

**RELATIVE VALUATION OF  
OSOTSPA LIMITED COMPANY**

The image features a large, faint watermark of the Mahidol University logo in the background. The logo is circular, with a blue center containing a golden emblem of a traditional Thai stupa. The emblem is surrounded by Thai script. The outer ring of the logo is also circular and contains Thai text. The watermark is centered on the page.

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**A THEMATIC PAPER SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS FOR  
THE DEGREE OF MASTER OF MANAGEMENT  
COLLEGE OF MANAGEMENT  
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**RELATIVE VALUATION OF  
OSOTSPA LIMITED COMPANY**

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Monchuporn Chirasuwankit

## **RELATIVE VALUATION OF OSOTSPA LIMITED COMPANY**

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M.M. (FINANCIAL MANAGEMENT)

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### **ABSTRACT**

OSP is a company with almost 130 years of history. It is considered one of the largest Thai companies, listed in the SET50. Its core business is split among three main segments: non-alcoholic beverages, personal care, and others. The purpose of this thematic paper is to provide a financial analysis and valuation of Osotspa Public Company Limited. OSP continues to have positive growth despite the Covid-19 crisis. It is estimated that CAGR of OSP's free cash flow from 2020 to 2025 would be 3.7%, driven by GDP and beverage industry growth

The valuation method applied in this paper is relative valuation methodology. The concept of relative valuation methods is to compare the value of OSP with peers in the same industry. Trailing P/E is suitable for estimating the target price because beverage companies tend to have relatively stable profit. The target price of OSP based on the analysis is 27.51 baht. It shows that the current stock price is overvalued, therefore, I recommend the investors to SELL the stock.

**KEY WORDS:** OSP/ Valuation/ Relative/ Peers/ Energy drinks

43 pages

# CONTENTS

<b>ACKNOWLEDGEMENTS</b>	<b>ii</b>
<b>ABSTRACT</b>	<b>iii</b>
<b>LIST OF TABLES</b>	<b>vi</b>
<b>LIST OF FIGURES</b>	<b>vii</b>
<b>HILIGHT</b>	<b>viii</b>
<b>CHAPTER I INTRODUCTION</b>	<b>1</b>
1.1 Company Description	1
1.2 Significant developments & Competitive Advantages	1
1.3 Earnings forecast	2
1.4 Recommendation	2
<b>CHAPTER II BUSINESS DESCRIPTION</b>	<b>3</b>
2.1 Business overall	3
2.2 Strategies	7
2.3 Management and Governance	8
<b>CHAPTER III ANALYSIS OF MACRO-ECONOMY, INDUSTRY AND COMPETITORS</b>	<b>10</b>
3.1 Macro-economy Analysis	10
3.2 Industry Analysis	11
<b>CHAPTER IV VALUATION</b>	<b>18</b>
4.1 Financial Analysis	18
4.1.1 Income statement	18
4.1.2 Statement of Financial position	20
4.1.3 Cash flow & Leverage	21
4.1.4 Financial Ratio (Dupont analysis)	22
4.1.5 Peer comparison CARABAO Group PCL (CBG)	24

## CONTENTS (cont.)

4.2 Relative Valuation	25
4.2.1 Relative Valuation Bands	25
4.2.2 Peer Group Multiples	28
4.3 Valuation Recommendation	31
<b>CHAPTER V INVESTMENT RISKS AND DOWNSIDE POSSIBILITIES</b>	<b>32</b>
<b>CHAPTER VI CONCLUSION</b>	<b>36</b>
<b>REFERENCES</b>	<b>37</b>
<b>BIOGRAPHY</b>	<b>38</b>



## LIST OF TABLES

<b>Table</b>	<b>Pages</b>
2.1 Major Shareholders	8
2.2 Rating under the Thai Institute of Directors Association (IOD)	8
3.1 GDP projection	10
4.1 Peer Analysis – Profitability	19
4.2 Peer Analysis – Liquidity	21
4.3 OSP & Peers comparison	29
4.4 OSP financial data	29
4.5 Peers Multiple for each level	30
4.6 Recommendation criteria	31
4.7 Financial Ratio of OSP&Peers	31
5.1 Risk Matrix	32

## LIST OF FIGURES

<b>Figure</b>	<b>Pages</b>
2.1 Revenue Breakdown by Segment	5
2.2 Revenue Breakdown by Geography	5
3.1 Population trends	10
3.2 Thailand's Beverage Consumption	13
3.3 Market Share of Thai Beverage	14
3.4 Market Share of Energy Drinks by Volume	15
3.5 Sales value of energy drinks in Thailand	16
4.1 Income statement (key items)	18
4.2 Statement of Financial position (key items)	20
4.3 Cash flow & Leverage	21
4.4 Return on asset (ROA)	22
4.5 Return on asset (ROE)	23
4.6 Comparison of Dupont analysis - OSP vs CBG	24
4.7 Trailing P/E Band	25
4.8 Forward P/E	26
4.9 Trailing P/BV	27
4.10 Trailing EV/EBITDA	27
4.11 Forward EV/EBITDA	28
5.1 THB Currency Trends – USD, MMK	33



# CHAPTER I

## INTRODUCTION

Osotspa Public Company Limited (OSP) is a Thai-based company focused on the manufacturing and distribution of consumer goods, namely non-alcoholic beverages and personal care. The purpose of this thematic paper is to provide a financial analysis and valuation of Osotspa Public Company Limited. A company overview is provided to establish an understanding of OSP's profile and competitive advantages. Following the company overview, a macroeconomic analysis is provided to highlight the environment in which OSP is operating, impacting its potential growth. A summary of potential qualitative and quantitative risks is outlined to indicate additional possible events which can impact the valuation. The conclusion summarizes the recommendation provided.

### 1.1 Company Description

Osotspa Public Company Limited (OSP) has become the biggest energy drink manufacturer in Thailand. It operates in South East Asia countries and specializes in selling non-alcoholic drinks, with majority of sales in Thailand. The three main business segments in which it operates include non-alcoholic beverage 84%, personal care healthcare 10% and other such as confectionery 6%.

### 1.2 Significant developments & Competitive Advantages

In 1H2020, OSP was affected by the economic downturn and the slowdown of beverage industry due to global crisis (Covid19). However, OSP made a gradual recovery by 3Q2020, persisting through the global crisis by leveraging its strengths as follows:

**Diversified product.** Multi-brand strategy and portfolio diversification enabled resistance against economic downturn. Declining sales in energy drinks and

confectionary compensated by functional drink brand C-Vitt, with growth of +75% during the first 3 quarters of the year.

#### **Strong financial position.**

- Return on assets and equity are better than competitors
- Continuous improvement at all operation levels, lower SG&A; continuously improving gross profit and net profit margins.

#### **Strong customer loyalty**

- Strong market shares in domestic energy drinks market (Approx. 50%)
- Leading in energy drink market in Thailand and Myanmar, which is key to earning contribution.

### **1.3 Earnings forecast**

OSP financial highlight published to investors indicates that its earning's growth remains at +4% during crisis compared to the previous year. Therefore, OSP continues to have positive growth despite the Covid-19 crisis. While growth potential has not yet reached pre-Covid forecasts, it is estimated that CAGR from 2020 to 2025 would be 3.7%, driven by GDP and beverage industry growth.

### **1.4 Recommendation**

The valuation analysis applied is using relative methods which include Trailing and Forward P/E, Trailing P/BV, Trailing and Forward EV/EBITDA. The concept of relative valuation methods is to compare the value of OSP with peers in the same industry. However, among these five type of methods, Trailing P/E is suitable for estimating the target price because beverage companies tend to have relatively stable profit. Based on the selected method, the target price of OSP should be 27.51 baht while the stock price of OSP as of 18 December 2020 is 38 baht. It shows that the current stock price is overvalued, therefore, I recommend the investor to **SELL** the stock.

## CHAPTER II

### BUSINESS DESCRIPTION

#### 2.1 Business overall



Name in Thai: บริษัท โอสถสภา จำกัด (มหาชน)

Name in English: Osotspa Public Company Limited

Industry Sector: Agro & Food Industry / Food & Beverage

Market: The Stock Exchange of Thailand (SET)

Osotspa Public Company Limited (OSP) was established in 1891 by Mr. Pae as a family business named “Teck Heng Yoo”. The business had its start in Thailand selling pharmaceutical products focused on health. Its products included Krisnaklan Trakilane for stomach pain relief, Uthai Thip for quenching thirst, and Tumjai Asphiline for pain and headache relief.

Throughout its almost 130-year history, OSP’s core business evolved from its origins of pharmaceutical products and expanded into three core types of products: beverages, personal care, and other businesses of healthcare, confectionary and OEM (packaging, manufacturing, and distribution services). OSP’s vision and mission is “the power to enhance life through a culture of high performance, innovation and good governance” (Osotspa Public Company Limited, 2019), emphasizing the improvement on people’s quality of life through its products.

OSP was listed on the SET Thailand in October 2018, with a registered capital of THB 3.0 billion, with a par value of THB 1 per share. In 2019, the company was also added to the FTSE All-world index and the MSCI global standard index, a stock market index covering more than 3,000 companies in 47 countries around the world.

## Products & Brands

OSP's core products belong to three major categories: non-alcoholic beverages, personal care products, and others (healthcare and confectionary and manufacturing, distribution, and packaging services). OSP's key products can be highlighted below.

### Non-Alcoholic Beverages



#### Energy Drinks

M-150, LIPOVITAN-D,  
WHITESHARK



#### Sport Drinks

M-ELECTROLYTE



#### Functional Drinks

C-VITT, PEPTEIN, CALPIS  
LACTO

### Personal Care



#### Baby Care

BABI MILD, ORGANIK BY  
BABI MILD



#### Male Grooming

EXIT



#### Women's Beauty Care

TWELVE PLUS, PLANTSTORY,  
OLE STRAWBERRY



## Others



### Healthcare

KRISNAKLAN, UTAITIP, TAMJAI



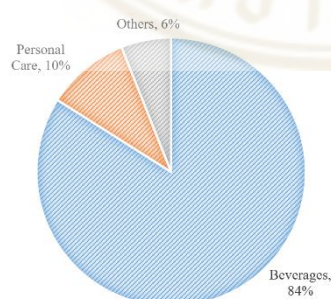
### Confectionery

BOTAN, OLE

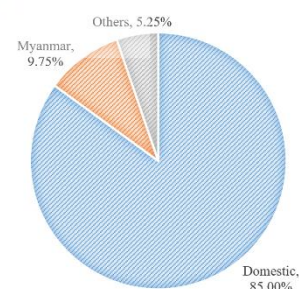
Supply chain services (distribution and manufacturing) are utilized to control the end-to-end value chain and service internal production as well as joint ventures.

## Sources of Revenue and Growth

OSP has a global brand presence through direct selling and joint ventures. The company has brand presence in 29 countries, however, the majority of its sales and operations are based in Thailand. As illustrated in the figures below, OSP's revenues are concentrated in Thailand, with domestic sales accounting for 85% of sales. The international sales are namely from Myanmar and a strong concentration in the Cambodia, Laos, Myanmar and Vietnam (CLMV) area.



Source: Osotspa, 2019



Source: Osotspa, 2019

**Figure 2.1. Revenue Breakdown by Segment**

**Figure 2.2 Revenue Breakdown by Geography**

The segmentation breakdown highlights that the non-alcoholic beverages account for the majority of sales revenue (84%), followed by personal care (10%) and others (6%). Within the beverages, there is a high concentration in energy drinks, constituting 68% of OSP's revenue in 2019 (Osotspa, 2019).

### **Segment Performance & Growth**

OSP is a leading company in the non-alcoholic beverages industry, as well as a strong player in the personal care industry. With core business in energy drinks, Osotspa Public Company Limited holds a strong 50% of Thailand's energy drinks market share.

Due to the Covid-19 pandemic, there was a clear impact on 2020Q2 results. In the 1H2020 financial highlights published to investors as at 07/2020, there was a revenue decline to THB 12,596 m, representing a year-on-year 0.5% reduction, with a decline in energy drinks and personal care. Functional drinks had a strong double-digit growth at 74.4%, with C-VITT maintained as the strongest brand. This increase in sales indicates a trend towards Vitamin-C and health-consciousness during the Covid-19 period.

The 2020Q3 results indicate a gradual recovery, with an overall revenue growth of 4.3% y.o.y compared to 2019Q3 and 1.1% y.o.y growth compared to 9M2019. The impact to revenue is broken down by segment as detailed below:

*Beverage Net sales (9M2020): 16,278 M (+2.0%);* growth attributed to M-150, Lipo and C-Vitt domestic sales. International sales declined by 12.7% y.o.y.

*Personal Care Sales (9M2020): 1,777 M (-10.2%);* lower demand for beauty care. Baby care increased slightly due to relaunch of Babi Mild Kids and Organic Baby Fabric Care, responding to the hygiene trend.

*Healthcare, Confectionery, and other OEM (9M2020): 1,142 M (+8.7%);* growth driven by hand sanitizer gel and other hygiene related products.

## 2.2 Strategies

OSP is leaning towards a growth strategy, moving towards expansion into international markets. The company has made many decisions to diversify its revenues geographically, such as through entering into Vietnam with its beverage products and building a new bottling plant in Myanmar. Due to the global impact of the Covid-19 pandemic, the expansion has been slowed down.

To help drive growth in an increasingly saturated market, OSP not only started its expansion internationally, but also has arranged its portfolio to diversify and solidify its customer base. While the main consumer base for energy drinks is blue-collar men, OSP's product portfolio consists of products at a range of price points and branding to appeal to a variety of groups. It has its M-150 (THB 10) tailored to blue-collar employees; in contrast, it also has Shark (THB 18) targeted as a premium-energy drinks to white collar workers. Its Som-in-Sum brand was effective in targeting the female population, with the brand's market share growing from 0.8% in 2017Q1 to 2.6% in 2018Q2 (Frost & Sullivan, 2018).

Complementing the multi-brand strategy, OSP's strategy includes increasing the channels of sales, with increased presence in e-commerce and its investment in Asia Vending Machine Operation Company Limited. Brand loyalty is further solidified with online marketing campaign such as M-Point.

Finally, OSP aims for operational efficiency by launching its campaign for cost saving as "FIT - FAST - FIRM" from corporate level to business and operation level in order to optimize cost and improve profitability. The campaign was planned to deliver gross savings in all processes through reducing material cost while maintaining high production efficiency. OSP's targeted more than 800 million baht in cost savings from continued product formulations, lower key material prices, higher production efficiency and warehouse & distribution optimization

## 2.3 Management and Governance

### Management






OSP's management is set up with a divisional structure led by Mr. Petch Osathanugrah as chairman of the executive committee and CEO. He is a major shareholder with more than 25% of shares held by himself and his family (as of June 2020).

**Table 2.1: Major Shareholders**

	Major Shareholders	# Shares	% Shares
1.	Mr. Niti Osathanugrah	489,081,900	16.28
2.	ORIZON LIMITED	371,933,450	12.38
3.	BANK OF SINGAPORE-ORIZON LIMITED	150,187,500	5.00
4.	Mr. Petch Osathanugrah	149,735,700	4.98
5.	Thai NVDR Company Limited	128,568,368	4.28
6.	Mr. Ratch Osathanugrah	114,030,200	3.80
7.	Sub. Lt. Seri Osathanugrah	110,761,000	3.69
8.	Mr. Pasuree Osathanugrah	87,027,600	2.90
9.	Ms. Quesara Osathanugrah	83,588,200	2.78
10.	Mr. Tasharin Osathanugrah	76,892,500	2.56

### Governance

**Table 2.2: Rating under the Thai Institute of Directors Association (IOD)**

Score	Rang Number of Logo	Description
90 - 100		Excellent
80 - 89		Very Good
70 - 79		Good
60 - 69		Satisfactory
50 - 59		Pass
Lower than 50	No logo give	N/A

*Source: Thai Institute of Directors Association, 2019*



In 2019, OSP was recognized as a very good (4 stars) corporate governance company under the Thai Institute of Directors Association (IOD), with support from the Stock Exchange of Thailand (SET). The rating recognizes measurement for rules and regulation for transparency, equality and non-discrimination of employees and shareholders. OPS divided their corporate governance into 4 charters, namely the charter of Board of Directors, the Audit committee, the Executive committee, the risk management committee, and the nomination, remuneration and corporate governance committee.



## CHAPTER III

### ANALYSIS OF MACRO-ECONOMY, INDUSTRY AND COMPETITORS

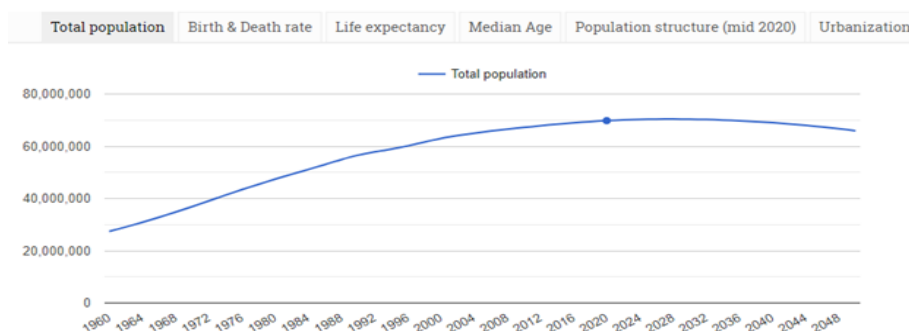
#### 3.1 Macro-economy Analysis

The Covid-19 pandemic had a significant impact on the global economy. According to the *World Economic Outlook* (IMF, 2020a), global economic growth is projected at -4.4% in 2020, with gradual recovery into 2021, with projected global growth of 5.2%. As Thailand and Myanmar account for more than 90% of OSP's revenue, the GDP growth projections of the two countries is displayed below. Thailand's projected GDP growth is at -7.145% while Myanmar's growth declined to 1.99% (IMF, 2020b).

**Table 3.1: GDP projection**

Country	Subject Descriptor	Units	Scale	2019	2020	2021	2022
Thailand	Gross domestic product, constant prices	National currency	Billions	10,925.08	10,144.46	10,550.35	11,018.73
Thailand	Gross domestic product, constant prices	Percent change		2.355	-7.145	4.001	4.439
Thailand	Gross domestic product, current prices	National currency	Billions	16,875.89	15,583.31	16,354.76	17,120.65
Thailand	Gross domestic product, current prices	U.S. dollars	Billions	543.564	509.2	536.841	569.38
Thailand	Unemployment rate	Percent of total labor force		1	1	1	1
Thailand	Population	Persons	Millions	69.626	69.8	69.951	70.078
Myanmar	Gross domestic product, constant prices	National currency	Billions	88,938.18	90,711.56	95,838.84	101,804.24
Myanmar	Gross domestic product, constant prices	Percent change		6.5	1.994	5.652	6.224
Myanmar	Gross domestic product, current prices	National currency	Billions	105,011.54	113,920.05	128,795.07	145,988.26
Myanmar	Gross domestic product, current prices	U.S. dollars	Billions	68.641	70.89	77.172	84.434
Myanmar	Unemployment rate	Percent of total labor force					
Myanmar	Population	Persons	Millions	52.832	53.199	53.55	53.886

Population Data Graphs



Source: [populationstat.com/Thailand](https://populationstat.com/Thailand)

**Figure 3.1: Population trends**

The Thai population in 2018 was 69.8 million people, however, the population growth is declining and is expected to decrease in the next 10 years, potentially impacting the customer base of OSP products.

### 3.2 Industry Analysis

**Beverages industry** - It can be classified into two types that are alcohol and non-alcohol drinks. In the segment of non-alcoholic beverages, carbonates and bottled water represent the largest segments, followed closely by Energy drinks, which have shown significant growth in the past five years. In blue-collar workers consume energy drinks mostly every day for boosting their energy to support their long working times. Moreover, there are other types of non-alcohol such as Sport drinks, Ready to Drink (RTD) coffee, and Functional drinks.

**Energy drinks** – Beverages that combine caffeine with the ingredient that enhances the performance of drinkers. The core ingredient provides a longer energy boost. The examples of products are M150, Red Bull, Carabao, Shark, Ready boost.

**Sport drinks** – Beverage that provide carbohydrates bring energy supply to the muscles and providing sodium and other electrolytes. This type of product aims to prevent dehydration from doing heavy physical activities. The examples of products are Sponsor, M Sport, and Carabao Sport.

**Ready to Drink (RTD) coffee** – Beverages that provide quick intake of caffeine and can drink instantly. They are high-quality freshly brewed coffee. The examples of products are Birdy, Nescafe, and Carabao Espresso.

**Functional drinks** – Beverages with the specific purpose of enhancing the health of drinkers. The products have bio-active compounds which are extracted from natural ingredients, such as teas, fruit, and herbs and some artificial vitamin and mineral.

The product mostly has benefits in the subject of beauty and healthy. The examples of products are Beauti Drink, ManSome and Peptein.

**Water & Juice drinks** - Beverages that are drinking water, mineral water, fruit juice which have no ingredient of energy purpose. The examples of products are Nestle Purelife, Aura, Fiji, Unif, and Malee.

**Carbonates & Soda drinks** – Beverage that mix flavored syrup with carbonated water. Soda drinks are beverages that contain soda. They can be pure soda or sweet drinks with soda. The examples of product are Coca-Cola, Pepsi, Spite, Schweppes, and Singha Soda.

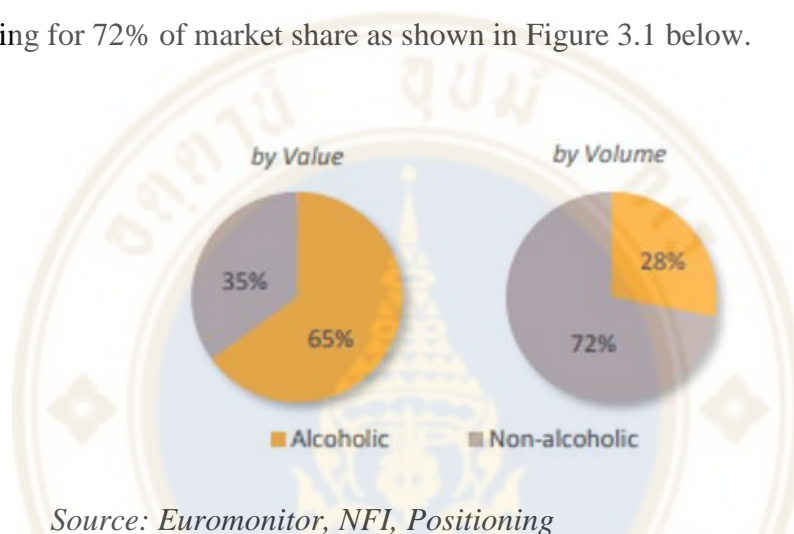
The Porter's Five Forces Analysis was conducted to summarize some key characteristics of the industry. Further analysis is provided in the following sections.

#### OSP – Five force analysis

<b>Threat of new entrants (Low)</b>	<b>Threat of Substitutes (Medium-High)</b>	<b>Bargaining Power of customers (Medium)</b>	<b>Bargaining power of suppliers (Low)</b>	<b>Competitive rivalry (Medium)</b>
High capital investment  Regulations and licenses required for the beverage factoring industry, such as food and beverage licenses, liquor license, operating licenses.	Mostly revenue which contributed from M-150 as energy drink. The threat of substitutes is medium because market share up to 60% and CBG and Red-Bull holding 40%. Substitution may come in the form of other beverages (e.g. Substitutes of energy drinks and sports drinks)	Medium bargaining power for customers in energy drink due to a few suppliers (three brands) bargaining power for customers classified as medium.  No switching costs	All material and sources for inputs mainly related to beverages and service OEM are managed by OSP business end to end process including factoring to produce glass.	An increasing number of indirect competitors (non-energy drink)

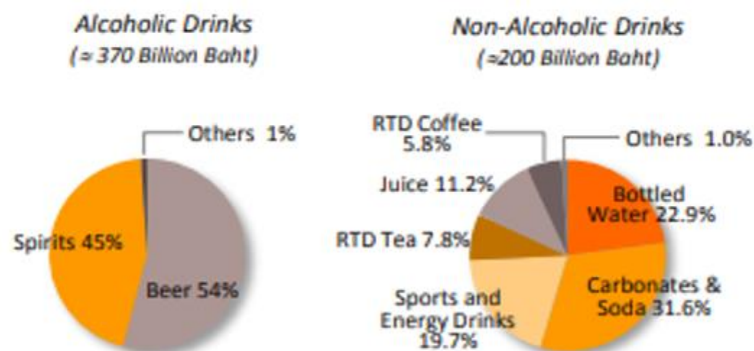
### Industry size

The domestic Thai beverage industry consists of two main categories: alcoholic and non-alcoholic drinks. The Krungsri Research indicates that the Thai domestic beverage industry is becoming saturated, especially in the segments related to carbonated drinks, energy drinks, beer, and spirits. The domestic Thai beverage production exports around 10% of total drink production, with the remaining 90% sold in Thailand. In the term of consumption values, the alcohol segment held 65% of market share while non-alcohol held only 35%. Nevertheless, the consumption volume of non-alcohol drinks is higher, accounting for 72% of market share as shown in Figure 3.1 below.



**Figure 3.2: Thailand's Beverage Consumption**

The worth of the domestic beverage market in Thailand includes 370 billion baht from alcoholic drinks and 200 billion baht from non-alcoholic drinks. The total beverage consumption was 4% of gross domestic product (GDP) in 2017. For Non-alcohol drinks, the top three segments are carbonates & soda, bottled water and sport & energy drinks respectively as Figure 3.2 shows below.



Source: Euromonitor, NFI, Positioning

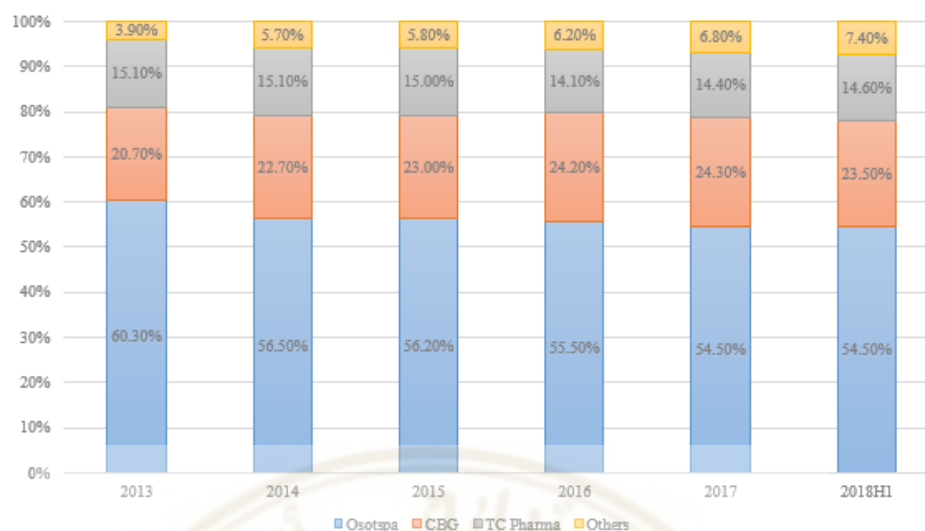
**Figure 3.3: Market Share of Thai Beverage**

### Industry Drivers & Deterrents

The different segments of the non-alcoholic beverages are driven by different factors. Due to the OSP's presence in energy drinks, the analysis will focus mainly on the energy drinks. Despite the variety of energy drinks brands, the domestic Thai energy drink market is concentrated to a few key companies. Frost & Sullivan (2018) indicate that, in the domestic energy drink market, the three major brands of M-150, Carabao Dang, and Krating Daeng have a combined market share of 70% in 2017.

In the energy drinks market, OSP has a dominant market position, with the highest market share, however increasing competition can be seen as its market share has dropped since 2013 (Frost & Sullivan, 2018). The three main companies in the industry are OSP, Carabao Tawandang Co., Ltd, and TC Pharmaceutical Industry.





Source: Frost & Sullivan, 2018

**Figure 3.4: Market Share of Energy Drinks by Volume**

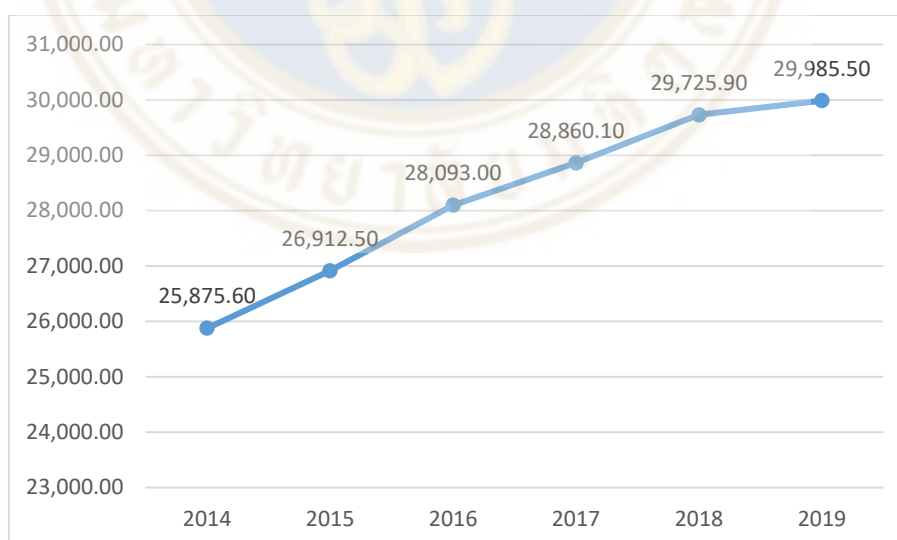
**Blue-Collar Worker Opportunities.** The main consumers of energy drinks are blue collar workers, with 92.2% of energy drinks sales attributed to blue collar workers (Frost & Sullivan, 2018). Concurrently, there is an increase in infrastructure needs from more urbanization in Thailand. This urbanization helps to drive opportunities for blue collar job expansion, illustrated through the Thai Transport Infrastructure Development Plan 2015-2022 and urgent Transport Action Plan of 2015 totaling an investment of THB 1.9 trillion. This increase in blue-collar worker opportunities potentially expands the consumer base for OSP energy drinks.

**White Collar Consumption.** While blue-collar workers are the main consumer group, there is a rise in demand from white collar workers. Working hours for the white collar group is increasing, which could increase the demand for energy drinks as people search for a boost of energy. This trend could increase the consumer base of energy drinks, as illustrated from the increase of white collar consumption of females with a growth of CAGR 4.5% from 2012 to 2016 (Frost & Sullivan, 2018).

**Sugar Tax in Thailand.** Sugar is one of the ingredients in energy & functional drinks. The Thai government executed the Sugar Tax in 2017 and the tax rate will be doubled every two years. For the year 2020, drinks containing 10-14 grams of sugar will be taxed

at 1 baht per 100 milliliters. The government taxes sugar-sweetened beverages for the purpose of a decrease of sugar consumption and obesity and chronic disease rate, while improving nutrition. As energy drinks are price sensitive, a small increase in price could lead to drinkers to change to substitutes. It incentivizes the producers to cut down the proportion of sugar in products as the sugar Tax rises the cost of production for energy and functional drinks. Consequently, the firms launched new products that are sugar-free drinks or sugarless.

**Energy drinks industry in Thailand.** Sales value of energy drinks have two components which are off-trade and on-trade sales. Off-trade market includes all retail outlets such as supermarkets, convenience stores and other sales channels that customers can reach easily. While On-trade market includes bars, restaurant, hotels which they have to use sales tactics and provide more service to customers. The total sales value of energy drinks is 32.4 billion baht, of which 93% of total sales came from off-trade sales. The sales value of energy drinks in 2019 was valued at 29.9 billion baht. The off-trade sales value of energy drinks increased continuously from 28.8 billion baht in 2014 to 29.9 billion baht in 2019 as graph shown below



*Source: Euromonitor /portal/statistics evolution*

**Figure 3.5: Sales value of energy drinks in Thailand**



The CAGR of off-trade sales from 2014 to 2019 is around 3% and there is no negative growth between the consecutive years. Frost & Sullivan (2018) observe that the energy drinks market is dominated by few brands which include M-150, Carabao Daeng ang Krating Daeng. They have a strong market positions with combined market share of 70% by retail sales value in 2017. In terms of main customer, 92.2% energy drinks sales in Thailand came from the blue-collar worker. Energy drinks are bought by the group of customers which include truck drivers, factory and construction workers and taxi drivers. The price of energy drinks as the mentioned in the example is 10 baht per bottle for all producers in Thailand which are affordable prices for blue-collar workers. It is foreseen that the energy drinks market will continue to grow with the blue collar opportunities.

### OSP – SWOT Analysis

STRENGTH (Internal)	WEAKNESSES (Internal)
<ul style="list-style-type: none"> <li>• Capital higher than competitors (less Financing cost for expanding)</li> <li>• Differentiation of product: provide a variety of products such as M-150, White Shark &amp; LipoVitanD as main contribution to total revenue.</li> <li>• Leading market share in Thailand.</li> <li>• End-to-End value chain presence from producing product.</li> <li>• Customer Loyalty - strong customer loyalty as market share more than all direct competitor in energy drink (&gt; 60% 1H2020).</li> </ul>	<ul style="list-style-type: none"> <li>• New and lower market share compared to competitors (CBG and Red Bull) in overseas markets.</li> </ul>
OPPORTUNITIES (External)	THREATS (External)
<ul style="list-style-type: none"> <li>• Subsidiary from government BOI to expend factoring in AEC area</li> <li>• New technology advancement (AI &amp; Analytics) using to reduce operation cost under cost leadership strategy (FIT-FAST-FIRM)</li> </ul>	<ul style="list-style-type: none"> <li>• Disruption from the coronavirus (Covid19)</li> <li>• Recession in Thai economy</li> <li>• Thai revenue department is tentative to increase in sugar drinking tax rate Competition is high in the beverage market in by counting with new brands of non-energy drink launched in Thailand</li> </ul>

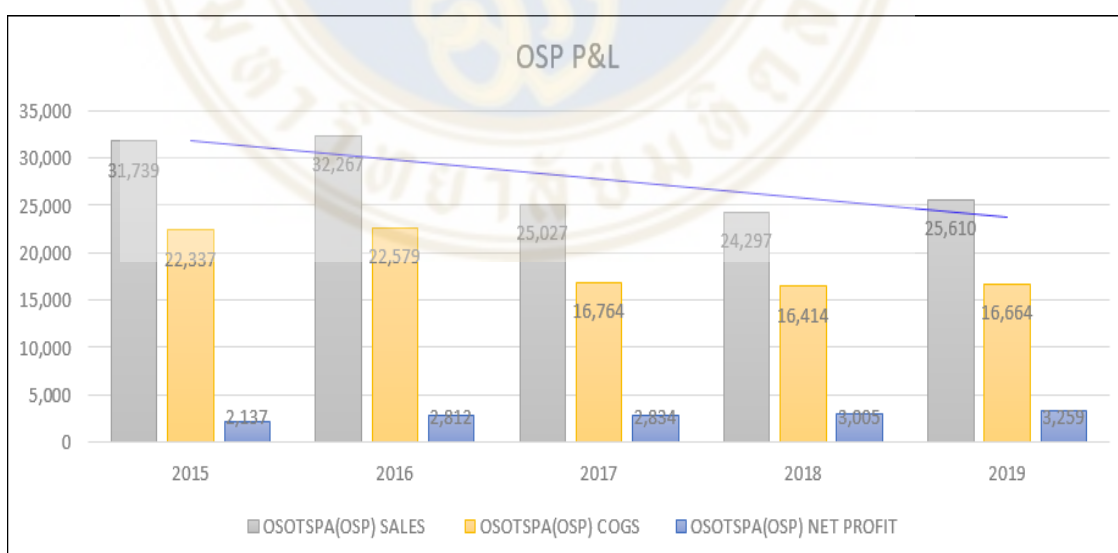
## CHAPTER IV

### VALUATION

#### 4.1 Financial Analysis

##### 4.1.1 Income statement

THB : Million								
OSOTSPA(OSP)	2015	2016	2017	2018	2019/Q2	2019	2020/Q2	YoY Growth Q2/19 & Q2/20
<b>KEY P&amp;L ITEMS</b>								
SALES	31,739	32,267	25,027	24,297	6,295	25,610	5,909	-6.13%
SALES GROWTH						5.4%	-6.1%	
COGS	22,337	22,579	16,764	16,414	4,074	16,664	3,926	
Gross profit	9,402	9,687	8,262	7,883	2,221	8,946	1,983	-10.73%
GROSS MARGIN	30%	30%	33%	32%	35%	35%	34%	
SELLING ADMIN / SALES	20%	21%	20%	20%	23%	22%	23%	-2.17%
OPERATING MARGIN	9%	9%	13%	12%	12%	13%	11%	-10.15%
EBIT	3,141	3,028	3,329	3,168	817	3,500	699	
FINANCIAL COSTS	-54	-77	-97	-81	-2	-13	-7	
TAX	625	676	725	686	166	718	120	
NET PROFIT	2,137	2,812	2,834	3,005	710	3,259	804	13.22%
NET PROFIT GROWTH		31.6%	0.8%	6.1%	-11.7%	8.4%	-13.1%	
EPS (BT)	9.2	12.2	12.3	1.0	0.2	1.1	0.3	
Number of shares	231	231	231	3,004	3,004	3,004	3,004	



**Figure 4.1: Income statement (key items)**

The P&L statement provides a view of the profitability of the company. The total revenue at the end of 2019 increased to THB 25,610 million, with CAGR +5.4%

compared to 2018 (year of IPO) after expansion into the beverage market in Myanmar. The energy drink market in Myanmar is expected to grow rapidly, with CAGR of energy drinks more than 50% in the last 3 years.

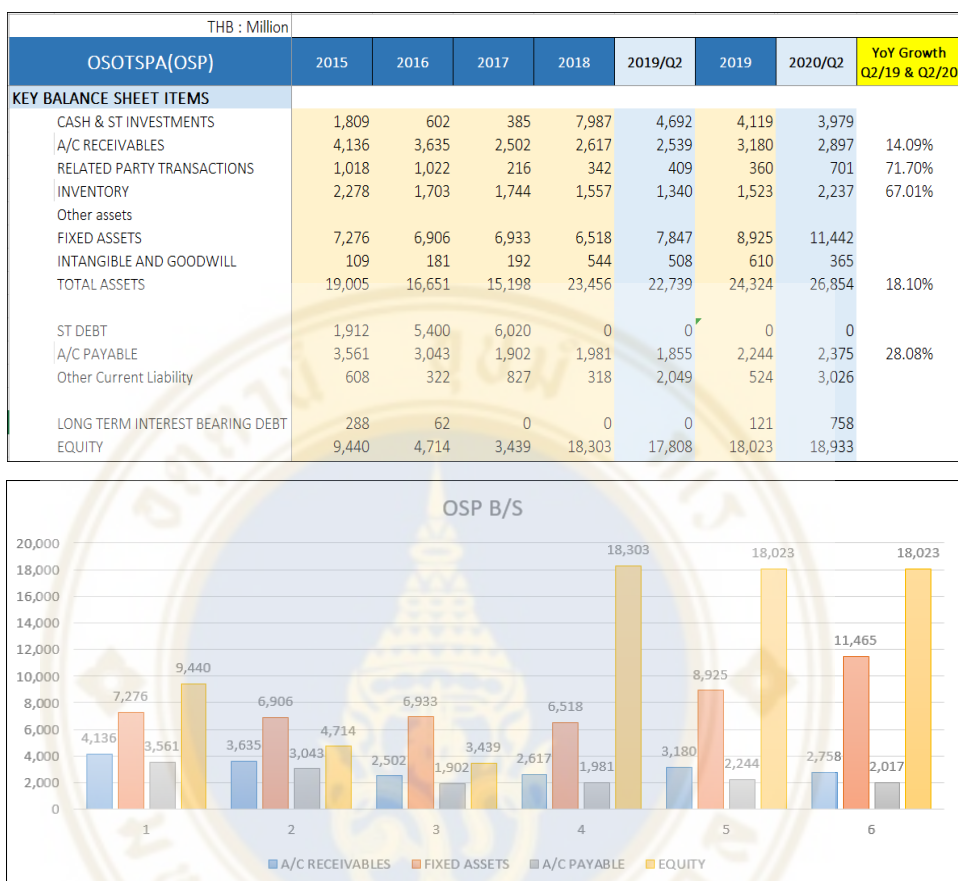
In 2020, the covid-19 pandemic caused several industries to slow down, and the energy drink market was not immune to the effects. According to the financial results published to investors (Q2/2020), OSP's revenue declined 6.13% y.o.y compared to Q2 due to the Covid-19 crisis causing distribution problems and reduced consumption. The Q3/2020 announcements indicate improvements in Thai domestic sales, however, with continued negative impacts in countries such as Myanmar.

**Table 4.1. Peer Analysis - Profitability**

OSP					CBG			
2016	2017	2018	2019		2016	2017	2018	2019
30%	33%	32%	35%	Gross Profit Margin	37%	32%	33%	39%
9%	11%	12%	13%	Net Profit Margin	17%	8%	10%	21%

Regarding profitability, OSP performs on par with its peers, such as Carabao. Its gross profit margin is approximately 33%, and net profit margin is approximately 11%. Despite the declining trend in the revenue, OSP's gross profit margin and net profit margin are consistently increasing over the last 4 years. This improvement in profitability could be attributable to the cost improvement campaign of "FIT to FIRM" to continuously improve its operational excellence. The most recent campaign is expected to contribute cost savings of THB 800 Million at all operating levels in the next 5 years. OSP's gradually increasing trend suggest more stability in cost control than its competitor, which sees more fluctuation in pricing.

### 4.1.2 Statement of Financial position



**Figure 4.2: Statement of Financial position (key items)**

From the key items of the statement of financial position, several events can be observed. In 2018, OSP was listed in the SET; during this period, it is observed that the equity increased dramatically. Concurrently, the amount of debt declined as the company deleveraged. From an asset perspective, there was an increase in fixed assets in 2019 attributable to the OSP investing in a new bottling plant in Myanmar. This event led to an 18.10% increase in Q2/2020. These two events would be considered as one-time events impacting the balance sheet.

From the key figures, liquidity figures can be observed. From the table below, it is observed, that OSP is underperforming in terms of operational management and liquidity. Carabao has a negative cash conversion cycle, which generally normal for FMCG and food and beverage industries. Conversely, OSP cash conversion cycle is

positive and higher than CBG, indicating that it takes more time to convert its investment in inventory and other resources into cash flows.

**Table 4.2: Peer Analysis - Liquidity**

OSP					CBG			
2016	2017	2018	2019		2016	2017	2018	2019
43.95	44.76	38.46	41.31	AR DAYS	22.87	27.46	26.07	25.59
32.18	37.52	36.70	33.73	INVENTORY DAYS	19.50	22.50	28.70	37.59
52.05	53.96	43.67	46.17	AP DAYS	60.09	66.05	68.94	65.15
24.08	28.32	31.49	28.88	CASH CYCLE	(17.73)	(16.09)	(14.17)	(1.97)

The key area of improvement for OSP is in its creditor management. OSP is paying its suppliers on average 20 days faster than CBG, indicating potentially unfavorable payment terms. Additionally, its days of inventory outstanding appears to be stable, but higher than CBG from 2016 to 2019. OSP has taken action to improve its inventory management situation by investing in supply chain and inventory management solution by JDA Software solutions (The Nation, 2019).

In Q2/2020, there will be some changes in components of the cash conversion cycle as OSP announced that, in light of the Covid-19 situation, longer credit terms will be extended to customers in domestic and overseas markets. At the same time, payment settlement terms related to external suppliers will be extended.

#### 4.1.3 Cash flow & Leverage

OSOTSPA(OSP)	2015	2016	2017	2018	2019
<b>CASHFLOW &amp; LEVERAGE</b>					
DEPRECIATION	1,107	1,099	1,046	1,046	958
CAPEX	-1,002	-933	-1,023	-1,255	-3,498
EBITDA	4,273	4,134	4,383	4,214	4,458
OPTG. CASHFLOW	4,381	4,040	4,317	3,612	3,652
FREE CASHFLOW		3,107	3,294	2,357	155
Net DEBT	9,566	11,938	11,758	5,153	6,301
NET DEBT / EQUITY	101%	253%	342%	28%	35%

**Figure 4.3: Cash flow & Leverage**



The free cash flow and CAPEX balance of OPS during 2019 declined after investing in a new plant in Myanmar, while net debt / Equity decreased after the IPO. The amount of liabilities that OSP is 35% of its equity in 2019. This number takes into account all liabilities that the company has on its balance sheet. If considering only the interest-bearing debt from loans and financing, the amount is significantly less, with a ratio to equity of approximately 3% in 2019.

#### 4.1.4 Financial Ratio (Dupont analysis)

##### Return on asset (ROA)

OSOTSPA Company	2015	2016	2017	2018	2019
ROE	22.6%	59.6%	82.4%	16.4%	18.1%
ROA	29.9%	34.6%	27.3%	22.4%	29.9%
EL	0.85	1.20	1.10	1.22	1.17
CSL	0.89	1.43	2.75	0.60	0.52
					<b>Million THB</b>
Revenue	31,738.50	32,266.81	25,026.81	24,297.08	25,610.47
Asset	9,576.73	7,193.54	6,287.93	12,640.54	9,338.02
NI	2,136.73	2,811.61	2,833.67	3,005.34	3,259.01
EBIT	3,140.62	3,028.00	3,329.05	3,167.54	3,500.20
Ta	0.20	0.23	0.22	0.22	0.20
EQUITY	9,439.50	4,713.60	3,439.43	18,302.73	18,023.14
<b>ROA</b>					
EBIT	3,141	3,028	3,329	3,168	3,500
Ta	20.3%	22.9%	22.4%	22.2%	20.3%
Total Asset	9,577	7,194	6,288	12,641	9,338
AvgTA	8,385	6,741	9,464	10,989	9,338
ROA = EBIT*(1-Ta)/AvgTA	<b>29.9%</b>	<b>34.6%</b>	<b>27.3%</b>	<b>22.4%</b>	<b>29.9%</b>
<b>PM</b>					
EBIT	3,141	3,028	3,329	3,168	3,500
Tb	20.0%	20.0%	20.0%	20.0%	20.0%
R	31,739	32,267	25,027	24,297	25,610
PM = EBIT*(1-Tb) / R	<b>7.9%</b>	<b>7.5%</b>	<b>10.6%</b>	<b>10.4%</b>	<b>10.9%</b>
<b>TC</b>					
Ts	20.0%	20.0%	20.0%	20.0%	20.0%
Tb	20.0%	20.0%	20.0%	20.0%	20.0%
TC = (1-Ts) / (1-Tb)	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>
<b>TM</b>					
Ta	20.3%	22.9%	22.4%	22.2%	20.3%
Ts	20.0%	20.0%	20.0%	20.0%	20.0%
TM = (1-Ta) / (1-Ts)	<b>1.00</b>	<b>0.96</b>	<b>0.97</b>	<b>0.97</b>	<b>1.00</b>
<b>TATO</b>					
R	31,739	32,267	25,027	24,297	25,610
Total Asset	9,577	7,194	6,288	12,641	9,338
AvgTA	8,385	6,741	9,464	10,989	9,338
TATO = R / AvgTA	<b>3.79</b>	<b>4.79</b>	<b>2.64</b>	<b>2.21</b>	<b>2.74</b>

Figure 4.4: Return on asset (ROA)

Revenue of OSP decreased in 2017 due to CARABAO entrance into the market. From the industry analysis, it was noted that OSP had decline market share in the energy drinks market, while Carabao's market share increased.

OSP issued IPO in 2018 and equity's value increased sharply from 3,430 million baht in year 2017 to 18,302 million baht in year 2018. Moreover, their total assets doubled in that year from investments. ROA of OSP in 2019 is equal to 29.9%, which is a 7.5% increase from year 2018 due to a decrease of the average total asset. The fluctuation in the return on assets stems from the changes in asset base more than the changes in the net profit. The profit margin of OSP increased from 7.9% in year 2015 to 10.9% in year 2019, mostly because they have launched efficiency programs and could manage their cost well in year 2019.

#### Return on equity (ROE)

ROE						
	NI	2,137	2,812	2,834	3,005	3,259
	Equity	9,440	4,714	3,439	18,303	18,023
	ROE = NI/AvgE	22.64%	59.65%	82.39%	16.42%	18.08%
CL						
	NI	2,137	2,812	2,834	3,005	3,259
	EBIT	3,141	3,028	3,329	3,168	3,500
	Ta	20.3%	22.9%	22.4%	22.2%	20.3%
	EL = NI / EBIT(1-Ta)	0.853	1.204	1.098	1.220	1.169
CSL						
	Avg TA	8,385	6,741	9,464	10,989	9,338
	Avg E	9,440	4,714	3,439	18,303	18,023
	Avg.TA / Avg.E	0.888	1.430	2.752	0.600	0.518

**Figure 4.5: Return on asset (ROE)**

ROE of OSP in year 2018 drop dramatically because they registered in the Stock Exchange in Thailand with an IPO in October, which result in a significant increase in the equity. OSP have the highest CSL in 2017, 2.752, which means that the firm's asset was mostly funded with debt than equity while CSL in year 2018, 0.600, dropped because the assets were mostly funded with equity after issuing IPO in SET. The fluctuation in the ROE namely comes from the change in capital structure of the firm.

### 4.1.5 Peer comparison CARABAO Group PCL (CBG)

OSOTSPA Company	2015	2016	2017	2018	2019	CBG	2015	2016	2017	2018	2019
ROE	22.6%	59.6%	82.4%	16.4%	18.1%	ROE	16.8%	19.8%	19.8%	11.4%	13.0%
ROA	29.9%	34.6%	27.3%	22.4%	29.9%	ROA	12.9%	11.3%	10.5%	5.8%	7.0%
EL	0.85	1.20	1.10	1.22	1.17	EL	0.92	1.00	1.00	0.96	0.93
CSL	0.89	1.43	2.75	0.60	0.52	CSL	1.42	1.76	1.89	2.08	2.01
	Million THB						Million THB				
Revenue	31,738.50	32,266.81	25,026.81	24,297.08	25,610.47		7,753.02	9,965.40	12,904.24	14,462.54	14,933.01
Asset	9,576.73	7,193.54	6,287.93	12,640.54	9,338.02		7,361.46	9,778.49	12,519.92	14,319.92	14,780.04
NI	2,136.73	2,811.61	2,833.67	3,005.34	3,259.01		1,011.65	1,255.53	1,404.88	800.66	960.32
EBIT	3,140.62	3,028.00	3,329.05	3,167.54	3,500.20		1,361.40	1,466.32	1,686.77	1,108.92	1,435.44
Ta	0.20	0.23	0.22	0.22	0.20		0.19	0.14	0.17	0.25	0.28
EQUITY	9,439.50	4,713.60	3,439.43	18,302.73	18,023.14		6,028.62	6,333.35	7,099.54	7,005.31	7,364.71
	ROA						ROA				
EBIT	3,141	3,028	3,329	3,168	3,500	EBIT	1,361	1,466	1,687	1,109	1,435
Ta	20.3%	22.9%	22.4%	22.2%	20.3%	Ta	19.1%	14.3%	16.5%	24.6%	27.7%
Total Asset	9,577	7,194	6,288	12,641	9,338	Total Asset	7,361	9,778	12,520	14,320	14,780
AvgTA	8,385	6,741	9,464	10,989	9,338	AvgTA	8,570	11,149	13,420	14,550	14,780
ROA = EBIT*(1-Ta)/AvgTA	29.9%	34.6%	27.3%	22.4%	29.9%	ROA = EBIT*(1-Ta)/AvgTA	12.9%	11.3%	10.5%	5.8%	7.0%
	PM						PM				
EBIT	3,141	3,028	3,329	3,168	3,500	EBIT	1,361	1,466	1,687	1,109	1,435
Tb	20.0%	20.0%	20.0%	20.0%	20.0%	Tb	20.0%	20.0%	20.0%	20.0%	20.0%
R	31,739	32,267	25,027	24,297	25,610	R	7,753	9,965	12,904	14,463	14,933
PM = EBIT*(1-Tb) / R	7.9%	7.5%	10.6%	10.4%	10.9%	PM = EBIT*(1-Tb) / R	14.0%	11.8%	10.5%	6.1%	7.7%
	TC						TC				
Ts	20.0%	20.0%	20.0%	20.0%	20.0%	Ts	20.0%	20.0%	20.0%	20.0%	20.0%
Tb	20.0%	20.0%	20.0%	20.0%	20.0%	Tb	20.0%	20.0%	20.0%	20.0%	20.0%
TC = (1-Ts) / (1-Tb)	1.00	1.00	1.00	1.00	1.00	TC = (1-Ts) / (1-Tb)	1.00	1.00	1.00	1.00	1.00
	TM						TM				
Ta	20.3%	22.9%	22.4%	22.2%	20.3%	Ta	19.1%	14.3%	16.5%	24.6%	27.7%
Ts	20.0%	20.0%	20.0%	20.0%	20.0%	Ts	20.0%	20.0%	20.0%	20.0%	20.0%
TM = (1-Ta) / (1-Ts)	1.00	0.96	0.97	0.97	1.00	TM = (1-Ta) / (1-Ts)	1.01	1.07	1.04	0.94	0.90
	TATO						TATO				
R	31,739	32,267	25,027	24,297	25,610	R	7,753	9,965	12,904	14,463	14,933
Total Asset	9,577	7,194	6,288	12,641	9,338	Total Asset	7,361	9,778	12,520	14,320	14,780
AvgTA	8,385	6,741	9,464	10,989	9,338	AvgTA	8,570	11,149	13,420	14,550	14,780
TATO = R / AvgTA	3.79	4.79	2.64	2.21	2.74	TATO = R / AvgTA	0.90	0.89	0.96	0.99	1.01

**Figure 4.6: Comparison of Dupont analysis - OSP vs CBG**

In 2017, CBG's revenue increased around 30% while OSP's revenue decreased from the previous year. However, ROA of OSP is higher than CBG from year 2015 to 2019. It means that OSP have a better performance in term of management in asset to generate earnings. For ROE, OSP have better performance than CBG. They can use their equity to generate more Net Income. Regarding Profit Margin (PM), CBG have higher percentage of PM than OSP in year 2015-2016 after that its PM has dropped in the next 2 years. From 2017 to 2019, OSP's profit margins increased to approximately 10%, indicating better cost management, and exceeding its CBG's profitability. In term of TM ratio, both of them have similar results. They can get around 0.94 to 1.01 times, which are in a satisfactory range. For CSL, CBG tends to fund their asset by debt than equity in year 2018-2019 while OSP mostly funded their asset by equity.

In conclusion, OSP has a better performance in overall compared to CBG. OSP's net income has increased every year from 2015 to 2019. It could manage costs that reflect in higher EBIT and they increase their leverage ratio from debt side to equity side, making investors more secured if they invest in the firm's stock

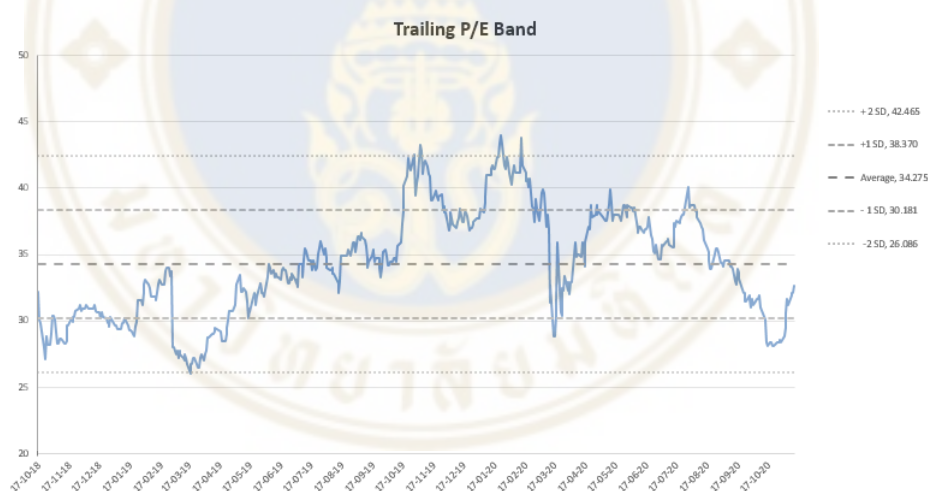


## 4.2 Relative Valuation

### 4.2.1 Relative Valuation Bands

Relative valuation is a method that analyzes historical and forward data of different financial ratios such as P/E, P/BV, and EV/EBITDA. All ratios are also compared to competitors in the same market. Investors may use relative valuation models to determine if the stock is fairly valued, or whether they should buy or sell the stock. There are six types of relative valuation measures we use, as follows:

- Trailing P/E
- Forward P/E
- Trailing P/BV
- Trailing EV/EBITDA
- Forward EV/EBITDA



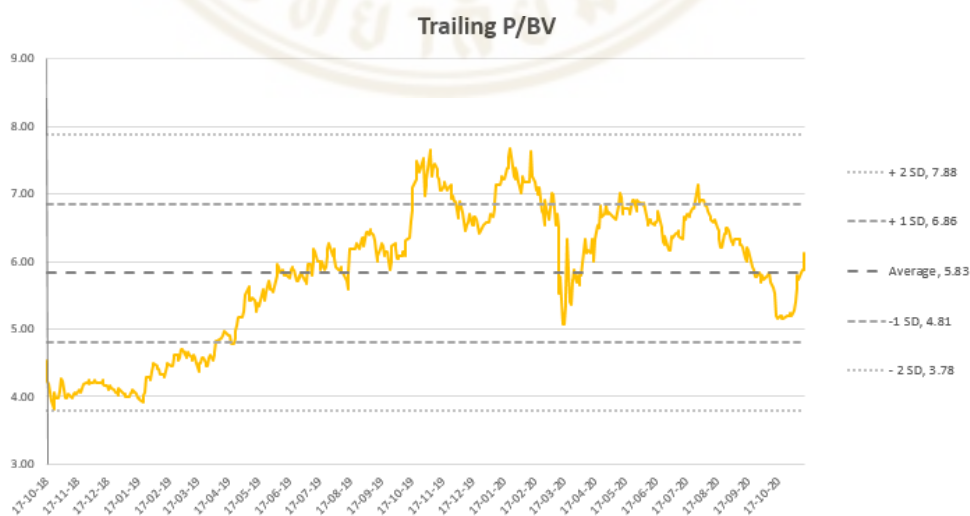
**Figure 4.7: Trailing P/E Band**

The trailing P/E line has a movement between +2 SD and -2 SD band as shown in the graph. The current P/E of OSP as of 12 November 2020 is equal to 32.62, which is slightly lower than the average of 2Y P/E, 34.28. Regarding the standard deviation, its value is 5.75. The current P/E is above -1 SD line. In conclusion, in relation to its own history, based on Trailing P/E the firm is slightly undervalued.



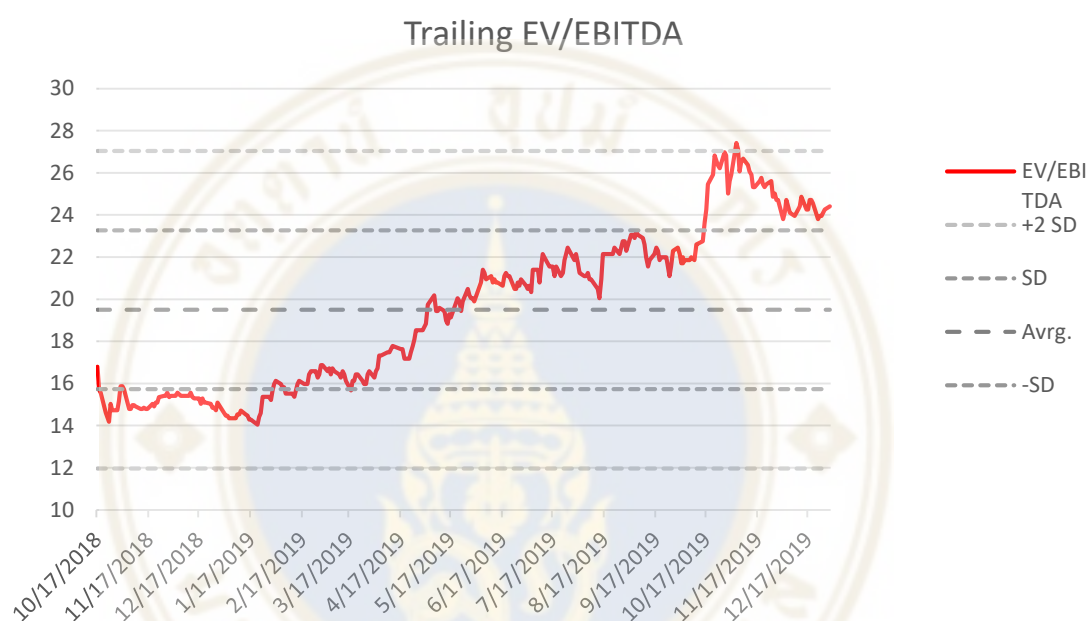
**Figure 4.8: Forward P/E**

The forward P/E line have a movement between +2 SD and -2 SD band as shown in the graph which most figures move in the range of +1 SD and -1 SD. The forward P/E as of 12 November 2020 is equal to 29.24, which is slightly higher than an average of 2Y forward P/E, 28.44. Regarding the standard deviation, its value is 4.14. The forward P/E as of 12 November 2020 is below +1 SD line. In conclusion, in relation to itself, there is no significant difference between the current value and the average value.



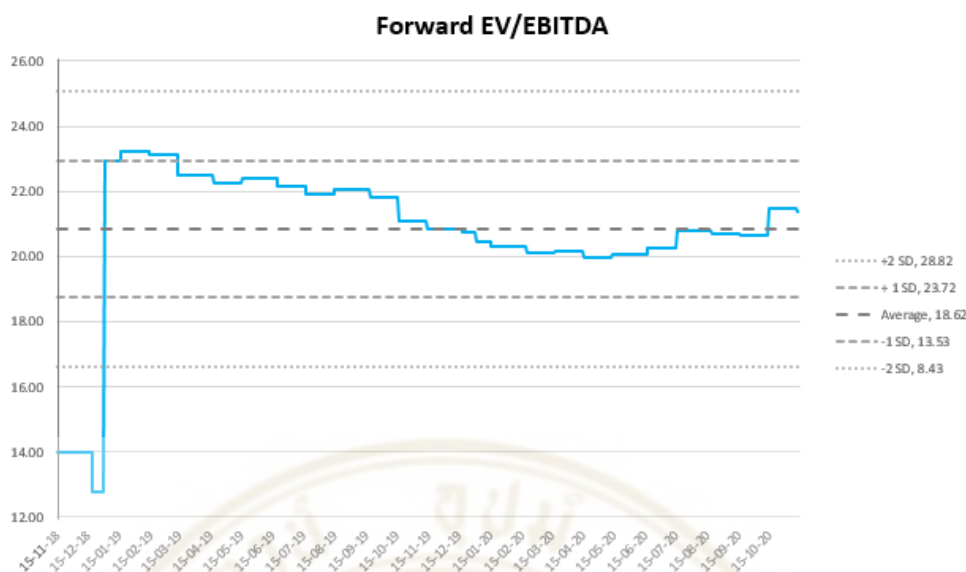
**Figure 4.9: Trailing P/BV**

The trailing P/BV have a movement between +2 SD and -2 SD which there is no figure going beyond this range. The current P/BV as of 12 November 2020 is equal to 6.13, which is slightly higher than the average of last 2Y P/BV, 5.83. Regarding the standard deviation, its value is 1.03. In conclusion, in relation to itself, there is no significant difference between the current value and the average value.



**Figure 4.10: Trailing EV/EBITDA**

The trailing EV/EBITDA have a movement between +2 SD and -2 SD which there is no figure going beyond this range. The EV/EBITDA as of 30 December 2019 is equal to 24.41, which is higher than an average of EV/EBITDA, 19.50 and a bit higher than Average plus 1 SD which is equal to 23.719. In conclusion, in relation to itself, the firm is overvalued based on EV/EBITDA.



**Figure 4.11: Forward EV/EBITDA**

The forward EV/EBITDA line mostly move in the band of +1 SD and -1 SD except the values in 2018. The forward EV/EBITDA as of 12 November 2020 is equal to 21.36, which is close to the average of 2Y Forward EV/EBITDA, 20.85. In conclusion, in relation to itself, based on Forward EV/EBITDA the firm is close to its average historical valuation level.

#### 4.2.2 Peer Group Multiples

There are three dominant players in the energy drink or functional drink industry in Thailand, which are OSOTSPA, CARABAO, SAPPE and indirect players such as ICHITAN, OISHI that provide potential substitute products for customers. The firm with the biggest market value among these five players is CARABAO GROUP PCL, with market capital value of to 118,000 million baht at 12 November 2020. According to the table below, all data in the table came from SETSMART as of 12 November 2020. For trailing P/E method, OSP's value is higher than the average P/BV of these four peers. Moreover, the other two methods of relative valuations gave the same direction of the result that OSP's values are higher than the average of peers. OSP's P/BV is equal to 6.13 while the average P/BV of peers is equal to 5.11. OSP's EV/EBITDA is equal to 21.87 while the average EV/EBITDA of peers is equal to 15.40.

**Table 4.3: OSP & Peers comparison**

Source: SETSMART as of 12 Nov 20

Identifier	Company Name	Market Capital (Million Baht)	Country	Closing Price (12 Nov 2020)	Trailing P/E	P/BV	EV/EBITDA	
OSP.BK	OSOTSPA PCL	111,889.69	Thailand	37.75	32.62	6.13	21.87	
CBG.BK	CARABAO GROUP PCL	118,000.00	Thailand	118.00	34.16	12.98	25.18	
SAPPE.BK	SAPPE PCL	7,000.70	Thailand	23.00	20.15	2.74	12.35	
ICHI.BK	ICHITAN GROUP PCL	14,820.00	Thailand	11.40	28.76	2.44	15.20	
OISHI .BK	OISHI GROUP PCL	15,281.25	Thailand	40.75	16.06	2.26	8.85	
					<b>Peer (Maximum)</b>	<b>34.16</b>	<b>12.98</b>	<b>25.18</b>
					<b>Peer (Average)</b>	<b>24.78</b>	<b>5.11</b>	<b>15.40</b>
					<b>Peer (Minimum)</b>	<b>16.06</b>	<b>2.26</b>	<b>8.85</b>

For calculation of the range of target prices, we use the result from Trailing P/E, P/BV and EV/EBITDA of peers as multiple factors, which we multiply the multiple factors with financial ratio of OSP as of the end of year 2019 in order to get the range of target price as shown below.

**Table 4.4: OSP financial data**

OSP (2019)	Value
EPS	1.11
BV per share	6.16
EBITDA (Million Baht)	4,983.72
DEBT (Million Baht)	6,300.72
Cash (Million Baht)	2,819.46
Number of Share	3,003,750,000

**Table 4.5: Peers Multiple for each level**

		P/E	P/BV	EV/EBITDA
Multiple	Maximum	34.16	12.98	25.18
	Average	24.78	5.11	15.40
	Minimum	16.06	2.26	8.85
Target	Maximum	<b>37.92</b>	<b>79.96</b>	<b>40.62</b>
	Average	<b>27.51</b>	<b>31.45</b>	<b>24.38</b>
	Minimum	<b>17.83</b>	<b>13.92</b>	<b>13.52</b>

Regarding the right-hand side table, the range of target prices based on P/E multiple is between 37.92 and 17.83 baht, with an average price is equal to 27.51 baht. While for the multiple P/BV, the range is between 79.96 and 13.92 and the average forecasted price equals to 31.45 baht. For the multiple EV/EBITDA, the range of stock

prices is between 40.62 and 13.52 baht and the average forecasted price is equal to 24.38 baht.

In conclusion, we recommend using the multiple P/E for valuing OPS, and to determine whether to buy stock or not, because the trailing P/E of all four peers have relatively small differences and beverage companies tend to have relatively stable profits. Therefore, using P/E is appropriate to value OSP. Unlike P/BV and EV/EBITDA, where for SAPPE, ICHI and OISHI's results are much lower than the other two stocks.

#### 4.2.2.1 Rating Criteria

There are three criteria for recommendation that the stock should be hold, bought or sold. Firstly, if the target price derived from the selected valuation is more than 10% upside from current price, it will be recommended to BUY. Secondly, if the target price derived from the selected valuation is upside between -10% and 10% from current price, it will be recommended to HOLD. Thirdly, if the target price derived from the selected valuation is less than 10% downside from current price, it will be recommended to SELL

**Table 4.6: Recommendation criteria**

Criteria	Recommendation
The target price > current price*(1+10%)	Buy
current price*(1-10%) > The target price > current price*(1+10%)	Hold
The target price < current price*(1-10%)	Sell



### 4.3 Valuation Recommendation

According to the recommendation of applying Trailing P/E for stock valuation, the target is 27.51 baht which is derived an average of P/E multiple method while the current price as of 18 December 2020 is 38.00 baht. The current is much higher than the target price, probably because OSP has a relatively low debt ratio, low beta and high payout ratio as shown in the table below.

**Table 4.3: Financial Ratio of OSP&Peers**

For Year 2019	ROE	Debt Ratio	Beta	Payout Ratio	Net income growth
OSP	18.13	0.35	1.27	0.95	8%
CBG	31.84	0.71	1.62	0.50	116%
SAPPE	15.88	0.24	0.76	0.50	15%
ICHI	6.73	0.24	1.52	0.19	829%
OISHI	19.56	0.27	0.63	0.61	22%

Source: Stock Exchange of Thailand

As seen from the table, OSP has the highest payout ratio among the peers and its debt ratio is not high. It is potentially attractive to the investor because they will get a high dividend and the risk is not too high. As mentioned, this could be reasons that caused the current price is very far from the target price. However, net income growth of OSP is substantially lower than its peers. It means that the current price is overvalued. Based on the criteria table, the target price is lower than 10% downside from current price (the target price is below 34.20), therefore, the recommendation will be “Sell the stock”





non-alcoholic beverage industry, as well as highlighting Osotspa's strength in its diversified portfolio. While its energy drink and confectionary lines underperformed, there was strong demand for the functional drink C-Vitt with the trend towards health consciousness amid Covid.

The economic risk has a strong impact on OSP's expansion plan, which has been slowed due to the economic crisis. It was noted in the Q3/2020 announcements that the downturn in international markets have not yet improved. To improve the situation, OSP's priority will be to focus on increasing production from its Myanmar plant to expand C-Vitt into domestic and neighboring countries.

**Risk of Foreign Investment (including Currency Risk).** OSP seeks to expand into foreign markets for more opportunities and to geographically diversify risks. Approximately 15% of revenue is currently generated abroad. The risk of foreign investment includes entering a new market with little brand presence nor market knowledge. There is a risk that the current product and marketing strategies will not apply to those countries. Currently, the main foreign investments are in Myanmar, with increasing presence in Cambodia and Vietnam.

Additionally, as OPS sells its energy drinks in the ASEAN market, foreign exchange rate can impact revenues and operating costs. The Thai Baht has a trend of appreciating over the next year.

**THB to USD Chart**

27 Dec 2019 00:00 UTC - 25 Dec 2020 21:36 UTC THB/USD  
close:0.03328 low:0.03023 high:0.03368



**THB to MMK Chart**

26 Dec 2019 00:00 UTC - 24 Dec 2020 21:37 UTC THB/MMK  
close:45.02249 low:40.84244 high:50.02166



Source: XE, 2020

**Figure 5.1 THB Currency Trends – USD, MMK**

The figure above illustrates the trend of the currency YTD against the USD as a proxy of the global economic trend, and MMK to represent the largest contribution to revenue from overseas. The majority of production is in Thailand, whereas the expansion into foreign markets will generate revenues in the foreign currency. This situation brings a currency risk as operating costs will be relatively higher compared to the revenue generation. This risk is mitigated through investment in the plant in Myanmar, to produce in the same country as the sales is generated.

**Competitive risk.** The beverage and personal care markets are competitive. For non-alcoholic beverages, the market is becoming increasingly saturated. OSP was previously holding 60% of market share for energy drinks in Thailand, but this has declined to 54% by 2018. While OSP is still a leading player in the industry, the market is characterized by high price sensitivity and increasing direct and non-direct (substitutes) competition. An example is the changing consumer sentiment towards more healthy products.

Although OSP has a diversified range of brands at different price points and targeting a variety of consumers, its revenues are concentrated on a small number of key products. The top brands by sales value include M-150, Shark, Lipovitan-D, C-Vitt, Babi Mild, and Twelve Plus. Any change in customer sentiment or direct competition detracting from M-150 sales could have a large impact on OSP revenue and ultimately its financial performance, for example. To mitigate this risk, OSP has launched several strategic actions to ensure the continued brand loyalty. These actions include opening new channels of sales, such as vending machines, social media, and e-commerce, as well as launching loyalty program “M-Point.”

In overseas markets, OSP will not have the brand presence as it does domestically. Therefore, there could be some difficulties in entering these markets which already have domestic brands and competition. This risk is mitigated through the choice to enter markets in the CLMV zone, whose markets are not yet mature.

**Raw Material Price Volatility.** From the gross profit margin of 35%, it is deducted that the cost of goods sold are relatively high in the industry (approximately 65% of sales). As many of the raw materials for beverage production (including the packaging) are commodities, the price of inputs is largely determined by the global markets. An example of core raw materials would be sugar, which is already impacted with new sugar tax in Thailand in 2019. These commodities' prices could be impacted by supply and demand, government controls, and taxes. Due to the price sensitivity of consumers, the increase in raw material prices cannot be passed to the customer, otherwise there is a risk of losing sales. Therefore, OSP need to realize programs such as Fit Fast Firm to increase operational efficiencies and buffer for any increase in the raw material price volatility.

**Government & Regulation Risk.** The beverage industry is subject to the tax and regulations in the countries in which they are operating. These regulations can impact OSP's costs. A recent example is the 2019 tax on beverages containing specific amount of sugar or caloric sweeteners. This tax is foreseen to increase every two years until 2023. The increase in tax could negatively impact the cost of the products and ultimately the bottom-line.

**Changing Demographics.** As the non-alcoholic beverage industry is characterized by high levels of direct and indirect substitutes, a change in consumer demographic can impact OSP's revenue. This change can take the form of aging population, consumer trends on health and nutrition, or general changing consumption patterns. Slow population growth forecasted for Thailand in next 10 years which might reduce growth potential in future.

## CHAPTER VI

### CONCLUSION

OSP is a company with almost 130 years of history. It had its origins in the pharmaceutical industry, then steadily grew with the mission and vision of “enhancing life through a culture of high performance, innovation and good governance” (Osotspa, 2019). Now, OSP is considered one of the largest Thai companies, listed in the SET50. Its core business is split among three main segments: non-alcoholic beverages, personal care, and others. In this report, I have provided an overview of the OSP, the core macroeconomic environment in which it is operating, and provided a financial analysis of the company and its valuation.

Regarding the relative valuation, Trailing P/E method is selected as the valuation tool. This method is suitable because the trailing P/E of all four peers have relatively small differences and beverage companies tend to have relatively stable profits. The target price is derived from the average P/E of peers multiplied by EPS of OSP and the outcome is equal to 27.51 baht. It is more than 10% downside from the current price, and based on the criteria, I recommend investors to sell the stock.

The relative valuation has some limitations. First, the multiple methodologies ultimately rely on historical market values of peers. If a market's value is incorrect, this method will be inaccurate. For example, it occurred Bubble crisis in the 1990s where entire technology sector was valued at tremendous high multiples. The new player will be valued at high price based on relative valuation that it may be incorrect. Second, it may be difficult to select the peers in the industry due to each company being unique or providing different services and products to customer such as Tesla. Therefore, the relative valuation method can be inappropriate with some company. Last, the denominator used in this methodology can be inconsistent with companies. For example, P/E multiple methodology, the earning is affected by capital structure which each companies have very different financing strategies. Some may finance with 40% of debt while the others have no debt, which may lead to be inaccurate outcomes.

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