

**RELATIVE VALUATION
OF
HAAD THIP PUBLIC COMPANY LIMITED**



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RELATIVE VALUATION OF HAAD THIP PUBLIC COMPANY LIMITED

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M.M. (FINANCIAL MANAGEMENT)

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Ph.D.,CFA, SIMON ZABY, Ph.D., WORAPONG JANYANGYUEN, D.B.A.**ABSTRACT**

This thematic paper demonstrates how to value the stock of HAAD THIP Public Company Limited (HTC) by applying the concept of the relative valuation models based on multiples. I applied Price to Earnings per share, Price to Book Value and Enterprise value to EBITDA methods to forecast the value of the HAAD THIP Public Company Limited. I recommend using EV/EBITDA as it is the most appropriate market benchmark for valuation as it derives from measurements that are most representative of firm activities. As a result the HTC target price based on trailing EV/EBITDA is 75.19 THB, compared to the current price (as of 9 November 2020) 36.00 THB, therefore I recommend based on trailing EV/EBITDA is to buy the undervalued HTC stock.

KEY WORDS: HTC/ Relative valuation/ Beverage

48 pages

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LIST ABBREVIATIONS

CAGR	Compound Annual Growth Rate
COVID-19	Coronavirus disease starting in 2019
DFL	Degree of Financial Leverage
DOL	Degree of Operating Leverage
DTL	Degree of Total Leverage
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings before interest, taxes, depreciation, and Amortization
EPS	Earnings per share
EV	Enterprise Value
HORECA	Hotel, Restaurant, and Catering
HTC	HaadThip Public Company Limited
ICHI	Ichitan Group Public Company Limited
GDP	Gross Domestic Product
NARTD	Non-Alcoholics Ready to Drink
OWG	One-Way Glass
P/BV	Price to Book value Ratio
P/E	Price to Earnings Ratio
PET	Polyethylene terephthalate
RBG	Regular Glass Bottle
ROA	Return on Assets
ROE	Return on Equity
SAPPE	Sappe Public Company Limited
SD	Standard deviation
SET	Stock Exchange of Thailand
SSC	Sermsuk Public Company Limited
THB	Thai Baht currency
TIPCO	Tipco Food Public Company Limited
USD	United States Dollar Currency

CHAPTER I

INTRODUCTION

HaadThip Public Company Limited (HTC) is a non-alcohol beverage manufacturer in the southern provinces of Thailand. The company has the right to manufacture and distribute Coca-Cola products in the 14 southern provinces. The carbonated drink industry is an oligopoly with few players in the market due to the licensing of the brand and the need for high capital resources for manufacturing (Yongpisanphob, 2019). The company's main competitor is Serm Suk Company which produces and distributes Est Cola brands.

The product portfolio of HaadThip is divided into two categories including carbonated beverages such as sugary soft drinks under Coca-Cola trademarks and non-carbonated beverages where 65% of the revenue contribution in 2019 came from Coke followed by 22% from Fanta. The packages of carbonated and non-carbonated beverages are PET (polyethylene terephthalate) bottles, Cans, Regular Glass Bottle (RBG), and One-Way Glass (OWG). The main revenue contribution by the package is 83% from PET (polyethylene terephthalate) bottles.

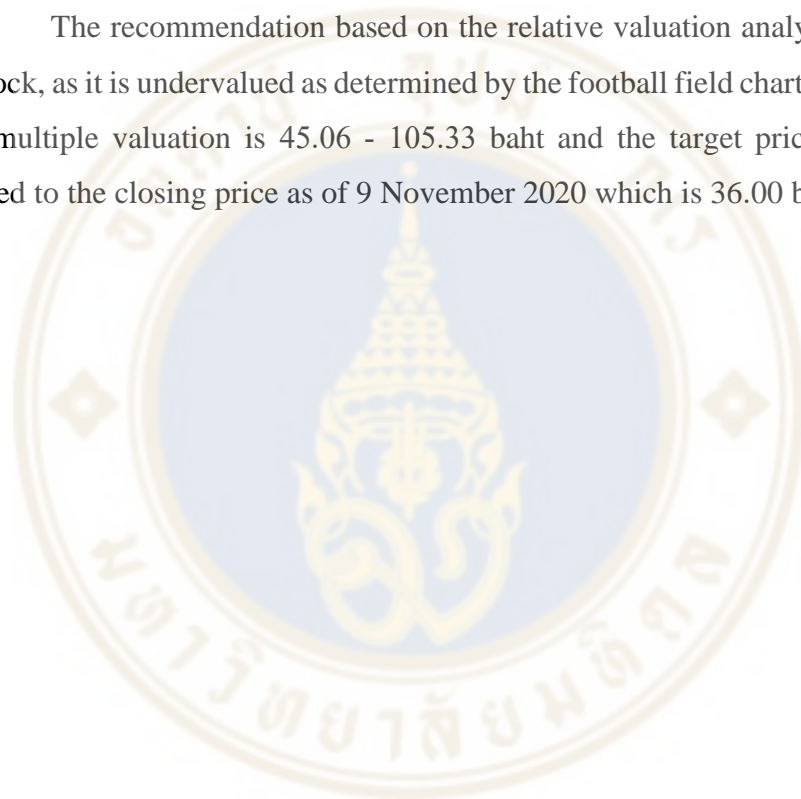
HaadThip has a market capitalization of 6.88 Billion considered as a mid-market capitalization stock. The majority of HaadThip's shares were distributed to Thai investors 72.5% and 27.5% to foreign investors (Haadthip Public Company Limited, 2020), with 30.5% of shares allocated to Rattakul's group.

The company's revenue has been increasing year over year from both carbonated and non-carbonated beverages. In 2019, the revenue improved by 20% with respect to the growth in sale volume from a successful implementation of product price adjustment, the optimization of unit production from an economy of scale. Successful execution of sales promotions and marketing campaigns resulted in 34% growth in gross profit from 2018 to 2019.

The company's operational performance in terms of managing cash reflects a good performance. As the account receivables turnover five years CAGR increased

by 27.8%, while as same as the account payable five years CAGR increased by 40%. HTC's inventory turnover performance was in an upward trend from 2015 to 2018, then it is drastically increased from 7.06 to 13.12 from 2018 to 2019. This means the company improved its sales performance and ability to sell goods quickly as a result of efficient operational management such as an improvement of supply chain management of integration between the production planning process and sales and marketing management (Haadthip Public Company Limited, 2020).

The recommendation based on the relative valuation analysis is to buy the HTC stock, as it is undervalued as determined by the football field chart. The price range of the multiple valuation is 45.06 - 105.33 baht and the target price is 75.19 baht, compared to the closing price as of 9 November 2020 which is 36.00 baht.



CHAPTER II

BUSINESS DESCRIPTION

2.1 Business Description

2.1.1 Overview

HaadThip Public Company Limited (HTC) is a non-alcohol beverages manufacturer in the southern provinces of Thailand. The company was founded in 1969 under the name “Nakornthip Co., Ltd” and was granted a franchise right from Coca-Cola Company in the U.S.A as an exclusive manufacturer and distributor of Coca-Cola products (HaadThip Public Company Limited, 2020). During 1979, Nakornthip Co., Ltd and Thai Thana Company Limited decided to co-invest under the new company name “HaadThip Public Company Limited” to manufacture and distribute Coca-Cola trademarks’ products. The company has a monopoly right to supply Coca-Cola beverages to 14 provinces include Chumphon, Ranong, Yala, Krabi, Phuket, Phang-nga, Trang, Phatthalung, Surat Thani, Nakhon Si Thammarat, Songkhla, Satun, Pattani, and Narathiwat. The company has a share of 83.9% of the Non-Alcoholic Ready to Drink (NARTD) market in Southern Thailand region (HaadThip Public Company Limited, 2020). The products manufactured by HaadThip Public Company Limited (HTC) are classified into two main groups as carbonated beverages such as Coke, Fanta, and Sprite and non-carbonated beverages such as Minute Maid and NamThip drinking water. The company manufactures and distributes its beverage products from two manufacturing plants in Songkhla, and Surat Thani.

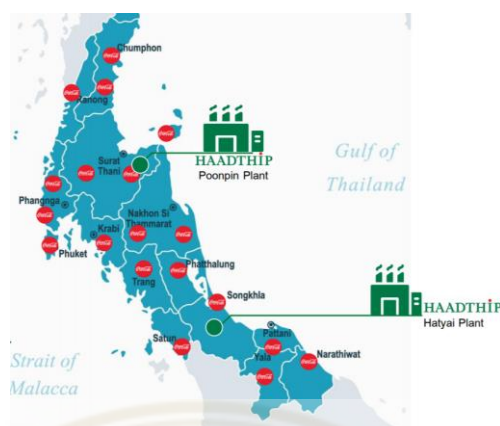


Figure 2.1: HaadThip distribution centers & branches (HaadThip Public Company Limited, 2020).

The company purpose, mission statement, and vision statement are as follows:

Purpose

“Continually increasing profitable, sustainable unit case sales of our products by satisfying new and existing consumers through excellent service to and with our customers at an increasing return” (HaadThip Public Company Limited, 2020).

Vision

“We are the leader in the beverage industry and committed to sustainable growth with the communities” (HaadThip Public Company Limited, 2020).

Mission

The company has divided its missions to four perspectives to covered business, brand integrity, sustainability, and people development respectively.

“To be a completely integrated beverage company and to maintain the leading position in the southern market, with revenue, sales and profits soaring on a continuous basis” (HaadThip Public Company Limited, 2020).

“To continue to be the manufacturer, distributor and service provider of high-quality products to customers and consumers, so that the Company is trusted as part of the South” (HaadThip Public Company Limited, 2020).

“To ensure that the Company’s personnel have integrity, perform their duties with loyalty and honesty; and have responsibilities to the organization and society as a whole” (HaadThip Public Company Limited, 2020).

“To be an organization with good governance, through the creation and development of the type of personnel that the society needs; and taking part in the development and improvement of natural resources and environment in a responsible and sustainable manner” (HaadThip Public Company Limited, 2020).

2.1.2 Products (or service or brands)

The product portfolio of HaadThip PCL includes 10 brands, 144 SKUs and 34 pack sizes (HaadThip Public Company Limited, 2020) which divided into:

1. Carbonated beverages - Coca-Cola, Sprite, Fanta, Schweppes and A&W



Figure 2.2: Carbonated beverages (HaadThip Public Company Limited, 2020).

2. Non-carbonated beverages (Still beverages) - Bonaqua, Minute Maid, Ayataka tea, Fuzetea, and Namthip Drinking Water.



Figure 2.3: Non-carbonated beverages (HaadThip Public Company Limited, 2020).

There are four types of packages HaadThip distributed to the market including PET bottles, Cans, Regular Glass Bottle (RBG), and One-Way Glass (OWG) where the highest level of packaging sales is coming from PET bottles.



Figure 2.4: Coca-Cola packaging (Pacitti, 2019)

2.1.3 Manufacturing and distribution channels

2.1.3.1 Manufacturing Process

According to Coca-Cola.com, the ingredients per one bottle of carbonated beverages including carbonated water, high fructose corn syrup, caramel color, phosphoric acid, natural flavors and caffeine (Coca-Cola.com, N.D.). As HaadThip is bottling manufacturer, raw materials used in their operations would including water, Coca-Cola concentrates, and packaging (bottles or cans). Some non-carbonated products which it cannot produce the company buys from its partner ThaiNamthip. The manufacturing process of soft drink bottling and canning are involving five major processes where processes that are related to fully automate by machine with minimal human interact within the process (Franson, N.D.).

1. Treating water where water need to be cleansed to meet food and safety law.
2. Compounding ingredients where the treated water will be mixed with various concentrates and artificial ingredients.
3. Carbonating products where the process injected carbon dioxide to make beverages fizzling.
4. Filling/ Bottling product where automated filling machine will be filling beverages into bottles and cans then adding caps and lids with minimal number of personnel to minimize possibility of contamination.

5. Packaging products where the products will be wrapped into cases and deliver to warehouses.



Figure 2.5: Soft drink bottling process (Franson, N.D.)

2.1.3.2 Distribution channels

As the company is the bottling partner with Coca-Cola where the company manufactures and sell beverages syrup-based under Coca-Cola trademarks. The supply chain of HaadThip Company involves buying concentrates from Coca-Cola Company, syrups and fructose from buying packaging from suppliers, mix syrups with carbonated water, filling into bottles, and distribute to 40,000 outlets all over Southern Thailand (HaadThip Public Company Limited, 2020).

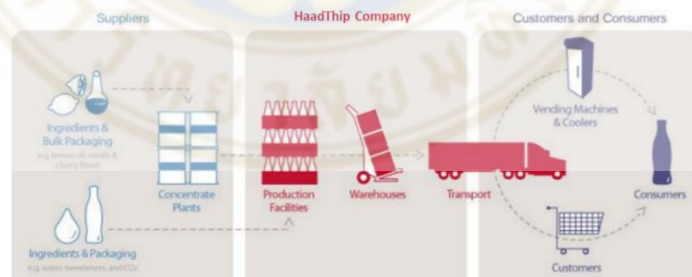


Figure 2.6: Supply chain of Coca-Cola distribution channels (Coca-Cola Annual Report, 2008)

HaadThip has a strong relationship within southern communities as the company has a long history and experience within the southern region. The company runs 3 types of distribution channels including (HaadThip Public Company Limited, 2020):

Direct Channels

- Traditional Trade: Provision shops and Food shops
- HORECA (Hotel, Restaurant, and Catering)

Indirect Channels

- Small, Medium and Large Wholesalers
- HORECA (Hotel, Restaurant, and Catering)

Modern Trade

- Supermarket and Hypermarket
- Convenience stores

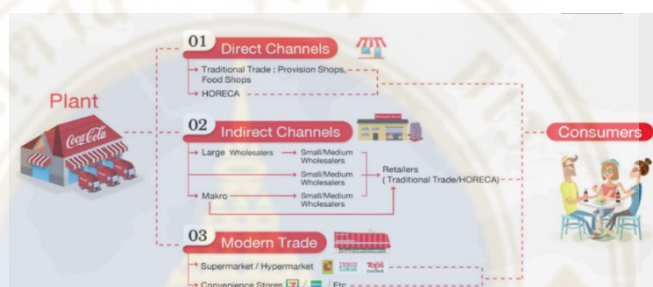


Figure 2.7: Distribution network (HaadThip Public Company Limited, 2020).

2.2 Source of Revenue and Growth

According to the company annual report for 2017 to 2019, the main source of HaadThip revenue comes from carbonated beverages approximately 94% while 6% of the revenue comes from still beverages as depicted in the figure 2.8. The company's revenue has been increasing year over year from both carbonated and non-carbonated beverages where in 2019, the revenue improved by 20% from 2018 resulted from prices adjustments in the fourth quarter of 2019, successful implementation from sales promotion and marketing campaign, volume growth driven from hot temperature, and savings from economy of scale (HaadThip Public Company Limited, 2020).

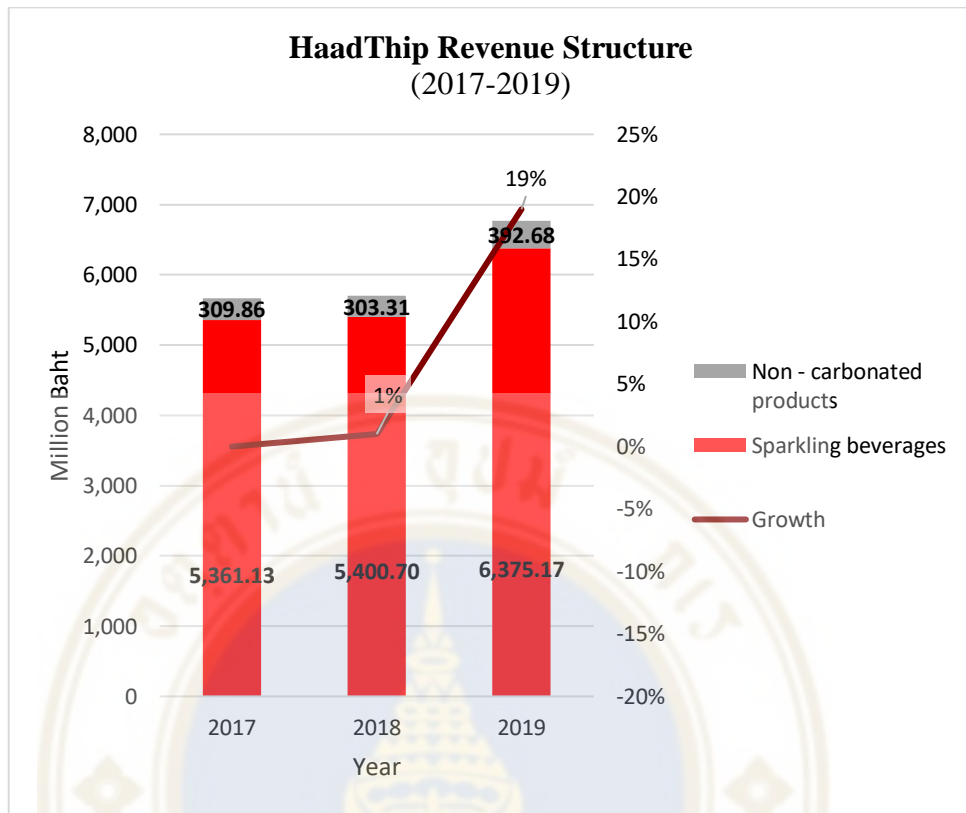


Figure 2.8: Revenue structure (HaadThip Public Company Limited, 2020).

2.2.1 Revenue contribution by brand

The sources of the revenue contribution by brand in 2019 came from Coke beverage 65%, Fanta 22%, Sprite 7%, NamThip 3% and Schweppes 1.5% as shown in below figure (HaadThip Public Company Limited, 2020).

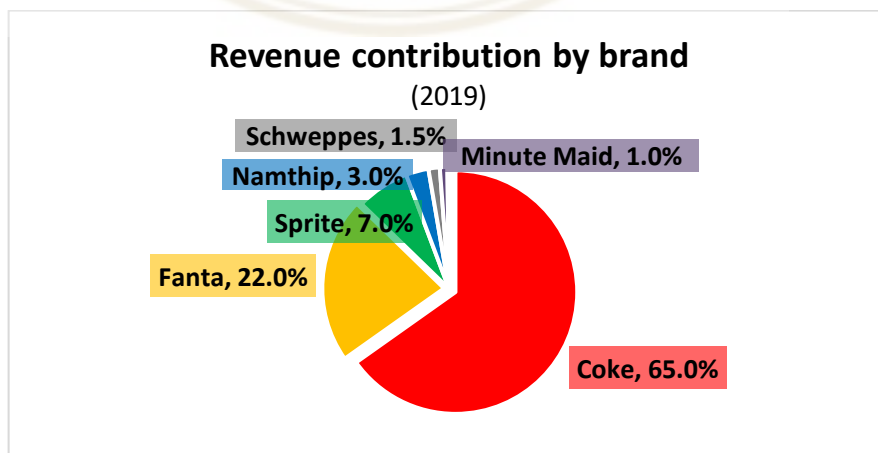


Figure 2.9: Revenue contribution by brand (HaadThip Public Company Limited, 2020).

2.2.2 Revenue contribution by package

The revenue contribution by package in 2019 came from PET 83%, Can 12%, Regular Glass Bottle (RBG) 2%, and One-Way Glass (OWG) 2% as shown in below figure (HaadThip Public Company Limited, 2020).

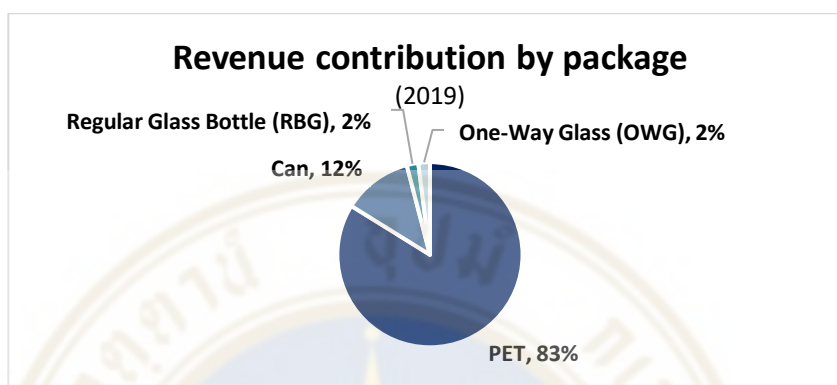


Figure 2.10: Revenue contribution by package (HaadThip Public Company Limited, 2020).

2.2.3 Revenue contribution by network

The revenue contribution by distribution network in 2019 came from indirect channels 47% where the company uses intermediary to distribute products to customers such as wholesalers or retailers, direct channels 33% to provision shops, food shops, and HORECA (Hotel, Restaurant, and Catering), modern trade 20% such as supermarket, hypermarket and convenience stores as shown in below figure (HaadThip Public Company Limited, 2020).

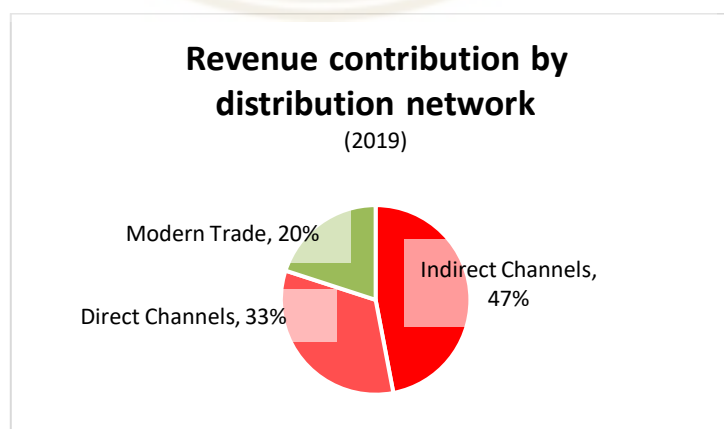


Figure 2.11: Revenue contribution by distribution network (HaadThip Public Company Limited, 2020).

2.2.4 Effects of COVID-19 Pandemic on business

At the end of December 2019, there was a spreading of the new coronavirus which caused COVID-19 illness started in Wuhan, China (Jazeera, 2020). Later on, the disease has been spread worldwide due to its ability to transmit from human to human. With a high number of deaths worldwide, Thailand enacted quarantine for all individuals entering the country and the country went into lock-down during the first quarter of 2020 with an intention to prevent the explosion of the virus (BBC News, 2020). The pandemic created not only human trauma but it also hurt economic costs. All economic activities including manufacturing, distributing, buying, and selling suddenly went into severe shock.

According to the Quarter 2 Management Discussion & Analysis letter, HaadThip reported the global impact of the COVID-19 pandemic decreased HaadThip's beverage consumption by 10% resulted in a reduction of 6.53% in sales compared to the same period in 2019 (HaadThip Public Company Limited, 2020). Since the main distribution of HaadThip Non-Alcoholics Ready to Drink (NARTD) products is HORECA (Hotel, Restaurant, and Catering) in the southern Thailand area, where 39 million foreign tourists visited during 2019 and 25% of those tourists are Chinese so, when the foreign and local government endorsed the quarantine regulation, the area went into sudden economic shock and resulted in decreasing in sales of HaadThip tourism-related distribution channels by 3.5 million unit cases equal to 227.26 million Baht compared to the same period last year 2019 (HaadThip Public Company Limited, 2020).

2.3 Company Capacities

The company has been granted the Coca-Cola franchise for 14 provinces in Southern Thailand where the area accounted for 15% of Total Thailand population. HaadThip Company has two manufacturing plants located in Hatyai, Songkhla and Poonpin, Surat Thani comprising of seven production lines with additional of three injection machines. The distribution channels of the company as of 2020 comprising of

19 sales and delivery branches delivered by 200 sales trucks, servicing over 40,000 outlets with 2,000 employees. The company is serving sparkling beverages of 3.6 million servings per day (HaadThip Public Company Limited, 2020).

As the company manufactures four types of packages including PET bottles, Cans, Regular Glass Bottle (RBG), and One-Way Glass (OWG) where the highest form of packaging sale is coming from PET bottles following are the bottling process capacity of the company: (HaadThip Public Company Limited, 2020).

Table 2.1: Hatyai production capacity (HaadThip Public Company Limited, 2020).

Hatyai, Songkhla Plant, 2019	RGB - Returnable Glass Bottle		NRGB - Non Returnable Glass Bottle	Sleek CAN			PET Bottle			
	10 Oz.	1 Litre	BUDDY	Can 325 ml. & 330 ml.	Can 240 ml.	Can 180 ml.	450 ml.	500 ml.	590 ml.	2 L.
Production Capacity	5,100,000	2,202,000	3,617,000	2,837,000	3,907,000	238,000	1,438,000	923,000	608,000	1,953,000
Actual Production	1,186,974	267,820	439,966	2,147,978	2,958,051	180,201	896,289	575,033	378,760	1,216,955
% Production Utilization	23.27%	12.16%	12.16%	75.71%	75.71%	75.71%	62.33%	62.30%	62.30%	62.31%

Table 2.2: Poonpin Production Capacity (HaadThip Public Company Limited, 2020).

Poonpin, Surat Thani Plant, 2019	Sleek Can		PET Bottle						
	300 ml.	450 ml.	999 ml.	1.25 L.	1.5 L.	350 ml. (Namthip)	550 ml. (Namthip)	1.5 L (Namthip)	570 ml. (Namthip)
Production Capacity	406,000	22,840,000	2,878,000	7,985,000	1,934,000	1,302,000	3,248,000	1,223,000	12,000
Actual Production	316,508	17,803,398	2,243,589	6,224,613	1,507,231	1,047,974	2,531,517	953,346	9,631
% Production Utilization	77.96%	77.95%	77.96%	77.95%	77.93%	80.49%	77.94%	77.95%	80.26%

2.3.1 Machine capacities

PET filling machine has capacity to fill beverages 600 bottles per minute or 36,000 bottles per hour (HaadThip Public Company Limited, 2014).

Can filling machine currently has capacity to fill 350 cans per minutes but the company will be upgraded to the new machine with 600 cans per minutes in 2020 (HaadThip Public Company Limited, 2020).

2.4 Strategies

According to Charan Kullavanijaya (Chairman) and Patchara Rattakul (CEO), “the company’s goal is for the business to continuously grow, with the target for

sales growth at approximately 5% from the year 2019” whereas the company will continue working on the following:

- 1) To encapsulate new customer behaviors and adapt the company in order to making distribution channels excellent
- 2) Emphasizes advertising campaign to match each customer needs and demands.
- 3) Closely monitor Company’s operating expenses in order to optimize cost of goods sold and cost of sales.
- 4) Introduce technology to improve efficiency and effectiveness in operation and sales activities.
- 5) To prioritize the necessity of capital expenditure purchases and plans and expense overruns.

2.4.1 Investment in subsidiary company

According to the 2019 Annual Report of HaadThip, the company subsidiary holds 99.99% in Southern Rocks Company Limited. Southern Rocks Company Limited is the manufacturer and distributor of preform plastic bottles (HaadThip Public Company Limited, 2020).



Figure 2.12: HaadThip business structure (HaadThip Public Company Limited, 2020).

2.4.2 Organization structure

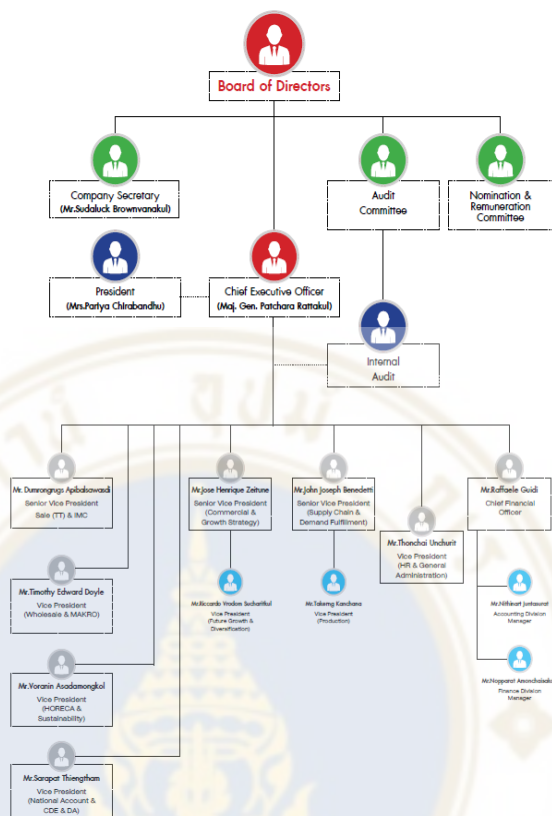


Figure 2.13: Organization chart (HaadThip Public Company Limited, 2020).

2.4.3 Shareholder structure

According to HaadThip Company's 2019 annual report as of April 2020, the majority of HaadThip's shares were distributed to Thai investors 72.5% and 27.5% to foreign investors (HaadThip Public Company Limited, 2020)

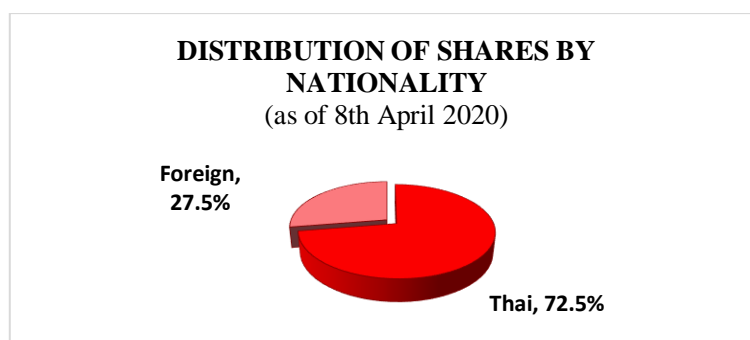


Figure 2.14: Distribution of shares by nationality (HaadThip Public Company Limited, 2020).

Below figure shows shareholders structure of Haad Thip Company where 30.5% distributed to Sec. Lt. Phairoch Rattakul family's group, the founder of Haad Thip company followed by 24.4% Gutsche Family Investments (Proprietary) Limited (HaadThip Public Company Limited, 2020).

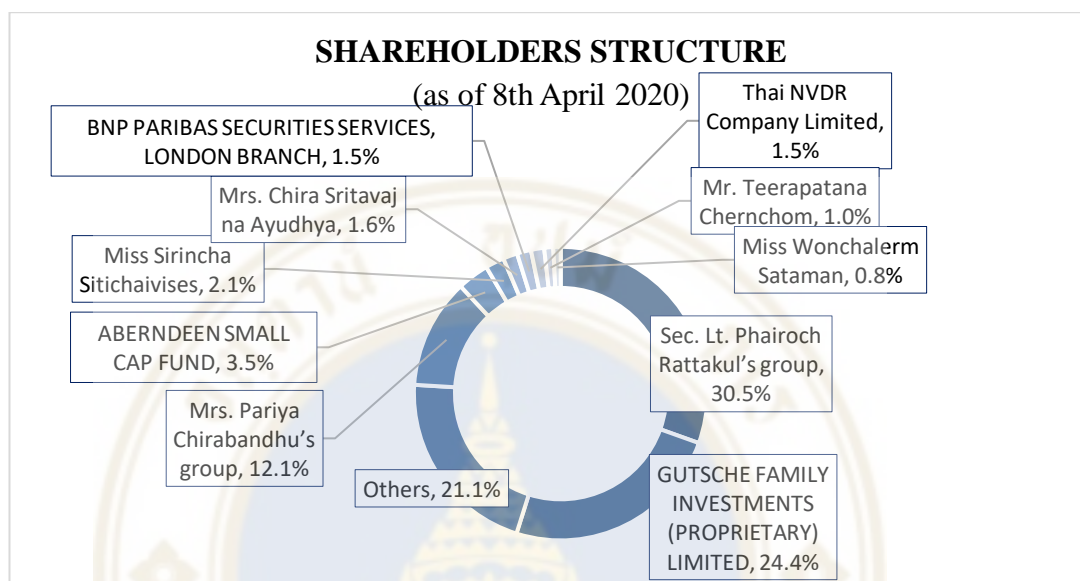


Figure 2.15: Shareholder structure (HaadThip Public Company Limited, 2020).

CHAPTER III

INDUSTRY OUTLOOK AND MACROECONOMIC ANALYSIS

3.1 Market Outlook

The food industry is a high profit industry worth 236 trillion USD with an expected compound annual growth rate of 10.70 percent (Statista.com, 2020). Thailand is one of the biggest global food exporters with more than 35 million tons of exported products and domestic trade of 2 trillion Baht (Apisitniran, 2020). According to BOI, Thailand's food and beverage industry contributed 23 percent of total country's GDP (Gross Domestic Products) worth approximately 1.05 trillion USD and expected to grow 5 percent each year (Board of Investment, 2017).

The world beverage industry is worth 2.15 trillion USD with 950 billion liters of drink consumption, whereas 65 percent came from Non-alcoholic beverages (Yongpisanphob, 2019). Asia-Pacific region's non-alcoholic consumption is 33 percent by volume globally (Yongpisanphob, 2019). Thailand's carbonated soft drink market is worth 56 billion Baht in 2019 and it is an oligopoly since there are few competitors where 30 percent is carbonated drinks (Yongpisanphob, 2019). 71 percent of the total carbonated drink contributed to cola-drinks and the remaining 23 percent belonged to flavored drinks (Jitpleecheep, 2020). Yongpisanphob stated 38 percent of carbonated beverages belonged to Coca-Cola drinks followed by Pepsi 18 percent, Fanta 18 percent and 26 percent distributed by others (Yongpisanphob, 2019). The Thai carbonated beverage industry is expected to grow year over year, premised on the following:

1. Urbanization as the income is rising
2. Global warming as the world's temperature tends to rise each year.

3.2 Industry Analysis

HaadThip Public Company Limited is engaged in the soft drink industry and copyrighted by Coca-Cola Company (USA), Atlanta. Georgia to be a manufacturer and

distributor of carbonated soft drinks under the trademarks "Coca-Cola", "Fanta", "Sprite" and other products owned by Coca-Cola (including mini-fruit juice and water). Currently contract start date from 1 January 2019 to 31 December 2023 and the contract is renewed every 5 years.

Carbonated drink is a seasonal product, especially in the summer of every year when the weather is hot. There will be more sales than other seasons, so during that time, A company uses the concept of marketing through the main media, namely via television, social media and print media to create a flow of feedback from consumers through promotional activities to reach the target consumers as much as possible (HaadThip Public Company Limited, 2020).

According to HaadThip Company, the main raw materials are following:

1. Concentrates contributed 27.02 percent of raw material cost
2. Liquid sucrose contributed 22.72 percent of raw material cost
3. Packaging including PET bottles, Cans, Regular Glass Bottle (RBG), and One-Way Glass (OWG) contributed 49.22 percent of raw material cost.

3.2.1 Impact on raw material to the business

3.2.1.1 Sugar

According to Econ, the taxation of sugary beverages has been announced to increase double from October 1, 2019 onwards with an incremental increase in doubled every two years (Econ, 2019). The advanced increase in tax is aiming to force the manufacturer to reconsidered and cut down the amount of sugar content in their products. The sugar content taxation based on 100 milliliters has been classified into 6 levels with thresholds as displayed below:

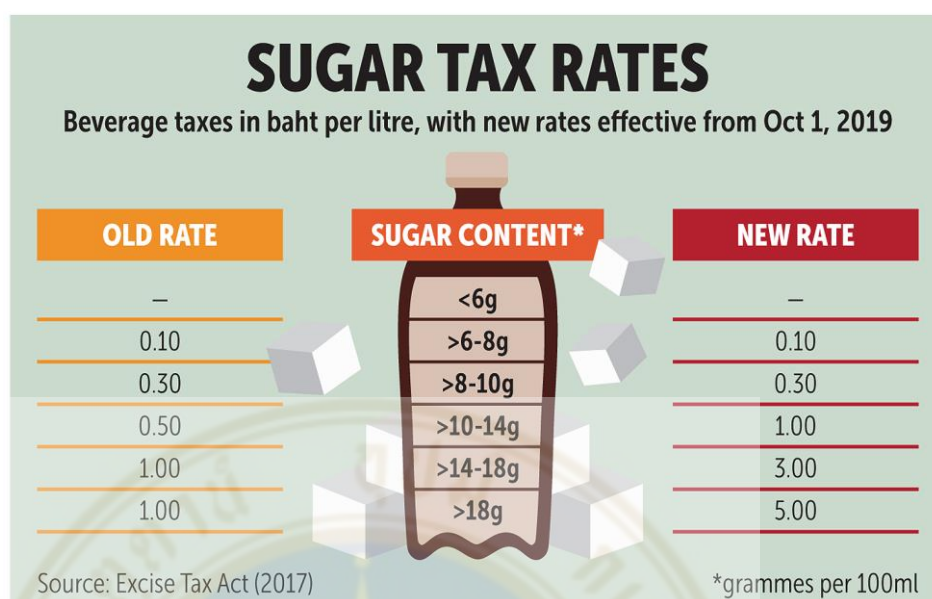


Figure 3.1: Sugar tax rate (Bangkok Post, 2020)

According to HaadThip, there are 39 grams of sugar in 354 milliliters of Coke in an original flavor (HaadThip Public Company Limited, 2020). As a result, from the new tax rate, the company is required to pay five times the old rate if the company does not adjust sugar recipe in their products.

3.2.1.2 PET (Polyethylene terephthalate)

PET is a kind of plastic packaging material, which has been invented for packaging soft drinks, especially the special characteristic of sparkle. The biggest revenue of HaadThip came from PET which is 83 percent of total revenue by package. Making it popular in the packaging of vegetable oils and drinking water because it is a material barrier of water and moisture. These reasons PET is widely used for mineral water and carbonated soft drinks (Omnexus, n.d).

Consumer behavior changes consumption from non-returnable glass bottles such as PET or can more than returnable glass bottles due to the current situation. It is convenient to carry and no deposit to require like glass. According to the distribution channel of modern trade and convenience stores, revenue increasing from expansion retail stores in contrast with global glass bottles has a decreasing trend (HaadThip Public Company Limited, 2020). According to Bloomberg, Production capacity, which is forecast to grow an average by 2.60 percent annually and demand for

polyethylene expected growth by 2.30 percent per year that is higher than demand. The excess supply will remain at a low level and polyethylene spreads will not change or slightly increase.

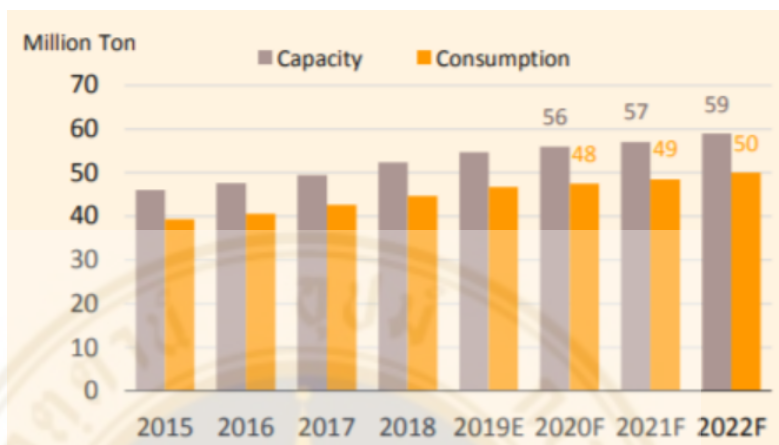


Figure 3.2: Polyethylene demand and supply (Krungsri research, 2020)

3.3 Competitor Analysis

Sermsuk is a big competitor when compared with HaadThip based on revenues from carbonated soft drinks (Est, 100 Plus, Sarsi) and non-carbonated soft drinks (Oishi, PowerPlus, Ranger), distribution channels and customer market.

Sermsuk Public Company Limited started the soft drink business in 1953. Later, Thai Beverage Logistics Co., Ltd. acquired a majority stake in the company and merged into one of the 5 main companies in the ThaiBev Group in 2012. Sermsuk has changed the direction of the business as well as corporate image and organizational culture consequent with market changes and consumer demand in the same year, Sermsuk currently operates the production and distribution of quality food and beverages under four main business. Soft drink is the largest business group, drinking water group, non-carbonated drinks and distribution group. (Sermsuk, 2020).

The Company's Shareholding Structure



Figure 3.3: Sermasuk's shareholding structure (Sermasuk, 2020)

Petform (Thailand) Co., Ltd. is held by Sermasuk 40 percent of the equity. It is a manufacturer and distributor of PET polymers, which use PET bottles, and plastic production. The shareholding structure shows Sermasuk has a backward integration to expand the business in order to reduce risk of price deficits and the lack of materials that needed to be processed in main businesses.

Nature of business

Company product and services are clustered into 4 businesses as follows:

1. Manufacturer and distributor of drinking water under "Crystal" trademark
2. Manufacturer and distributor of non-carbonated beverages under the "Oishi, Ranger and PowerPlus" trademark
3. Manufacturer and distributor of carbonated beverages under "Est, 100 Plus and Sarsi" trademark
4. Beverage distributor under "Oishi, Rock Mountain and Jubjai" trademark



Figure 3.4: Sermasuk product's portfolio (Sermasuk, 2020)

3.3.1 Revenue Structure

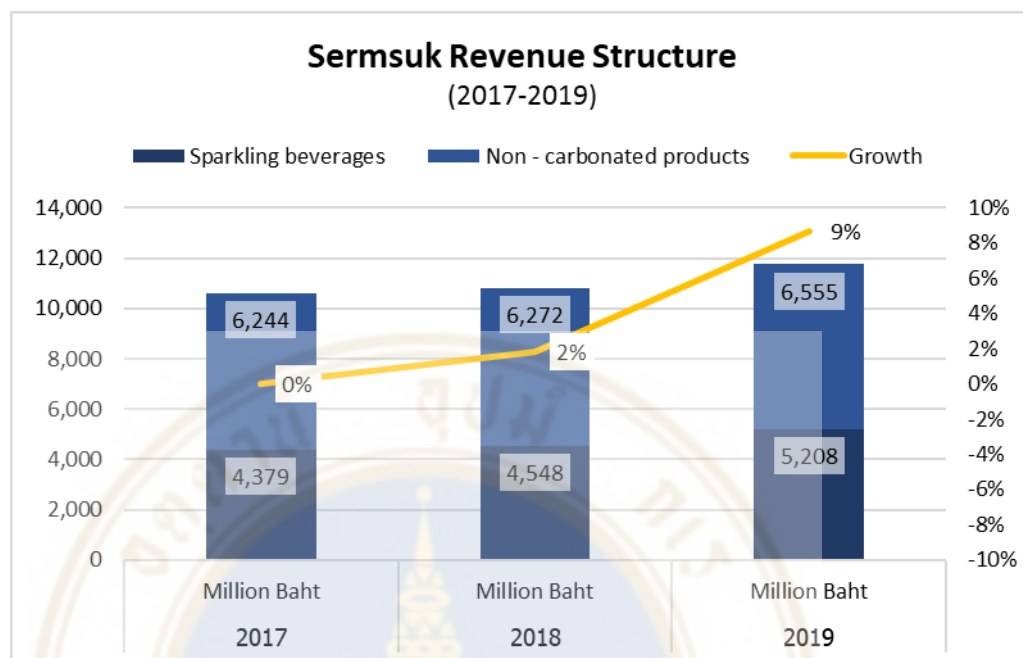


Figure 3.5: Sermsuk revenue structure (Sermsuk, 2020)

According to the company annual report for 2017 to 2019, the main source of Sermsuk revenue comes from non-carbonated beverages approximately 55%. The company's revenue has been increasing year over year from carbonated and decreasing non-carbonated beverages where in 2019, the revenue improved by 9% from 2018 resulted from prices adjustments in the fourth quarter of 2019, successful implementation from expand the distribution channel of Crystal and Est including launch EST Play Honey lemon. However, during the Covid-19 situation affect the revenues from restaurant, hotel and Department store. The company still expansion a distribution channels of traditional trade, convenience store, and wholesaler as well as create channel directly to customers during the lock down period. (Sermsuk, 2020).

3.4 Macro-Economic Analysis

3.4.1 SWOT Analysis

Strengths	Weakness
<ul style="list-style-type: none"> ● Exclusive distributor and manufacturer in southern provinces for Coca Cola brands ● Lots of distribution channels ● Broad product range ● High brand awareness ● Good relationship with famous HORECA brands ● Customer Loyalty ● Food, Halal certificate 	<ul style="list-style-type: none"> ● Low bargaining power for ingredients eg. Syrup ● High fixed costs (Licensing) and unable to sell outside territory (Northern Provinces) ● Products are considered as unhealthy ● Sugar tax ● Environmental concerns
Opportunities	Threats
<ul style="list-style-type: none"> ● Company market share in sparkling business is number one in the South market ● Mother's company always sponsor in a big event ● Technology advancement, especially internet making advertising easier ● Expansion of retail stores. ● Oligopoly for carbonated drinks 	<ul style="list-style-type: none"> ● Growing in health-conscious consumers (Reducing demand in carbonated drinks) ● Increasing rate of sugar excise tax ● Increasing of Raw Material Prices (Plastic bottles, sugar) ● Natural disasters (flood, COVID – 19) ● Many substitution products (E.g. Soda and fruit beverages) ● Strong competitors (Pepsi and Est. Cola)

3.4.2 Five Force Model Analysis

3.4.2.1 Rivalry among current competitors: Low

HaadThip holds the right for Coca Cola brands to exclusively distribute in fourteen southern provinces of Thailand and Coca Cola support money for marketing activities. The company created an engagement in aggressive marketing to gain number one in market share.

3.4.2.2 Bargaining power of customers: Moderate

The customer is able to buy a similar product from competitors where it was easy to choose and convenience at that time without transfer cost.

In this regard, carbonated drinks are one of 205 products that the Ministry of Commerce monitors and has a criterion for adjustment price. The company must inform the price change at least 15 days in advance and the Ministry of Commerce will consider the reasonable price in accordance with the cost. If there is no reasonable reason, the price will not be adjusted (Posttoday, 2019).

However, there are a number of factors that operators should be aware of in response to this threat, such as the affordable price, quality and promotions. A company needs to balance themselves and customers to ensure their marketing is sustainable development of their business.

3.4.2.3 Bargaining power of suppliers: Moderate

HaadThip and Thainamthip purchased raw material which is concentrated from Singapore which is 27.02 percent of the total purchase value of raw materials. Liquid sucrose from Banrai industry is 22.72 percent of the total purchase value of raw materials. Carbon Dioxide is 0.75 percent and chemicals are 0.29 percent. The overall main raw material has an order value of 50.78 percent of the total raw material purchase value. It shows that the company has lower backward integration, which means that the company has a middle man to make a profit during the supply chain. The company cannot reduce these input costs. Therefore, the company must establish a good relationship with suppliers to obtain more information and market trends to forecast production.

3.4.2.4 The threat of substitute products or service: High

The product in the market is not different from customer view and has a substitute product. Expectedly foreigners, they want to try natural fruits in Thailand such as coconut water, orange juice that can be a substitute product. Healthy trend that has the power to enforce customers to be careful with food and beverages.

Aga Jarzabek (2020) from Euromonitor International estimates, that in addition to the packaged water, sports drinks will continue to grow with sales expected to increase in 2020 and remain above growth forecasts through 2024.

As a result of an increasingly healthy lifestyle trend, consumers are paying more attention to their health that enhances companies to launch a new product for serving a customer too. In 2019 management focused on Coca-Cola non-sugar, revenue from the non-sugar Coca-Cola increased significantly higher than 50 percent. Coke zero, a company product has to challenge the market and consumer behavior.

3.4.2.5 The Threat of New Entrants: Low

New entrepreneurs have difficulties getting into these businesses because a high level of investment is inevitable in order to create a brand and demand, buy machines, inventory, warehouse and channels for distribution. HaadThip has manufacturing plants in Hatyai District, Songkhla Province, and manufacturing plants in Phunphin District, Suratthani Province, as well as 20 sub-warehouses scattered throughout the 14 provinces of the South, in which some provinces have more than one sub-warehouse. Some successful new entrants in recent years have been Oishi, but they do not a major competitive threat with different product and strategy.

CHAPTER IV

VALUATION

4.1 Financial Analysis

The carbonated drink industry is an oligopoly with a few players in the market due to the licensing of the brand and the need for high capital resources for manufacturing (Yongpisanphob, 2019). The market value of Thailand's carbonated soft drink market is 56 Billion Baht where 78% belonged to carbonated drink segment. The major players are the manufacturers of global brands namely "Coca-Cola", "Pepsi" and the local brand "Est Cola" (Jitpleecheep, 2020). According to SET HaadThip has 6.88 Billion of market capitalization. There are 4 main leading competitors in the carbonated drink industry besides of HaadThip as follows:

1. ThaiNamthip Ltd., the Coca - Cola products manufacturer and distributor where the company is on agreement with the Coca-Cola Company to serve central and north region of Thailand.
2. Serm Suk Public Company Limited, the Est Cola manufacturer and distributor
3. Pepsi - Cola (Thai) Trading Company Limited, the Pepsi manufacturer and distributor
4. Aje Thai Co., Ltd., the Big Cola manufacturer and distributor
(HaadThip, 2020)

4.1.1 Financial Highlight

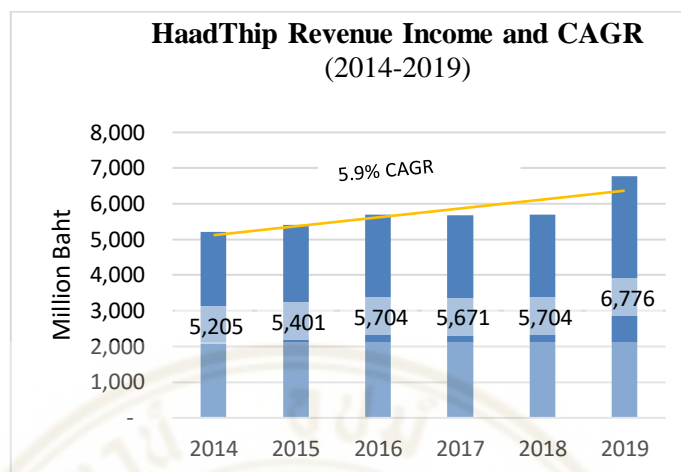


Figure 4.1: 2014 – 2019 HaadThip revenue income and CAGR (HaadThip Public Company Limited, 2020).

According to the company's publication, the company 5 years compound annual growth rate from 2014-2019 is 5.9%, with a slightly decrease in sales revenue during 2017 due to the severe flooding that interrupted the warehouse and distribution channels (HaadThip Public Company Limited, 2020).

Table 4.1: The company historical overall performance (HaadThip Public Company Limited, 2020).

Haadthip-HTC	2557	2558	2559	2560	2561	2562
Unit (Million Baht)	2014	2015	2016	2017	2018	2019
SALES (Only Domestic)	5,205	5,401	5,704	5,671	5,704	6,776
- Domestic % YoY Growth		3.8%	5.6%	-0.6%	0.6%	18.8%
OTHER INCOME	61	58	28	20	19	17
TOTAL	5,266	5,459	5,732	5,691	5,723	6,792
COST OF SALES	3,726	3,858	3,935	3,836	3,780	4,184
% Cost of Sales Growth		4%	2%	-3%	-1%	11%
GROSS PROFIT	1,539	1,601	1,797	1,855	1,943	2,609
% Gross Profit		4%	12%	3%	5%	34%
SELLING AND ADMIN. EXPENSES	1,335	1,466	1,502	1,515	1,643	2,107
- Selling	1,025	1,069	1,045	988	1,180	1,416
- Admin	310	397	456	527	462	692
OPERATING PROFIT	204	135	296	340	300	501
OTHER EXPENSES	0.27	-	7	-	-	-
EBIT	204	135	288	340	300	501
FINANCE COSTS	34	29	40	39	30	24
TAX	0	5	7	17	21	36
PROFIT	169	101	241	283	249	441
NON CONTROLLING INTERESTS	0.006	0.004	0.012	0.009	0.005	0.019
NET PROFIT TO EQUITY HOLDERS OF PARENT	169	101	241	283	249	441
NUMBER OF SHARES (MN)	199	199	199	199	199	201
EARNINGS PER SHARE (BT)	0.85	0.51	1.21	1.42	1.25	2.19
GROSS MARGIN	29.2%	29.3%	31.4%	32.6%	33.9%	38.4%

From the consolidated sales revenue of 2019, HaadThip's revenue increased by 18.8% from 2018, from sparkling drinks price adjustment and successful implementation of promotion and marketing campaign whereas 93% of revenue came from the sparkling beverages in PET package (HaadThip Public Company Limited, 2020).

4.1.1.2 Cost of Sales and Gross Profit

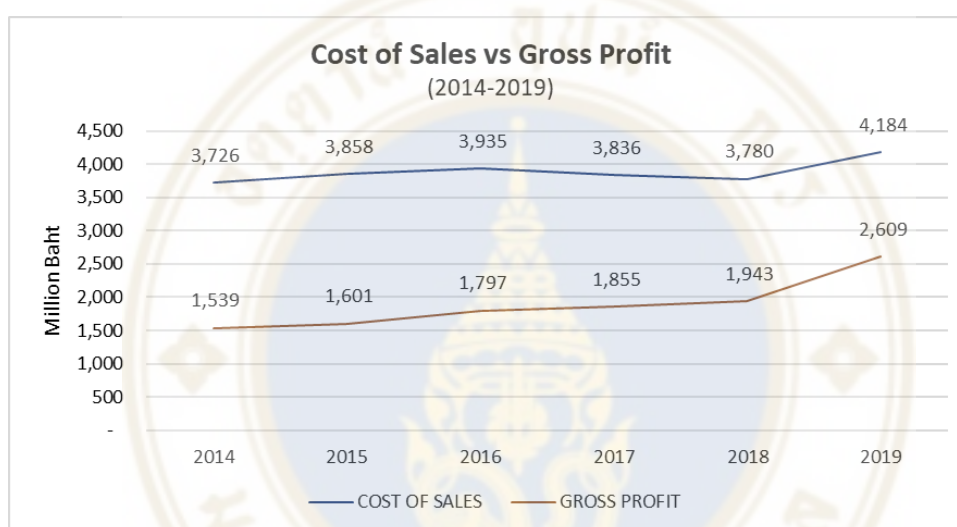


Figure 4.2: HaadThip cost of sales vs gross profit performance (HaadThip Public Company Limited, 2020)

The company cost of goods sold increased 458 Million Baht or 9.2% CAGR with respect to the growth in sales volume. Though there was an increase in cost of goods sold, there was also an implementation of product price adjustment, the optimization of unit production from economy of scale, and a successful execution of sales promotion and marketing campaign resulted in the 34% growth in gross profit from 2018 to 2019.

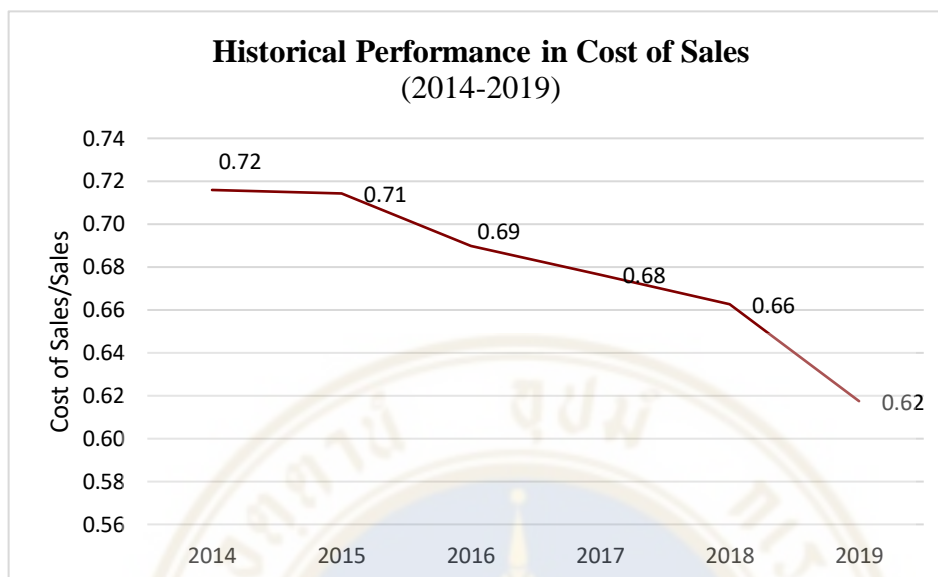


Figure 4.3: HaadThip cost of sales rate performance (HaadThip Public Company Limited, 2020)

The above figure illustrates a decline in the cost of sales rate from 2014-2019 indicating that the company has achieved operational excellence of continuing improvement in their operation.

4.1.1.3 Earnings Before Interest and Taxes (EBIT)

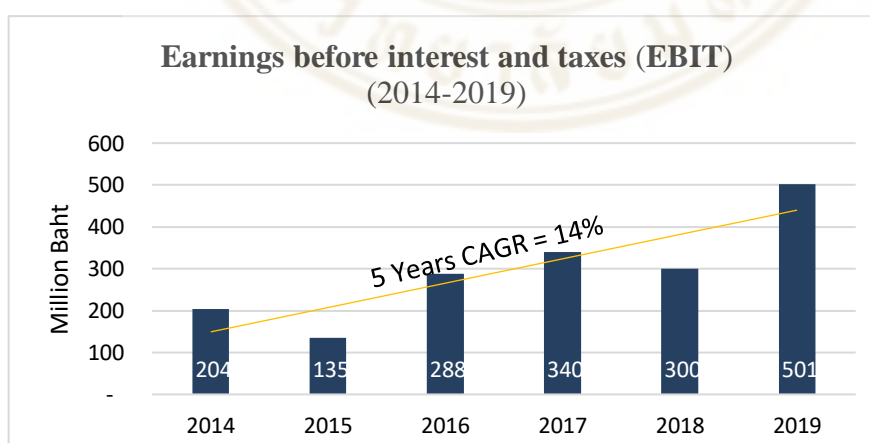


Figure 4.4: HaadThip EBIT performance (HaadThip Public Company Limited, 2020)

According to the company's publication, EBIT from 2018 to 2019 went up by 67% with respect to an increase in sales and the increase in gross profit with 5 years compound annual growth rate of 14%.

4.1.2 Financial Ratio

4.1.2.1 Turnover Ratio

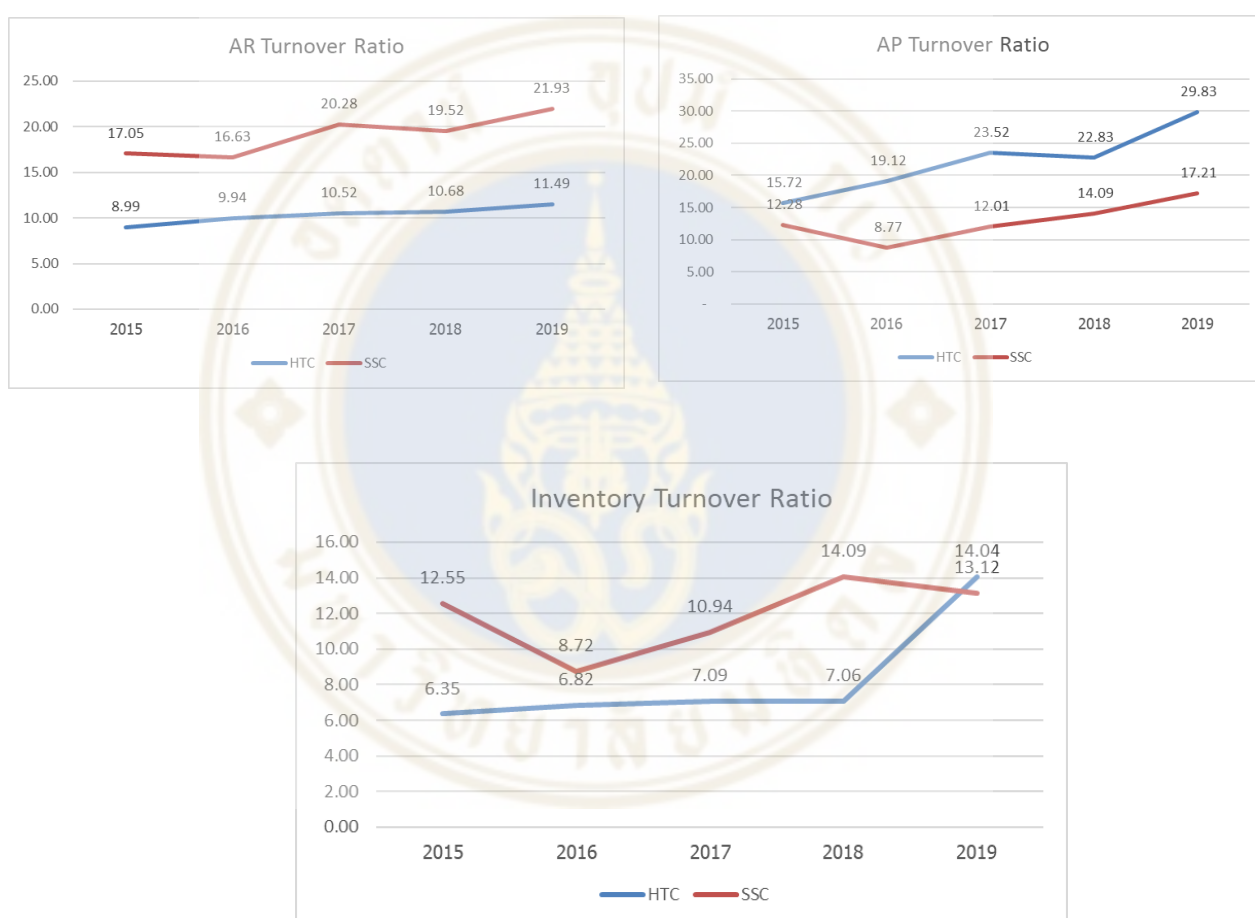


Figure 4.5: Turnover ratio (Own calculation)

According to the above figure shown the comparison of HaadThip and Serm suk companies. Serm suk company is the company that is a competitor to HaadThip as they are manufacturing and distributing the substitute

products with different labels. Both companies' level of accounts receivable turnover quite stable and SSC has higher accounts receivable turnover.

Accounts payable turnover of HTC is higher inventory turnover than SSC, however, accounts payable turnover of HTC and SSC trend to increase year over year. From 2015 to 2018, HTC has a stable inventory turnover and it tends to increase in 2019 higher than SSC. However, the inventory turnover in both companies is slightly increasing. The reason for the growth rate of the cost of goods sold lower than the growth rate of average inventory.

Overall, the company's operational performance in terms of managing cash reflects Account Receivable turnover and Account Payable turnover increasing year over year for SSC and HTC. The inventory turnover performance of SSC is higher than HTC over the past 4 years from 2015 to 2018, however, HTC's inventory turnover performance is improved significantly as it is better than SSC during 2019. The HTC inventory turnover performance is drastically increased means the company improved its sales performance and ability to sell goods quickly. The resulted from efficient operational management such as an improvement of supply chain management of integration between the productions planning process and sales and marketing management (HaadThip Public Company Limited, 2020).

4.1.2.2 Sensitivity Analysis

“Sensitivity analysis is a method for predicting the outcome of a decision if a situation turns out to be different compared to the key predictions. It helps in assessing the riskiness of a firm” (Damodaran, N.D.).

Table 4.2: Sensitivity analysis (Own calculation)

HTC	2015	2016	2017	2018	2019
DOL	11.88	6.23	5.46	6.47	5.20
DFL	1.28	1.16	1.13	1.11	1.05
DTL	15.17	7.24	6.17	7.20	5.47

SSC	2015	2016	2017	2018	2019
DOL	(9.87)	44.47	(14.56)	(13.60)	(12.67)
DFL	1.00	1.00	1.00	1.00	1.00
DTL	(9.87)	44.47	(14.56)	(13.60)	(12.67)

“The degree of operating leverage or DOL is a ratio that shows how well a company manages its fixed costs to generate operating income or EBIT (Earnings before Interest and Taxes)” (Corporate finance institute, 2019). HTC has more DOL value than SSC in the most of the years. For SSC, it has a negative DOL, but in 2016 the DOL is positive. Overall SSC has a DOL lower than HTC which can be explained that SSC’s operational risk grows bigger because variable cost of SSC grows faster than sales growth rate.

“The degree of financial leverage is calculated by percentage change with EPS divided by percentage change in EBIT, an increase of debt in capital structure will increase the financial risk because of the reason that debt comes with interest payments” (Corporate finance institute, 2019). Both companies' DFL values are not much different when comparing DFL of two companies, HTC is higher than SSC.

Both higher operating (Fixed Cost) and Financial Leverage (Debt) leads to higher total risk to shareholders because a small decline in sales causes a larger percentage decline in net income. The combined effect of two leverages is measured by degree of total leverage (DTL).

HTC and SSC should be aware to control not only their fixed cost and variable cost but also their liabilities. If not doing so, in the long term, more net income would not grow proportionally with more sales.

4.2 Relative Valuation

Relative valuation is a method to value a company by comparing with peers in the same market by using financial ratios. HTC relative valuation data is based on information from Reuters, consisting of

1. Trailing P/E Ratio
2. Trailing P/BV Ratio
3. Trailing EV/EBITDA Ratio

To view the overall picture in each relative valuation model, I identify valuation trends by using historical data from 2015 to 2019 to calculate an historical

average, and one and two standard deviation bands, to determine the range of valuations by plotting the line chart.

4.2.1 Multiple Brands

4.2.1.1 Trailing P/E Ratio

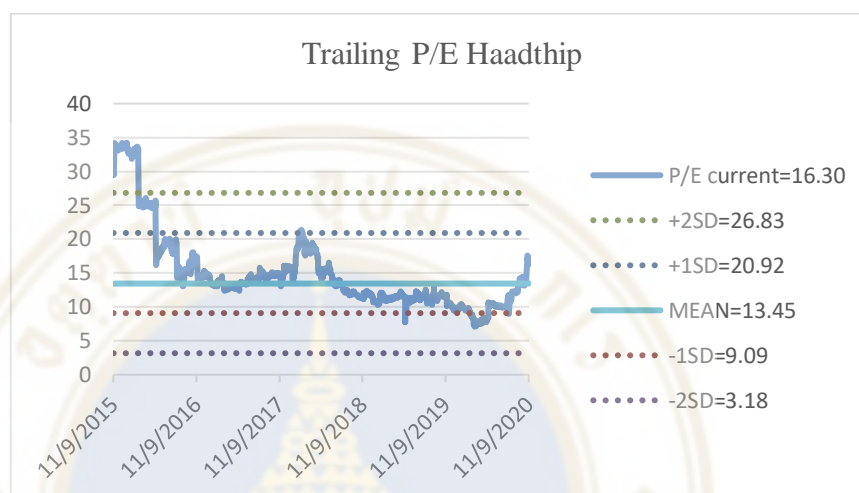


Figure 4.6: Trailing P/E (Thomson Reuters, Own calculation)

Trailing P/E is calculated from current HTC share price divided by the previous fiscal year earnings per share. The trailing P/E figure shows that relative to the last five years P/E ratios of HTC, it is now slightly overvalued by 21.19%. As of 9 Nov 2020, current P/E ratio is 16.30, while the ratio historical ratio is at 13.45.

4.2.1.2 Trailing P/BV Ratio

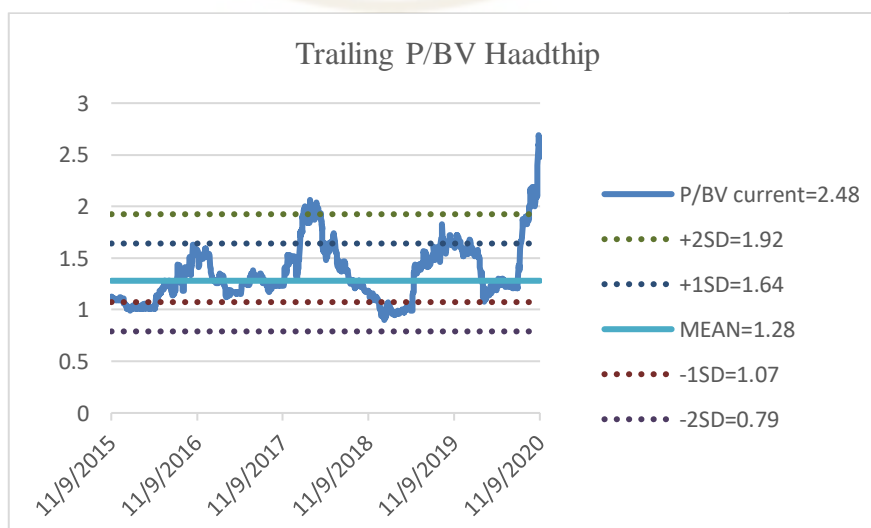


Figure 4.7: Trailing P/BV (Thomson Reuters, Own calculation)

Trailing P/BV is calculated from current HTC share price divided by its historical book value per share. The trailing P/BV figure 4.7 shows P/BV ratio of HTC is overvalued relative to its five years average. As of 9 Nov 2020 current P/BV ratio is 2.48, while the historical average is at 1.28. P/BV has increased rapidly in the last few month due to large change 41.74 percent increase in the HTC stock price.

4.2.1.3 Trailing EV/EBITDA Ratio

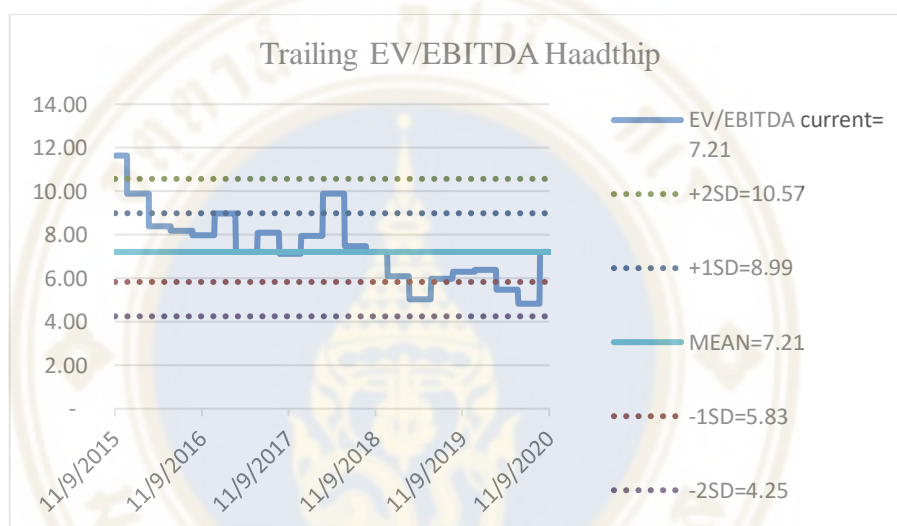


Figure 4.8: Trailing EV/EBITDA (Thomson Reuters, Own calculation)

Trailing EV/EBITDA is calculated from current HTC enterprise value divided by historical Earnings before interest, taxes, depreciation, and amortization.

The trailing EV/EBITDA figure shows that the EV/EBITDA ratio of HTC is fairly valued. As of 9 Nov 2020 the current EV/EBITDA ratio is 7.21 equal to the mean historical multiple of 7.21.

4.3 Integrate Benchmark Corporations

HTC's peers in the Thai beverage market consist of:
Sermsook Public Company Limited (SSC)

Sappe Public Company Limited (SAPPE)

Ichitan Group Public Company Limited (ICHI)

Tipco Food Public Company Limited (TIPCO)

Table 4.3: Compare peer group (Thomson Reuters, Own calculation)

Identifier	Company name	Market Capital (MB)	Closing price as of 9 Nov 2020	Trailing P/E ratio	Trailing P/BV ratio	Trailing EV/EBITDA
SSC	Sermsuk Public Company Limited	8,309.39	32.50	N/A	0.99	13.63
SAPPE	Sappe Public Company Limited	6,726.76	21.20	20.40	2.44	8.12
ICHI	Ichitan Group Public Company Limited	14,430.00	11.50	32.20	2.40	17.64
TIPCO	Tipco Food Public Company Limited	2,895.48	6.20	47.69	0.77	22.15
			Peer Average	33.43	1.65	15.38
			Peer Median	32.20	1.70	15.63
			Peer Min	20.40	0.77	8.12
			Peer Max	47.69	2.44	22.15
HTC	Haad Thip Public Company Limited	6,832.66	36.00	16.30	2.48	7.21

The peer group average trailing multiple is 33.43 for P/E, 1.65 for P/BV, and 15.38 for EV/EBITDA. When comparing HTC with peers, HTC has a higher trailing P/BV than peers group average, but on all other valuation ratios HTC is below the peer average and potentially undervalued.

4.4 Target Prices

4.4.1 Trailing methods

4.4.1.1 Trailing P/E

The trailing P/E as of 9 Nov 2020 is at 16.30, based on the closing price as of 9 Nov 2020 at 36.00. The result is that HTC's trailing EPS is 2.21 and multiplied by median trailing P/E of peers at 32.20, the target price based on trailing P/E is 71.12.

Table 4.4: Target price trailing P/E (Thomson Reuters, Own calculation)

HTC	
Trailing P/E ratio	16.30
Closing price	36.00
Trailing EPS	2.21
Peer Median	32.20
Target price	71.12

4.4.1.2 Trailing P/BV

The trailing P/BV as of 9 Nov 2020 is at 2.48, based on the closing price as of 9 Nov 2020 at 36.00. The result is the trailing book value is 14.52 and multiplied by the median peer trailing P/BV at 1.70, the target price based on trailing P/BV is 24.60.

Table 4.5: Target price trailing P/BV (Thomson Reuters, Own calculation)

HTC	
Trailing P/BV ratio	2.48
Closing price	36.00
Trailing book value	14.52
Peer Median	1.70
Target price	24.60

4.4.1.3 Trailing EV/EBITDA

The trailing EV/EBITDA of HTC as of 9 Nov 2020 is at 7.21, based on the closing price as of 9 Nov 2020 at 36.00. The EV/EBITDA per share is 4.99. Multiplied by the median trailing peer EV/EBITDA multiple at 15.63, the target price based on trailing EV/EBITDA is 78.06.

Table 4.6: Target price trailing EV/EBITDA (Thomson Reuters, Own calculation)

HTC	
Trailing EV/EBITDA	7.21
Closing price	36.00
Trailing EBITDA/Share	4.99
Peer Median	15.63
Target price	78.06

4.5 Peer Comparison

HTC's Return on Equity (ROE), Debt ratio, Price to earnings (PE), Risk (Beta), and Dividend payout ratio compared to its peers is shown in Table 4.7

Table 4.7: Peer group (SETSMART, Own calculation)

Identifier	Company name	ROE	Debt ratio	PE	PEG	Dividend Payout ratio	Beta
SSC	Sermasuk Public Company Limited	1.92%	0.40	52.27	-0.38	0.39	0.76
SAPPE	Sappe Public Company Limited	13.16%	0.24	19.71	-1.43	0.73	0.57
ICHI	Ichitan Group Public Company Limited	8.36%	0.24	27.50	0.54	0.88	0.81
TIPCO	Tipco Food Public Company Limited	8.22%	0.71	10.18	0.13	0.50	0.93
HTC	Haad Thip Public Company Limited	17.18%	0.68	14.01	1.42	0.69	0.65
	Peer Median	8.36%	0.40	19.71	0.13	0.69	0.76

From the peers comparison HTC has a higher ROE and Debt ratio than its peer, while the P/E ratio and Beta are lower than peers. That means company can generate high return to investor and high debt ratio which company uses to expand the production. Although Debt ratio of HTC is higher than peers, but it is not higher than one. Furthermore, P/E ratio is lower than peers, implying that HTC has a short period to pay profit back to investor compare with peer. Dividend payout ratio of HTC is at the median of peers. In terms of risk, the beta values give a perspective on how the stock market changes affect the stock prices. HTC has a low beta while comparing with peers, implying lower market risk.

4.6 Summary and Recommendation

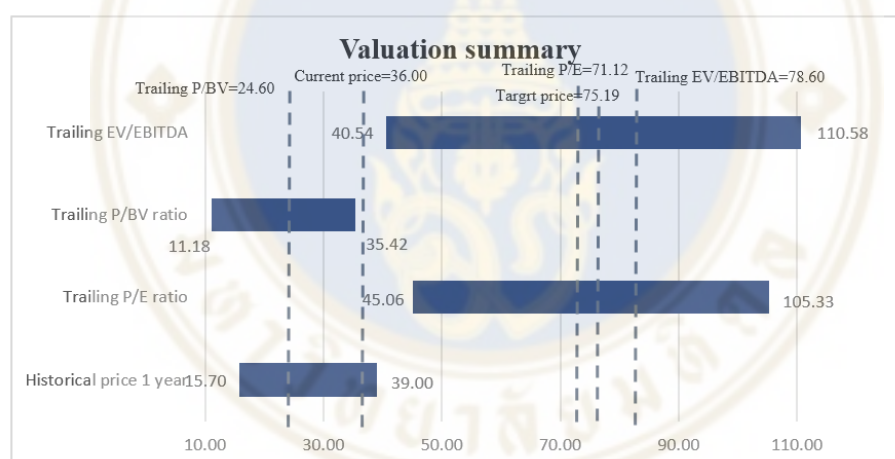


Figure 4.9: Valuation summary (Own calculation)

The result from Figure 4.9 both Trailing P/E and Trailing EV/EBITDA are in the same direction, higher than the current price as of 9 Nov 2020 (equal to 36.00 Baht) and indicating that HTC is undervalued. However, based on Trailing P/BV HTC is overvalued. But the P/BV multiple uses only financial statement balance sheet information to calculate the ratio, which does not consider the business profitability, the ability to generate cash flow, pay off debt and the ability of the management team. From the analysis, the company has a good position, profitability and low leverage risk compared with its peers.

The company has to invest in plants and machines to produce beverages for sales, while the proportion of depreciation and amortization charges for the Coca Cola patent in the total expenses is quite large. In addition, peers have to pay for trademarks such as SSC have EST Cola, 100 Plus, Ranger energy drink, Oishi Green Tea and ICHI acquired the Bireley's trademark and beverage formula from Sunny Herb International Beverage Company (Ichitan group, 2020). As a result, the Trailing EV/EBITDA method is suitable for HaadThip. Therefore, the price range of from the multiple valuation is 45.06 - 105.33 baht and the target price is 75.19 baht.

In conclusion, the recommendation based on Trailing EV/EBITDA is to buy the undervalued HTC stock.



CHAPTER V

INVESTMENT RISK

HaadThip Public Company Limited (HTC) is a non-alcohol beverages manufacturer and distributor in the southern provinces of Thailand. The company has a monopoly right to supply Coca-Cola beverages to 14 provinces include Chumphon, Ranong, Yala, Krabi, Phuket, Phang-nga, Trang, Phatthalung, Surat Thani, Nakhon Si Thammarat, Songkhla, Satun, Pattani, and Narathiwat. The food and beverage stocks are considered to be the defensive stocks as the demand of these products is constant and gradually increasing year over year, in line with the population growth rate. Beverages are the products that the consumer tends to buy regardless of economic conditions (Investing, 2020). However, there are still some risks to be considered including market risks, natural risks, operational risks, and regulatory and legal risks explained in the following section.

Impact

High	- License - Natural Risks	- Regulatory and legal risks	- Consumer preferences
Medium			
Low			- Raw Material - Limited Market
	Low	Medium	High

Likelihood

Figure 5.1: Risk matrix (Own analysis)

5.1 Market Risks

5.1.1 Limited Market

Market expansion is limited because the company's sales area is limited to 14 southern provinces and its main competitors can distribute products across the country. As a result, the size of the business varies widely between competitors, allowing larger competitors to produce at lower unit prices and therefore generate additional funding for marketing campaigns.

5.1.2. Risk resulting from changes in consumer preference

5.1.2.1 Health-consciousness

The preferences of consumers have shifted to be more health conscious. Nowadays, the consumers are seeking a healthy lifestyle and trying to avoid the food and beverages that could be harmful to their health in the long run. The preference for the beverage is shifting to healthy beverages such as milk, juice, mineral water, green tea, etc. Healthy lifestyle makes people's focus on their health and reduces their consumption of foods and drinks that are considered harmful to health. According to Felman, "People consider sugary drinks to be a significant contributor to many health conditions, including obesity, type 2 diabetes, and tooth decay. Research has shown that drinking a can of Coca-Cola can have damaging effects on the body within an hour" (Felman, 2019). This shows the negative correlation between wellness and Coke consumption, the higher the consumption resulted in the higher dangerous effect to health.

5.1.2.2 Packaging

The consumer packaging preferences change from returnable glass bottles (RGB) to non-returnable packages such as PET bottles or cans due to its feature being portable and more convenient. According to the company's annual report, the returnable glass bottles (RGB) can generate more profits than the non-returnable packages (HaadThip Public Company Limited, 2020). The products are sold through traditional trade such as food shops and provision shops where it contributed 20% of HaadThip revenues. Along with the increase in convenience stores and supermarkets it

resulted in cannibalization of the returnable glass bottles (RGB) by non-returnable packages.

5.2 Operation Risks

5.2.1 Raw material

The low quality of purchasing materials is one of the risks for HaadThip as the company is required to comply with Coca-Cola standards. The company would like to reduce raw material such as syrups in order to increase product margins. This risk has a strong link to the company's procurement process. The risks of procuring low quality products affecting the Coca-Cola standards and a higher rate of rejected products from customers. Consequently, the company will have to bear the operation cost from this rejection or penalty fees that might be applied by customers as the company is unable to deliver its product on-time in full.

5.2.2 License

The licensing risk is one of the most important risks to HaadThip as the company is the sole manufacturer and distributor of Coca-Cola products. The licensing term is renewed every five years. The risks from Coca-Cola main company not granting the right to produce and distribute or terminate the contracts would affect the survival of the company.

5.3 Regulatory and Legal Risks

5.3.1 Price

Carbonated beverages are a type of product that the Department of Internal Trade, Ministry of Commerce closely monitors and has a criterion for adjustment price. The price control will directly impact the beverage industry performance, especially increasing prices.

5.4 Environmental Risks

5.4.1 COVID-19 Pandemic

Even though the food and beverage industry is less volatile compared to others, however, the COVID-19 pandemic still has a major impact on HaadThip as the company's distribution channels especially in HORECA (Hotel, Restaurant, and Catering) since the southern area of Thailand which is in a tourist destination. As the majority of the countries lifted up its rules and regulation to control people travelling resulted in a large reduction of the number of tourists. The HaadThip sales in 2020 and 2021 are likely to drop as the number of tourists is drastically lower.

5.4.2 Natural Disaster

Natural disasters such as flooding and landslides increase the transportation risks to the company. The geography of the southern area connects with Pacific Ocean where it is one of the most prone to flood. Flooding and landslide is affecting the company as it might destroy company fixed assets resulting in higher operating maintenance and capital expenditure expenses. In addition, if the distribution channels are destroyed there would be no product orders resulting in reduction in sales.

CHAPTER VI

CONCLUSION

6.1 Investment Recommendation

Haadthip Public Company Limited (HTC) is in the non-alcoholic a beverage industry manufacturing and the only distributor of the Coca-Cola Company beverages in the southern provinces of Thailand. The main product is carbonated beverages, and Sermasuk Public Company Limited (SSC) is HTC's main competitor.

I applied relative valuation methods based on trailing P/E, P/BV and EV/EBITDA to find HTC's value. The findings show that HTC's P/E ratio is lower than peers, with relatively low risk and high profitability at the level of industry median. The result from the relative valuation model base on trailing EV/EBITDA shows the HTC value is in the range of 45.06 - 105.33 baht. As analyzed, the company is undervalued therefore the recommendation is to buy the HTC stock. The target price is 75.19 baht.

6.2 Triggers for Re-assessment

Relative valuation is based on many key factor assumptions including changes in the right to use the patent, health trends and sugar taxes. These are key triggers to re-assess the value of the stock.

Change in the Coca-Cola patent usage rights, it depends on the agreement between The Coca-Cola company and HTC. The key trigger point to re-assess the stock value is when there is a significant change in contract.

The health consciousness trend can, impact the carbonate drinks market greatly. The major revenue of HTC comes from carbonated drinks with sugars. Changes in the product could be made, which depend on company policy, while consumer demand may also change. Therefore, it should be considered to re-assess the stock value quarterly because of these possible changes in products and consumer behavior.

Sugar tax is another key trigger, Sugar is main component to produce beverages such as Coca-Cola. The sugar tax rate is defined by the Excise Department. Changes in the tax impact the company's cost of production and could affect through the product price. Therefore, the valuation should be re-assessed every time when Excise Department announces a new policy rate for the sugar tax.

6.3 Limitations

For Forward P/E ratio and Forward EV/EBITDA ratio, there are no data available for the company and its peers to analyze. According to the limited data provided, we use the valuation information from the past five years to forecast the target price in the future. Changes in company management and new business developments are not taken into account in the previous years' data.



Appendix A: Target price trailing EV/EBITDA

HTC	Variable	Source	Calculation
Trailing EV/EBITDA	a	Company data	7.21
Closing price	b	Company data	36.00
Trailing EBITDA/Share	c	b/a	4.99
Peer Median	d	Company data with own calculate	15.63
Target price	e	c*d	78.06

Obtained the trailing EV/EBITDA and closing price from company data to find trailing EBITDA/ share. Defined the peer median by calculated the mean of EV/EBITDA from the peer which consist of SSC, SAPPE, ICHI and TIPCO. Moreover, to find the target price, calculated by Multiply Trailing EBITDA/share with peer group median.

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