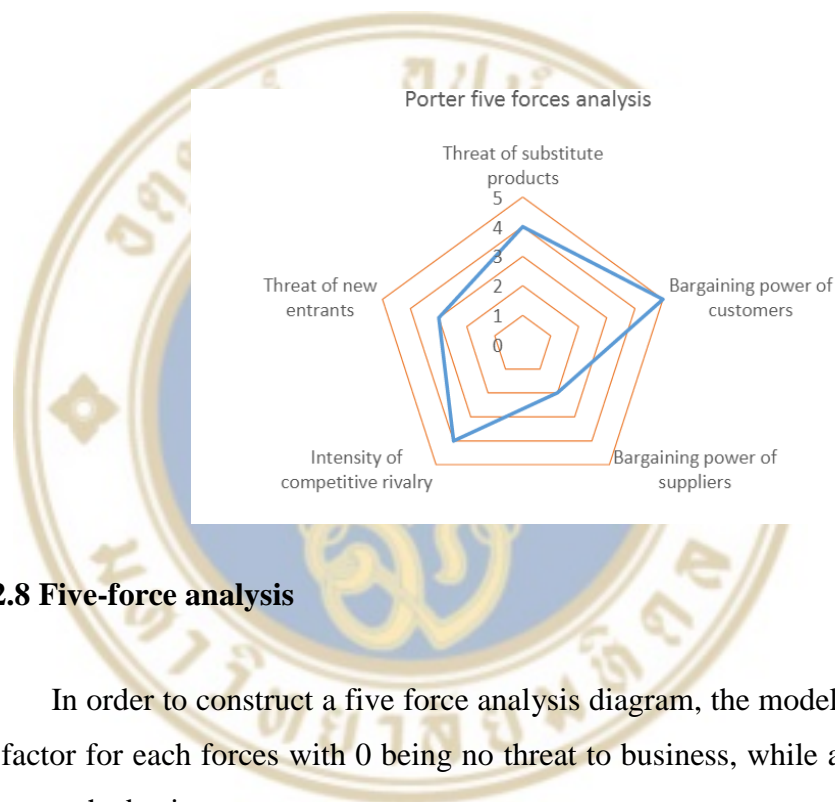
- Brand awareness of ICHITAN is not optimize. Many people knows Mr. Tan, but they do not know what the green tea called. OSHI may be mix up with ICHITAN.
- Most products are not different from the major competitors.
- Mr. Tan causes too much influence on this brand, The people who don't know him may not interested in this brand or if he leave the company one day, there is few competitive advantage to keep ICHI in customer's minds.

Opportunities:

- ASEAN community is providing opportunity for business to expand with lower cost and obstacle. The export revenue of ICHI now is only at 1% out of total revenue, there are still lots of opportunities for ICHI to expand to ASEAN countries.
- Green Tea as the healthy drink is attracting more and more attention. Young generation starts to be more open to healthy drink as the result of health education.
- The global warming cause the new temperature record almost every year, the market of beverage is increasing with higher demand.
- The ready to drink tea market in Thailand has a CAGR almost 20% in the last five years. The growing market provide more space for company to grow.

Threats:

- Direct competition from OISHI and other imported green tea products.
- Downturn economy of Thailand. The GDP and purchasing power growth rate of Thailand are negative in last 2 years.
- New entrants trying to get a piece of cake from this growing industry.

2.9 Five Forces Analysis**Figure 2.8 Five-force analysis**

In order to construct a five force analysis diagram, the model have decided a score factor for each forces with 0 being no threat to business, while a 5 indicates a high threat to the business.

Bargaining Power of Costumers – High (5)

There are various products in the ready to drink green tea market, provided plenty choices to customer. Green tea drink is not considered as necessity product for daily life, so customers have high barging power to this kind of product. The barging power is even more strengthened by the high competitiveness of green tea market and increasing household income.

Bargaining Power of Suppliers – Low (2)

ICHI company focus on the quality of raw materials such as tea leaves, cane sugar and water to ensure all ingredients meet high quality standards. The competitiveness among suppliers is high, ICHI has entered into sale and purchase agreement with 2-3 suppliers and tealeaves from these supplies are of equivalent substitutes for each other. This will reduce the bargaining power of supplier.

Threat of Substitute Products – High (4)

The products in ready to drink tea market does not much differentiated. Although there are only few main producers in Thai market. The substitute product still could be the big threat to ICHI Company.

Barriers to Entry – Moderate (3)

The barriers to entry ready to drink tea market is not high due to the low cost of startup and no high level technology required. The barriers to entry should be high but for Thai market, the volume could be sold each year is not expected to grow at a high rate due to the economic slowdown and market saturation. So, people are expected to have less interested in enter this market.

Intensity of Competitive Rivalry – High (4)

The competitor for ICHI is not just OISHI Company inside Thailand but there are many imports ready to drink tea product available in various market place. The products are not much different and the price of product are similar which the reason that the company become price taker in the market due to the high level of rivalry.

The beverage industry is highly competitive due to ease of low barriers to entry and low cost to build initial startup compare to other industries. The Green tea market includes various brands and large numbers of substitutes. The minor difference between each products make it even more competitive in this industry.

2.10 Statement of income including Projections

Table 2.9 Statement of income including projections

Ichitan Group Co., Ltd.
Statements of income
For the period ended December 31, 2010-14

in Thousanded Baht

| | 2013 | 2014 | 2015E | 2016E | 2017E |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Revenue from sales | 6,484,375 | 6,179,080 | 6,956,571 | 7,928,288 | 9,040,787 |
| Cost of sales | (4,425,030) | (4,065,204) | (4,493,945) | (5,121,674) | (5,629,831) |
| Gross profit | 2,059,346 | 2,113,876 | 2,462,626 | 2,806,614 | 3,410,957 |
| Interest income | 1,352 | 9,365 | 5,997 | 6,835 | 7,794 |
| Share of profit of jointly controlled entry | - | 27 | (60,000) | (90,000) | (72,000) |
| Other income | 46,114 | 20,420 | 36,231 | 41,291 | 47,085 |
| Total other income | 47,466 | 29,812 | (17,772) | (41,874) | (17,121) |
| Profit before expenses | 2,106,812 | 2,143,687 | 2,444,854 | 2,764,740 | 3,393,836 |
| Selling expenses | (931,191) | (774,180) | (1,175,661) | (1,065,941) | (1,215,515) |
| Administrative expenses | (130,348) | (250,418) | (210,884) | (240,341) | (274,065) |
| Total expenses | (1,061,539) | (1,024,598) | (1,386,544) | (1,306,282) | (1,489,580) |
| Profit from operations | 1,045,273 | 1,119,089 | 1,058,310 | 1,458,458 | 1,904,256 |
| Finance costs | (161,618) | (99,415) | (111,925) | (127,539) | (145,458) |
| Profit before income tax expense | 883,655 | 1,019,674 | 946,385 | 1,330,899 | 1,758,798 |
| Income tax expense | - | 59,087 | (47,319) | (66,545) | (87,940) |
| Profit for the period | 883,655 | 1,078,761 | 899,066 | 1,264,354 | 1,670,858 |
| Basic earnings per share | 0.68 | 0.83 | 0.69 | 0.97 | 1.29 |
| share number | 1,300,000 | 1,300,000 | 1,300,000 | 1,300,000 | 1,300,000 |



2.11 Statements of financial position including Projections

Table 2.10 Statement of financial position including projections

Ichitan Group Co., Ltd.
Statements of financial position
As at December 31, 2010-2014

| Assets | 2013 | 2014 | 2015E | 2016E | 2017E |
|---|------------------|------------------|------------------|-------------------|-------------------|
| Current assets | | | | | |
| Cash and cash equivalents | 83,655 | 151,787 | 156,695 | 676,816 | 645,135 |
| Trade receivables | 808,970 | 909,636 | 945,986 | 1,078,124 | 1,229,407 |
| Inventories | 338,450 | 675,903 | 562,023 | 640,528 | 730,407 |
| Other current assets | 202,751 | 178,352 | 209,155 | 238,370 | 271,818 |
| Total current assets | 1,433,827 | 1,915,678 | 1,873,858 | 2,633,838 | 2,876,767 |
| Non-current assets | | | | | |
| Investments in subs., asso. and others | - | 117,683 | 57,683 | (32,317) | (104,317) |
| Property, plant and equipment | 4,981,922 | 6,795,181 | 7,649,829 | 7,847,162 | 8,834,302 |
| Intangible assets | 2,518 | 86,573 | 86,573 | 86,573 | 86,573 |
| Deferred tax assets | - | 59,487 | 4,000 | 4,000 | 4,000 |
| Other non-current assets | 122,670 | 33,631 | 84,733 | 96,568 | 110,119 |
| Total non-current assets | 5,107,109 | 7,092,555 | 7,882,818 | 8,001,987 | 8,930,677 |
| Total assets | 6,540,936 | 9,008,234 | 9,756,676 | 10,635,825 | 11,807,445 |
| Liabilities and shareholders' equity | 2013 | 2014 | 2015E | 2016E | 2017E |
| Current liabilities | | | | | |
| Bank overdrafts and short-term | 355,826 | 28,224 | 206,756 | 235,637 | 268,701 |
| Trade payables | 288,858 | 519,325 | 447,281 | 509,759 | 581,288 |
| Other payable | 188,831 | 126,081 | 172,264 | 196,326 | 223,875 |
| Accrued expenses | 140,810 | 186,400 | 180,459 | 205,666 | 234,525 |
| Income tax payable | - | - | 47,319 | 66,545 | 87,940 |
| Current portion of long-term liabilities | 230,805 | 153,841 | 210,405 | 239,795 | 273,444 |
| Other current liabilities | 8,881 | 8,032 | 9,286 | 10,583 | 12,067 |
| Total current liabilities | 1,214,012 | 1,021,902 | 1,273,770 | 1,464,310 | 1,681,840 |
| Non-current liabilities | | | | | |
| Long-term provisions | 2,350,930 | 1,780,437 | 1,780,437 | 1,780,437 | 1,780,437 |
| Long-term loan from related parties | 1,000,000 | - | - | - | - |
| Employee benefits liabilities | 7,681 | 10,960 | 15,096 | 20,792 | 28,637 |
| Total non-current liabilities | 3,358,611 | 1,791,398 | 1,795,533 | 1,801,229 | 1,809,074 |
| Total liabilities | 4,572,623 | 2,813,300 | 3,069,303 | 3,265,539 | 3,490,914 |
| Shareholders' equity | | | | | |
| Share capital | 1,000,000 | 1,300,000 | 1,300,000 | 1,300,000 | 1,300,000 |
| Share premium | - | 3,515,423 | 3,515,423 | 3,515,423 | 3,515,423 |
| Legal reserve | 45,000 | 130,000 | 143,000 | 157,300 | 173,030 |
| Retained earnings | 923,313 | 1,249,510 | 1,728,950 | 2,397,562 | 3,328,077 |
| Total shareholders' equity | 1,968,313 | 6,194,934 | 6,687,373 | 7,370,286 | 8,316,531 |
| Total liabilities and shareholders' equity | 6,540,936 | 9,008,234 | 9,756,676 | 10,635,825 | 11,807,445 |

2.12 Statement of Cash Flow including Projections

Table 2.11 Statement of cash flow including projections

Ichitan Group Co., Ltd.
Statements of cash flows
As of 31 December 2010-2015

| Assets | 2013 | 2014 | 2015E | 2016E | 2017E |
|---|--------------------|--------------------|--------------------|------------------|--------------------|
| Cash flows from operating activities | | | | | |
| Profit for the period | 883,655 | 1,078,761 | 899,066 | 1,264,354 | 1,670,858 |
| Adjustments for | | | | | |
| Depreciation and amortisation | 267,151 | 369,915 | 504,221 | 567,649 | 582,292 |
| Interest (income) expense | | | | | |
| Unrealised (gain) loss on foreign currency exchange | (3,929) | 1,574 | - | - | - |
| Allowance for decline in value of inventories (reversal) | 3,712 | 11,733 | - | - | - |
| Income tax expense | - | (59,087) | 47,319 | 66,545 | 87,940 |
| Others | 180,555 | 217,041 | 296,038 | (52,217) | (80,994) |
| Profit provided by operating activities before changes in operating assets and liabilities | 1,331,143 | 1,619,937 | 1,746,644 | 1,846,332 | 2,260,097 |
| Decrease (increase) in operating assets | | | | | |
| Trade and other receivables | (313,311) | (79,872) | (36,350) | (132,138) | (151,283) |
| Inventories | 107,069 | (351,232) | 113,880 | (78,505) | (89,879) |
| Other current assets | 77,159 | 3,605 | (30,802) | (29,215) | (33,448) |
| Other non-current assets | 6,750 | (835) | (51,102) | (11,836) | (13,551) |
| Net increase in operating assets | (122,332) | (428,334) | (4,374) | (251,695) | (288,160) |
| Increase (decrease) in operating liabilities | | | | | |
| Trade and other payables | (175,708) | 231,741 | (72,043) | 62,478 | 71,530 |
| Other current liabilities | (82,207) | 49,474 | 98,059 | 79,957 | 91,541 |
| Other non-current liabilities | - | - | (51,352) | 5,696 | 7,845 |
| Net increase in operating liabilities | (257,915) | 281,215 | (25,336) | 148,130 | 170,915 |
| Cash generated from the operations | 950,896 | 1,472,818 | 1,716,934 | 1,742,767 | 2,142,852 |
| Income tax paid | - | 1 | - | - | - |
| Net cash provided by operating activities | 950,896 | 1,472,819 | 1,716,934 | 1,742,767 | 2,142,852 |
| Cash flows from investing activities | | | | | |
| Interest received | 1,352 | 9,365 | - | - | - |
| Dividends received | | | | | |
| PPE & Intangible assets | (1,434,860) | (2,399,878) | (1,359,008) | (764,983) | (1,569,432) |
| Invest in JV | | (135,620) | (60,000) | (60,000) | (60,000) |
| Others | (59,063) | 50,971 | - | - | - |
| Net cash used in investing activities | (1,492,571) | (2,475,163) | (1,419,008) | (824,983) | (1,629,433) |
| Cash flows from financing activities | | | | | |
| Interest paid | (168,670) | (119,887) | (111,925) | (127,559) | (145,458) |
| Bank overdrafts and short-term loans from financial institutions | | | 178,532 | 235,637 | 268,701 |
| Proceeds from (payments of) loans from other | 757,892 | (1,975,059) | - | - | - |
| Dividends paid | - | (650,000) | (359,626) | (505,742) | (668,343) |
| Net proceeds from initial public offering | | 3,815,423 | - | - | - |
| Net cash used in financing activities | 589,223 | 1,070,477 | (293,019) | (397,664) | (545,100) |
| Net increase (decrease) in cash and cash equivalents | 47,548 | 68,133 | 4,907 | 520,121 | (31,681) |
| Cash and cash equivalents at beginning of the period | 36,108 | 83,655 | 151,788 | 156,695 | 676,816 |
| Cash and cash equivalents at end of the period | 83,655 | 151,788 | 156,695 | 676,816 | 645,135 |

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