

**DISCOUNTED CASH FLOW VALUATION OF  
OSOTSPA LIMITED COMPANY**



**A THEMATIC PAPER SUBMITTED IN PARTIAL  
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entitled  
**DISCOUNTED CASH FLOW VALUATION OF OSOTSPA  
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**DISCOUNTED CASH FLOW VALUATION OF OSOTSPA LIMITED COMPANY**

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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 on the SET50. Its core business is separated into three main segments: non-alcoholic beverages, personal care, and others.

The discounted cashflow (DCF) valuation method was selected to estimate the share value of Osotspa Public Company Limited based on its expected future cash flows. Key elements of the financial statement were forecasted based on the financial statement, the industry trends, and OSP's announced strategies. The CAPM model was used to compute the cost of equity, which was used in the WACC calculation. It was determined that the target price for OSP stock was THB 39.40, providing potential upside of 4% on THB 38.00 per share as at 18th Dec 2020. With the sensitivity analysis, it was determined that the intrinsic share price could range from THB 26.71 to THB 46.01, depending on the assumptions of WACC and terminal growth. This range provides an upside potential of 21% and downside risk of 30%. As the buy signal from the target price is not strong, the recommendation to investors is to HOLD the stock.

**KEY WORDS:** OSP/ Valuation/ Discounted Cash Flow/ Beverage/ Energy Drinks

53 pages

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## LIST OF ABBREVIATIONS

CAGR	Compound Annual Growth Rate
CAPEX	Capital Expenditure
CAPM	Capital Asset Pricing Model
CBG	Carabao Group PCL
CLMV	Cambodia, Laos, Myanmar, and Vietnam
COGS	Cost of Goods Sold
COVID-19	Coronavirus disease starting in 2019
DCF	Discounted Cash Flow
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings before interest, taxes, depreciation, and Amortization
EPS	Earnings per share
EV	Enterprise Value
FY	Fiscal year
GDP	Gross Domestic Product
IMF	International Monetary Fund
MMK	Myanma Kyat currency
MSCI	Morgan Stanley Capital International
PBV	Price to Book Ratio
OEM	Original Equipment Manufacturer
OSP	Osotspa limited company
PER	Price to Earnings Ratio
PV	Present Value
Rf	Risk free
ROA	Return on Assets
ROE	Return on Equity
SD	Standard deviation
SEC	Securities and Exchange Commission of Thailand
SET	Stock Exchange of Thailand
SG&A	Selling, General and Administrative Expense
THB	Thai Baht currency
WACC	Weighted Average Cost of Capital
y.o.y	Year on Year



## HIGHLIGHT

**HOLD**

**Data date December 18, 2020**



<b>Recommendation</b>	HOLD
<b>Target Price</b>	39.40
<b>Target Range</b>	26.71-46.01
<b>Closing Price</b>	38.00
<b>Upside</b>	4%
<b>52-Week Range</b>	25.25 – 48.25
<b>Dividend Yield</b>	3.3%
<b>Market Cap (MTHB)</b>	108,886
<b>P/E</b>	31.75
<b>EPS</b>	0.88

### STABLE GROWTH IN CRISIS

#### **9M2020 Announcement: Earnings stable despite global crisis**

There was a revenue impact in Q2/2020 due to the Covid-19 crisis, with Q2/2020 revenue declining 4.4% y.o.y. By 9M/2020, positive revenue growth is realized with a 1.1% increase in revenues y.o.y.

#### **Strong brand position, diversified portfolio**

A leading company in the domestic energy and functional drink market, OSP has a strong brand presence to garner customer loyalty. Its diversified portfolio mitigates the risk of declining sales. While energy drinks market declined by 14.2%, the functional drinks markets improved by 6.6% driven by trends towards health consciousness. Demand for C-Vitt products offset the decline in demand in the energy drink and personal care segments.

#### **Efficient Operations – Cost cutting contributing to higher margins**

OSP has launched a continuous improvement project planned to improve operational efficiency across all operational levels. This culture of continuous improvement started with the Fitness First program, and extended to the Fit Fast Firm initiative to reduce costs by THB 800 million in 3 years.

## **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. The financial analysis and valuation section outlines OSP's financial performance and highlights the discounted cash flow (DCF) model and its assumptions to provide a valuation of the firm. A summary of potential qualitative and quantitative risks are 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 share 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 through the DCF analysis that CAGR from 2020 to 2025 would be 3.7%, driven by GDP and beverage industry growth.

### **1.4 Recommendation**

The DCF valuation method is used to determine the value of OPS. The result from this method shows a valuation target price of THB 39.40. This provides an upside potential of 4%. The positive result is supported by the fundamentals of company, strength of financial position, diversification of products, market leader and cost efficiency. Given the uncertainty of some factors stemming from the Covid-19 pandemic as well as uncertainty in realizing the potential future growth, the recommendation to investor with a long-term horizon should "HOLD".

## CHAPTER II. BUSINESS DESCRIPTION

### 2.1 Business Overview



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.

## 2.2 Product Portfolio

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, PEPTAIN, 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



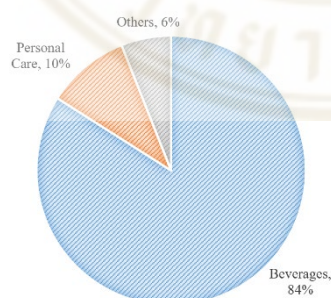
Confectionery

BOTAN, OLE

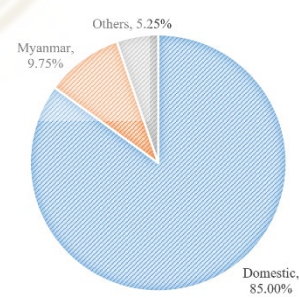
Supply chain services (distribution and manufacturing) are utilized to control the end-to-end value chain and service internal production as well as joint ventures.

## 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.

## 2.3 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.

## 2.4 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	489,081,300	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	128,568,968	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 MACROECONOMY, INDUSTRY AND COMPETITORS

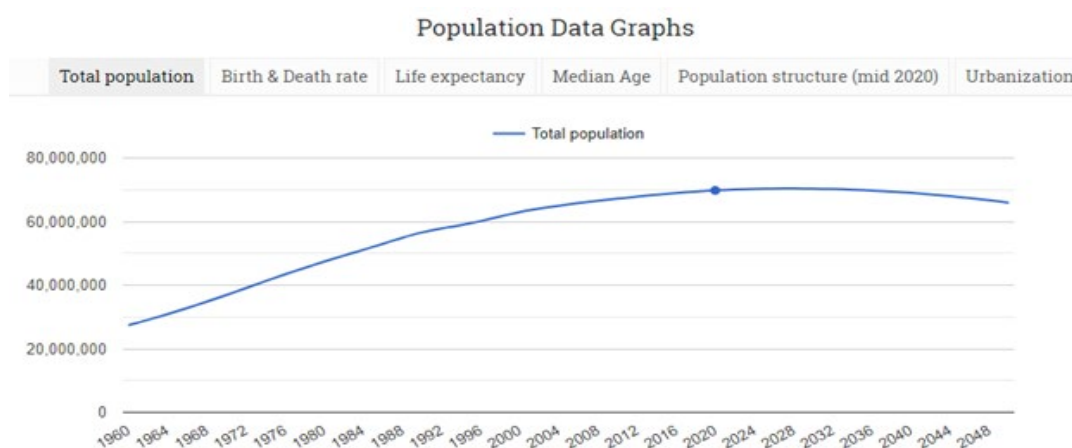
#### 3.1 Macroeconomic Analysis

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

**Table 3.2 Population trends**



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

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

OSP's revenues come from beverages, personal care, and others (healthcare and confectionery), with a very strong concentration on beverages. Focusing on the beverage industry, there are two main segmentations: alcoholic and non-alcoholic beverages. While the alcoholic beverages are classified as beers and spirits, the non-alcoholic beverages comprise of energy drinks, sports drinks, ready-to-drink (RTD) coffee, functional drinks, water and juices, and carbonates and sodas. The definitions of the non-alcoholic segmentations are provided below for reference.

**Table 3.3** Non-Alcoholic Beverage Segment Description

Non-Alcoholic Beverage	Description
Energy Drinks	Beverages which combine caffeine with other ingredients that enhances the performance of the drinkers. Usually associated with longer energy boosts. Examples include M-150, Red Bull, Carabao, Shark, Ready boost.
Sport Drinks	Beverages that provide carbohydrates and brings energy supply to the muscles; provides sodium and other electrolytes. Used to prevent



	dehydration from active and heavy physical activities. Examples of products are Sponsor, M Sport, and Carabao Sport.
Ready-to-Drink (RTD)	Beverages that provide quick intake of caffeine and can be drunk instantly. Examples include Birdy, Nescafe, and Carabao Espresso.
Functional Drinks	Beverages to enhance the health of the drinker. Products have bio-active compounds which are extracted from natural ingredients and can include some artificial vitamins or minerals. Examples include Beauti Drink, ManSome, and Peptein.
Water & Juice	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 & Sodas	Beverages that mix flavored syrup with carbonated water. They can be pure soda or sweet drinks with soda. The example of products 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.

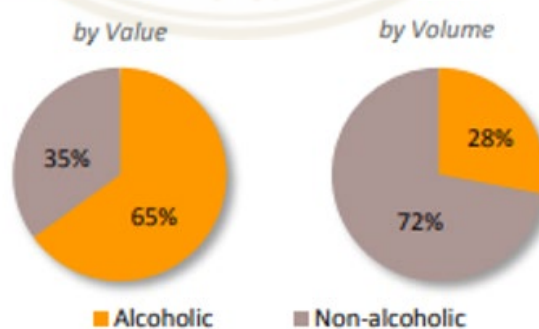
#### OSP – Five force analysis

<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,	Demand for non-alcoholic beverages is driven by consumer tastes and habits. Focusing on OSP's main revenue which contributed from M-150 as energy drink. The threat of substitutes is medium as market share up to 60% and there are only 2	Medium bargaining power for customers in energy drink due to a few suppliers (three brands) bargaining power for customers classified as medium.	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)

operating licenses.	direct competitors such as CBG and Red-Bull holding 40%. Substitution may come in the form of other beverages (eg. Substitutes of energy drinks and sports drinks)	No switching costs		
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### Industry Size

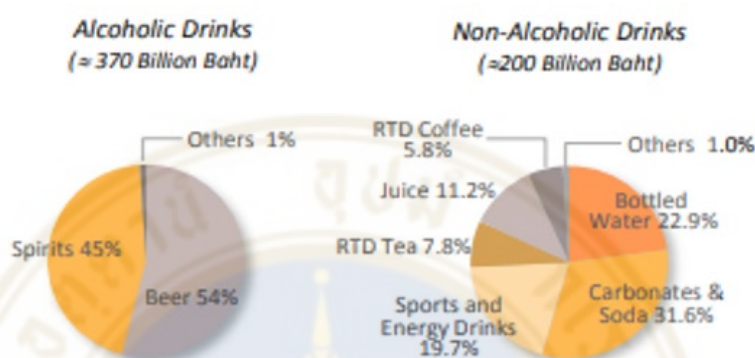
The domestic Thai beverage industry consists of two main categories: alcoholic and non-alcoholic drinks. The Krungsri Research indicates that the Thai domestic beverage industry is becoming saturated, especially in the segments related to carbonated drinks, energy drinks, beer, and spirits. The domestic 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.



Source: Euromonitor, NFI, Positioning

**Figure 3.1 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.



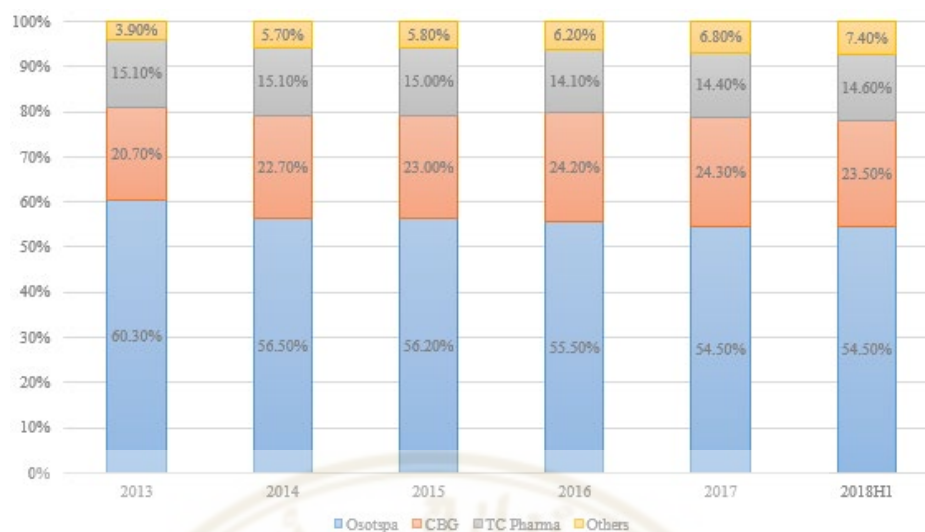
Source: Euromonitor, NFI, Positioning

**Figure 3.2 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 3.3 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.

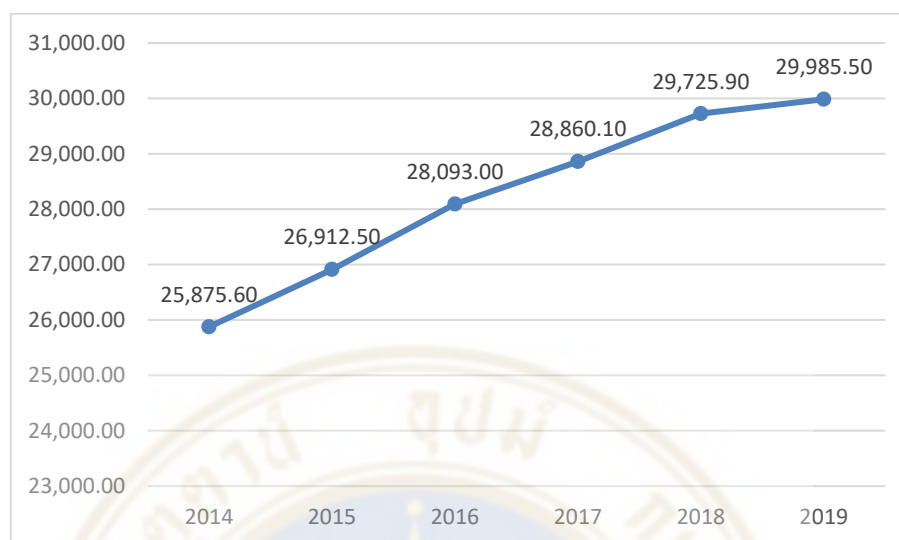
**White Collar Consumption.** While blue-collar workers are the main consumer group, there is a rise in demand from white collar workers. Working hours for the white collar group is increasing, which could increase the demand for energy drinks as people search for a boost of energy. This trend could 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 include all retail outlets such as supermarkets, convenience stores and other sales channels that customers can reach easily. While On-trade market include 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.



**Table 3.4 Sales value of energy drinks in Thailand**

*Source: Euromonitor /portal/statistics evolution*

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 and 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

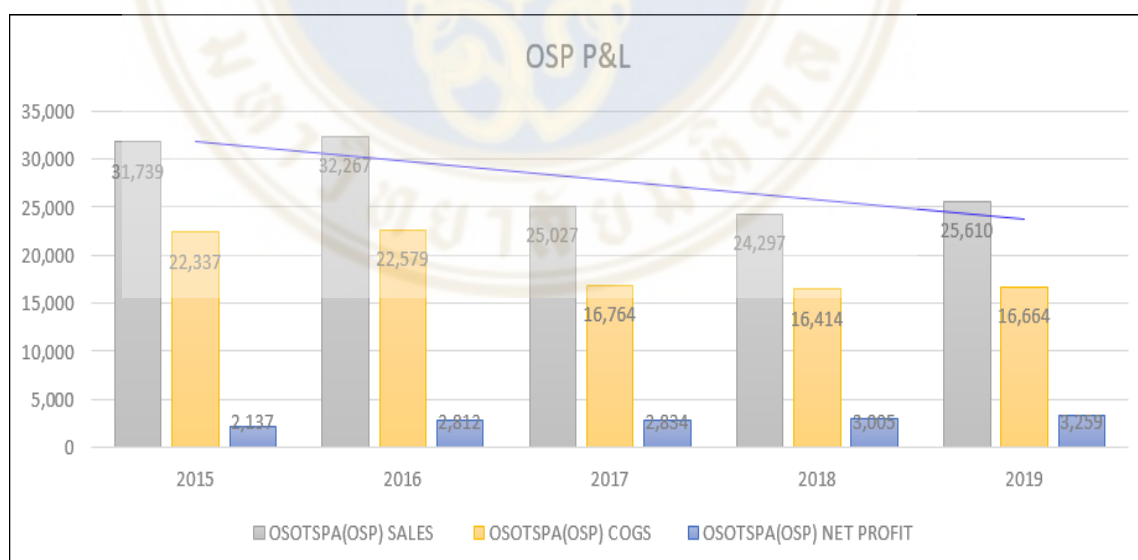
<b>STRENGTH (Internal)</b>	<b>WEAKNESSES (Internal)</b>
<ul style="list-style-type: none"> <li>• Capital higher than competitors (less Financing cost for expanding)</li> <li>• Differentiation of product: provide a variety of products such as M-150, White Shark &amp; LipoVitanD as main contribution to 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>
<b>OPPORTUNITIES (External)</b>	<b>THREATS (External)</b>
<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.

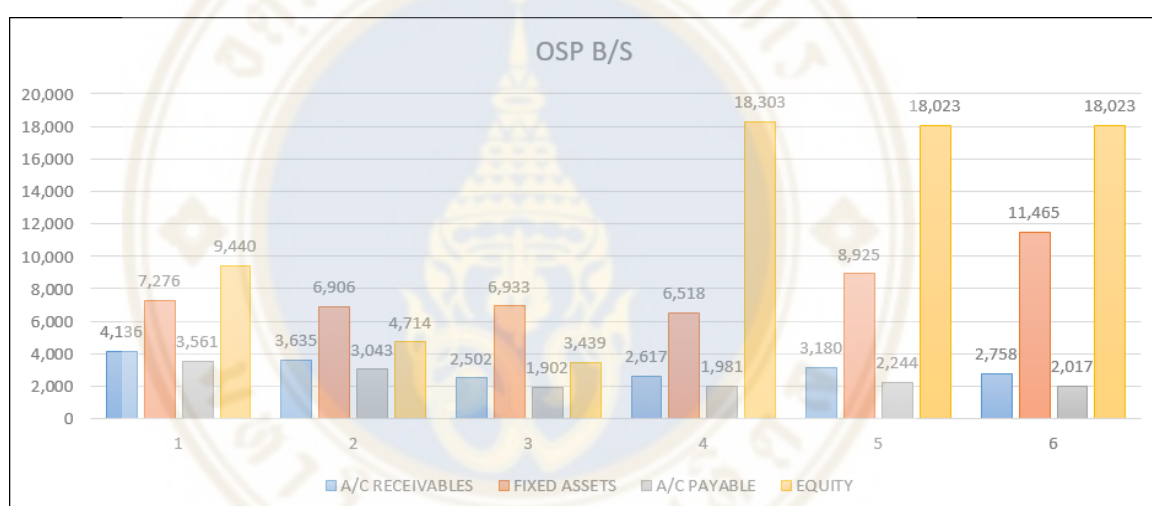
**Table 4.1 Peer Analysis - Profitability**

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

THB : Million								
OSOTSPA(OSP)	2015	2016	2017	2018	2019/Q2	2019	2020/Q2	YoY Growth Q2/19 & Q2/20
<b>KEY BALANCE SHEET ITEMS</b>								
CASH & ST INVESTMENTS	1,809	602	385	7,987	4,692	4,119	3,979	
A/C RECEIVABLES	4,136	3,635	2,502	2,617	2,539	3,180	2,897	14.09%
RELATED PARTY TRANSACTIONS	1,018	1,022	216	342	409	360	701	71.70%
INVENTORY	2,278	1,703	1,744	1,557	1,340	1,523	2,237	67.01%
Other assets								
FIXED ASSETS	7,276	6,906	6,933	6,518	7,847	8,925	11,442	
INTANGIBLE AND GOODWILL	109	181	192	544	508	610	365	
TOTAL ASSETS	19,005	16,651	15,198	23,456	22,739	24,324	26,854	18.10%
ST DEBT	1,912	5,400	6,020	0	0	0	0	
A/C PAYABLE	3,561	3,043	1,902	1,981	1,855	2,244	2,375	28.08%
Other Current Liability	608	322	827	318	2,049	524	3,026	
LONG TERM INTEREST BEARING DEBT	288	62	0	0	0	121	758	
EQUITY	9,440	4,714	3,439	18,303	17,808	18,023	18,933	



**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 – Cash Conversion Cycle**

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	2020F
<b>CASHFLOW &amp; LEVERAGE</b>						
DEPRECIATION	1,107	1,099	1,046	1,046	958	1,147
CAPEX	-1,002	-933	-1,023	-1,255	-3,498	-1,000
EBITDA	4,273	4,134	4,383	4,214	4,458	4,467
OPTG. CASHFLOW	4,381	4,040	4,317	3,612	3,652	4,617
FREE CASHFLOW		3,107	3,294	2,357	155	3,617
Total Liabilities	9,566	11,938	11,758	5,153	6,301	-3,779
DEBT/ EQUITY	101%	253%	342%	28%	35%	-21%

**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
	Million THB						Million THB				
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%
	Million THB						Million THB				
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%
	Million THB						Million THB				
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-Ta) / (1-Tb)	1.00	1.00	1.00	1.00	1.00	TC = (1-Ta) / (1-Tb)	1.00	1.00	1.00	1.00	1.00
	Million THB						Million THB				
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
	Million THB						Million THB				
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 year. 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 Discounted Cash Flow Valuation

The discounted cash flow (DCF) method is used to determine OSP's intrinsic value, with a target common share price calculated based on the present value of cash flows. This method of valuation is suitable for OSP as the business cash flows and revenue are relatively stable and able to be predicted for a specific time period.

In using the discounted cash flow method, several assumptions were made regarding the sales forecast, terminal growth rate and weighted cost of capital. Due to the sensitivity of the model to certain inputs, a sensitivity analysis is conducted to illustrate the impact of the assumptions on the calculated intrinsic valuation.

### 4.2.1 Sales Forecast

As OSP has revenue attributed to domestic sales and overseas sales, the forecast of domestic sales and overseas sales was conducted separately. The assumptions for each are detailed below.

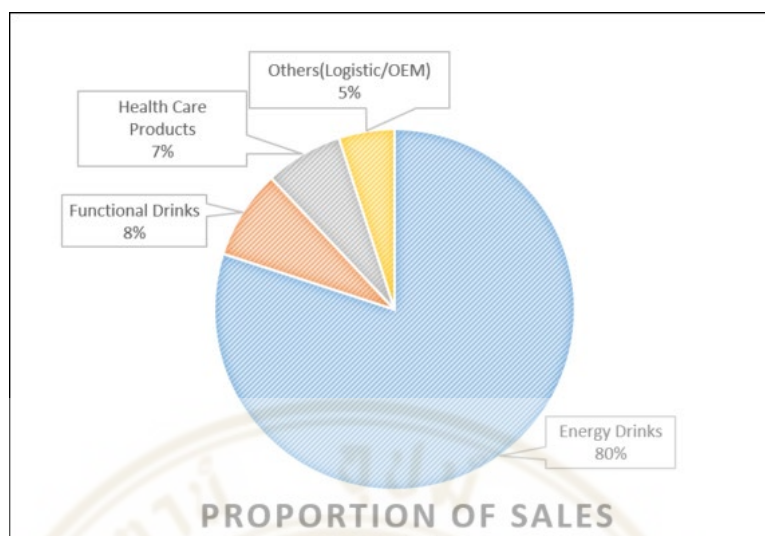
#### 4.2.1.1 Forecast of domestic sales

Two methods were used to forecast domestic sales in the next 5 years (2021 to 2025). The first method is the comparison of GDP growth and industry growth and the second is the forecasting of product consumption based on GDP per capita.

#### ***Method 1: Growth GDP & Industry comparison***

In this method, OSP's revenue was separated into 3 categories (energy drinks, functional drinks and personal care product industry) in order to find the relationship with GDP growth (2021 to 2025) to predict the change of each product segment's growth in the next 5 years as below. The assumption is that the beverage and personal care industry is impacted by the wider economy, and therefore can be forecasted based on the GDP growth forecast.



**Table 4.3 Proportion of sales****Calculation:**

$$\text{Future energy drinks industry Growth rate} = \frac{\text{Industry Growth rate}}{\text{Nominal GDP Growth rate}}$$

The results below indicate the relationship between GDP growth and each industry's growth. These results were used to forecast the revenue over the next 5 years, as illustrated in Table 4.2.

**Energy drinks:** 1.36; A unit change in GDP is related to energy drinks industry growth of 1.36.

**Functional drinks:** 10.9; A unit change in GDP implies a personal care industry growth of 10.9.

**Personal care:** 0.7; A unit change in GDP indicates a personal care growth of 0.7.

**Table 4.4 Calculation of Industry Growth**

DOMESTIC FORECASTS	Source	2017	2018	2019	2020	LAST 3Y CAGR (2017-2020)	2021F	2022F	2023F	2024F	2025F	NEXT 5Y CAGR (2021-2025)
<b>Method 1 : GROWTH COMPARISON</b>												
Nominal GDP (BT BN)	IMF - October 2020	15,487	16,366	16,876	15,583	1.7%	6,355	17,121	17,888	18,750	19,623	
Nominal GDP Growth			5.7%	3.1%	-7.7%		5.0%	4.7%	4.5%	4.8%	4.7%	
YoY % Industry Growth			-4.7%	15.2%	-0.4%		6.7%	6.3%	6.1%	6.5%	6.3%	
Industry CAGR / Nominal GDP CAGR						1.36						
Industry Size (BT MN) - ENERGY DRINKS		32,527	31,010	35,708	35,548	2.2%	7,934	40,342	42,794	45,589	48,467	
Sales		16,017	15,939	18,068	17,987		9,194	20,413	21,654	23,068	24,524	6.4%
YoY % Industry Growth							10.0%	10.0%	10.0%	10.0%	10.0%	
Industry CAGR / Nominal GDP CAGR						10.90						
Industry Size (BT MN) - FUNCTIONAL DRINKS		8,898	11,110	20,383	24,060	18.0%	6,466	29,112	32,024	35,226	38,749	
Sales		601	598	1,088	1,285		1,413	1,555	1,710	1,881	2,069	10.0%
Industry CAGR / Nominal GDP CAGR						0.70						
Industry Size (BT MN) - PERSONAL CARE		77,356	90,562	79,160	68,133	1.2%	0,495	72,807	75,092	77,625	80,155	
Sales		1,702	1,992	1,742	1,499		1,551	1,602	1,652	1,708	1,763	3.3%

**Method 2: Consumption per capita**

In this method, OSP's revenue was split into three categories in order to forecast the growth in each segment for the next 5 years. In this method, the consumption per capita was used as the proxy for industry growth to be compared with the GDP per capita.

**Table 4.5 Calculation of consumption in each segment**

DOMESTIC FORECASTS	Source	2017	2018	2019	2020	LAST 3Y CAGR (2017-2020)	2021F	2022F	2023F	2024F	2025F
<b>Method 2 : PER CAPITA CONSUMPTION</b>											
Population (Mn)	IMF - October 2020	69.21	69.43	69.63	69.80	0.3%	69.95	70.08	70.18	70.27	70.33
GDP per Capita (Bt)	IMF - October 2020	223,762	235,720	242,379	223,257	-0.1%	233,803	244,308	254,879	266,841	279,012
Consumption per head (Bt) - ENERGY DRINK		470	447	513	509		504	510	515	520	527
Industry Size (BT MN) - ENERGY DRINK		32,527	31,010	35,708	35,548	3.0%	35,283	35,769	36,112	36,549	37,041
YoY % Industry Growth			-4.7%	15.2%	-0.4%		-0.7%	1.4%	1.0%	1.2%	1.3%
GDP per Capita (Bt)	IMF - October 2020	223,762	235,720	242,379	223,257		233,803	244,308	254,879	266,841	279,012
Consumption per head (Bt) - FUNCTIONAL DRINK*		129	160	293	345		356	385	436	493	552
Industry Size (BT MN) - FUNCTIONAL DRINK		8,898	11,110	20,383	24,060	0	24,879	26,983	30,584	34,655	38,795
YoY % Industry Growth			24.5%	82.9%	17.7%		3.2%	8.3%	13.2%	13.2%	11.8%
GDP per Capita (Bt)	IMF - October 2020	223,762	235,720	242,379	223,257	(0)	233,803	244,308	254,879	266,841	279,012
Consumption per head (Bt) - HEALTH CARE		1,118	1,304	1,137	976		1,094	1,203	1,314	1,412	1,512
Industry Size (BT MN) - HEALTH CARE		-	-	-	-	-	(8)	17	13	17	20
YoY % Industry Growth			16.7%	-12.8%	-14.1%		12.1%	9.9%	9.2%	7.5%	7.1%

\* Industry size of functional drink focused on vitamin C sugar drink & water

**Calculations**

- 1) Find GDP per capita:

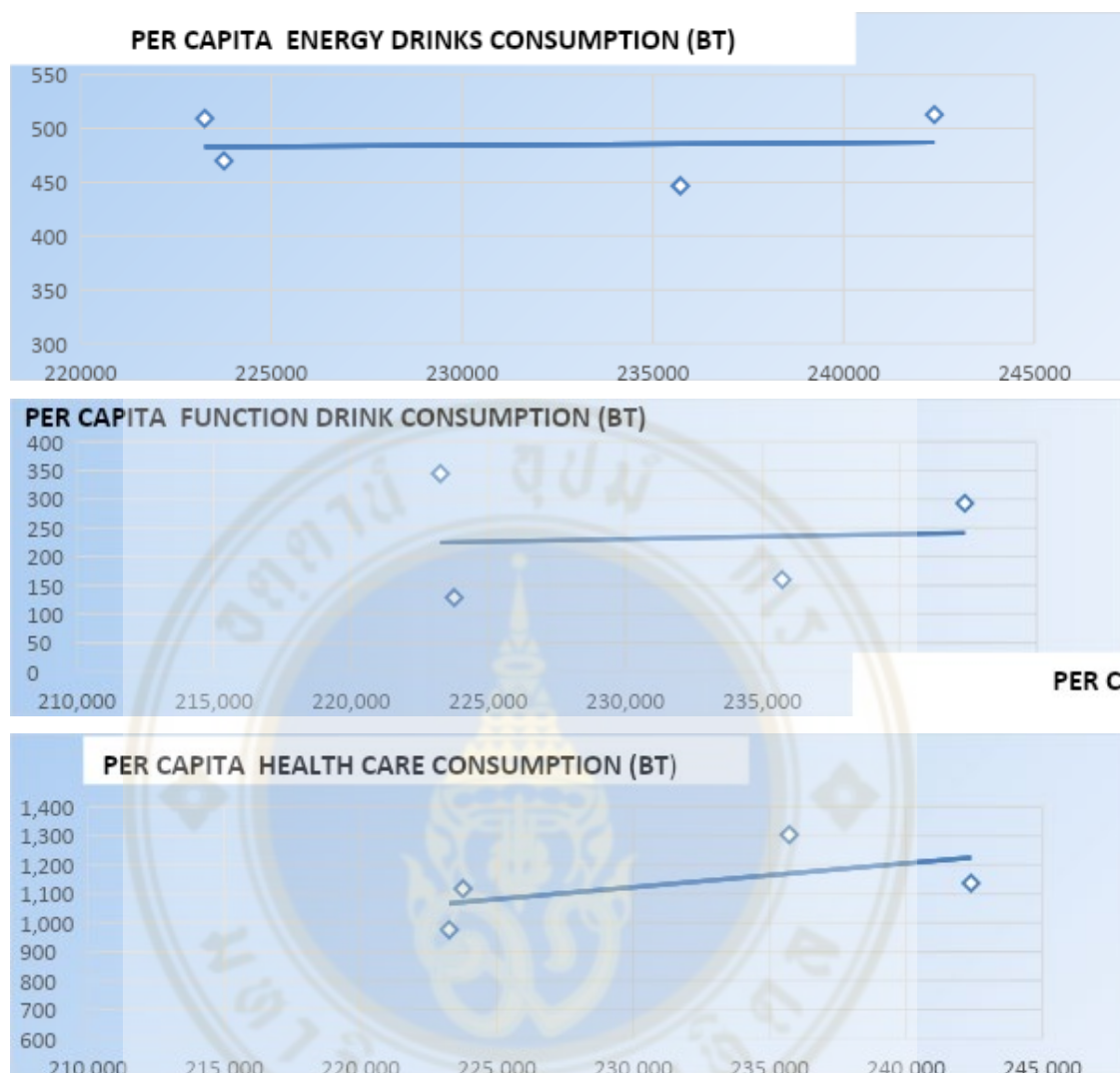
$$= \frac{\text{Nominal GDP Growth rate}}{\text{Population}}$$

- 2) Find consumption per head:

$$\text{a. Last 5 years} = \frac{\text{Industry size}}{\text{Population}}$$

- b. Next 5 years is calculated by using Linear Regression between GDP per capita and Consumption per head as follows

**Table 4.6 Linear equation between product consumption and income per capita**



- 3) Calculate industry's growth by using those next 5 years consumption per head in each industry to forecast next 5 years sales as follows:

**Table 4.7 Domestic sales growth and industry growth**

DOMESTIC FORECASTS	Source	2017	2018	2019	2020	LAST 3Y CAGR (2017-2020)	2021F	2022F	2023F	2024F	2025F	NEXT 5Y CARG (2021-2025)
<b>1.1 ENERGY DRINK</b>												
Industry Size (BT MN)	Euroonitor	32,527	31,010	35,708	35,548	2.2%	35,283	35,769	36,112	36,549	37,041	
- Growth	Method 2		-4.7%	15.2%	-0.4%		-0.7%	1.4%	1.0%	1.2%	1.3%	
Sales		16,017.16	15,939	18,068	17,987	3.9%	17,853	18,099	18,272	18,494	18,743	0.8%
Sales %	Reuter	80%	80%	83%	84%							
Domestic Volume Share (%)	Euroonitor	50.0%	51.4%	50.6%	50.6%							
<b>1.2 FUNCTION DRINK</b>												
Industry Size (BT MN)		8,898	11,110	20,383	24,060	39.3%	24,825	26,876	30,418	34,425	38,503	
- Growth	Method 2		24.9%	83.5%	18.0%		3.2%	8.3%	13.2%	13.2%	11.8%	
Sales		601	598	1,088	1,285	28.8%	1,326	1,435	1,624	1,838	2,056	9.9%
Sales %	Reuter	3%	3.0%	5.0%	6.0%							
Domestic Volume Share (%)	Euroonitor	6.8%	5.4%	5.3%	5.3%		5.5%	5.5%	5.5%	5.5%	5.5%	
<b>2. DOMESTIC PERSONAL CARE</b>												
<b>2.1 PERSONAL CARE</b>												
Industry Size (BT MN)		77,356	90,562	79,160	68,133	-4.1%	76,389	83,961	91,717	98,563	105,529	
- Growth	Method2		17.1%	-12.6%	-13.9%		12.1%	9.9%	9.2%	7.5%	7.1%	
Sales		1,702	1,992	1,742	1,499	-4.1%	1,681	1,847	2,018	2,168	2,322	9.1%
Sales %	Reuter	9%	10%	8%	7%							
Domestic Volume Share (%)	Euroonitor	2.2%	2.2%	2.2%	2.2%		2.0%	2.0%	2.0%	2.0%	2.0%	

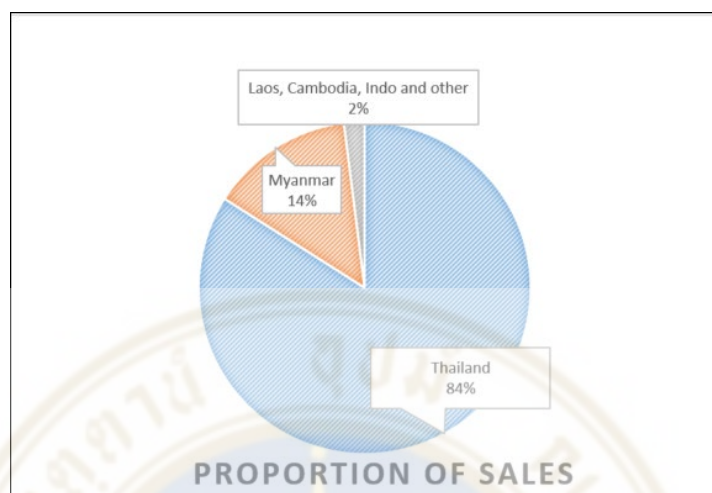
**Table 4.8 Domestic Sales Forecast 2021 to 2025**

DOMESTIC FORECASTS	Source	2017	2018	2019	2020	LAST 3Y CAGR (2017-2020)	2021F	2022F	2023F	2024F	2025F	NEXT 5Y CARG (2021-2025)
Domestic Sales (BT MN)	Average Method 1&2	20,021.45	19,923.61	21,768.90	21,413.32	2.3%	21,509	22,476	23,465	24,579	25,739	3.7%

In the last step, the weighted-average of the method 1 & 2 were combined to forecast the total domestic sales for OSP in the next 5 years. The resulting estimation was a growth rate of CARG 3.7%.



## 4.2.1.2 Forecast of overseas sales

**Table 4.9 Proportion of overseas sales**

According to OSP's annual report (2019), the majority of sales is in Thailand. The second largest proportion of sales comes from Myanmar, accounting for 14% of total sales. The remaining 2% is spread across different countries, such as Laos, Cambodia, Indonesia and Vietnam. This small proportion of sales will not be considered in forecasting the future revenues. Therefore, the overseas sales will be predicted using information of the Myanmar market, in which OSP invested and expanded two energy drink products since 2018 (Shark & M-150).

The method used to predict the next 5 years growth is to find a relationship between the GDP growth rate and Myanmar industry growth rate (energy drinks) as follows.

***Calculations***

$$\text{Future energy drinks industry Growth rate} = \frac{\text{Industry Growth rate}}{\text{Myanmar Nominal GDP Growth rate}}$$

**Table 4.10 Sensitivity of Myanmar GDP to energy drink industry**

Method 1 : GROWTH COMPARISON											
Nominal GDP (BT BN)	IMF - October 2020	82,700	92,789	105,012	113,920	11.3%	128,795	145,988	165,188	187,052	211,891
Nominal GDP Growth			12.2%	13.2%	8.5%		13.1%	13.3%	13.2%	13.2%	13.3%
YoY % Industry Growth			3.6%	5.4%	-15.1%		5.2%	5.3%	5.2%	5.3%	5.3%
Industry CAGR / Nominal GDP CAGR						40%					
Industry Size (BT MN) - ENERGY DRINKS		10,726	11,107	11,708	9,944	4.5%	10,460	11,015	11,591	12,200	12,844
Sales		3,754	3,888	4,098	3,779		3,975	4,186	4,404	4,636	4,881

From this calculation, we got a result that a unit change in Myanmar GDP impacting to an energy drinks industry growth 0.4 times

**Table 4.11 Overseas Sales Forecast Next 5 Years**

OVERSEA FORECASTS	Source	2017	2018	2019	2020	LAST 3Y CAGR (2017)	2021F	2022F	2023F	2024F	2025F	NEXT 5Y CARG
Oversea Sales (BT MN)	Method 1	3,754.02	3,887.53	4,097.68	3,778.82	0.2%	3,974.89	4,185.73	4,404.48	4,636.13	4,880.76	5.3%

The next 5 years growth rate after forecasting overseas sales for 2021F to 2025F equivalent to 5.3% as shown in table above.

The total sales (overseas and domestic) is forecasted by combining the overseas sales and domestic sales together.

#### 4.2.2 Cash Flow Forecast

As part of the DCF, the cashflow has been forecasted, as shown in the below table. Key assumptions of the cashflow forecast are discussed in this section.

**Table 4.12 Terminal value and Discounted Cashflow**

OSOTSPA (OSP) THB : Million	0	1	2	3	4	5	Terminal Value		
	2019	2020	2021	2022	2023	2024	2025		
EBIT	3,500	3,321	3,632	4,244	4,867	5,425	5,917		
TAX	718	663	724	846	970	1,081	1,179		
EBIT AFTER TAX	2,782	2,658	2,907	3,398	3,897	4,344	4,738		
+ DEPRECIATION	958	1,147	1,300	1,400	1,500	1,600	1,700		
+ WORKING CAPITAL CHANGE	266	-150	29	108	111	123	129		
- CAPEX	3,498	1,000	1,100	1,210	1,331	1,464	1,611		
CASHFLOW TO THE FIRM	508	2,655	3,136	3,696	4,177	4,604	4,957	143,586	
DISCOUNTED CASHFLOW		2,655	2,916	3,194	3,356	3,439	3,442	99,724	PV OF FIRM VALUE 118,726

$$\text{Cashflow to the Firm} = \text{EBIT after Tax} + \text{Depreciation} + \text{Working Capital Change} - \text{Capex}$$

**EBIT after Tax.** To forecast the EBIT after tax, the operating cost, interest, and tax rate were all forecasted. Sales forecast methodology was explained in the previous section. The COGS was assumed to be 65% of sales, based on the historical trend of the last 3 years. Additionally, due to the Fit – fast – firm campaign, it was estimated that the operating costs would reduce by THB 800 million over the next 5 years. The tax rate is assumed to be 20%.

**Change in Working Capital.** The main components of working capital are the accounts receivable, accounts payable and inventory. The accounts receivable, inventory, and accounts payable were forecasted based on the AR days, Inventory Days, and AP days, respectively. The ratios were forecasted based on the historical trend, and it was assumed that these ratios would remain constant into the future.

The changes in working capital were calculated through calculating the working capital changes per year.

**Capex & Depreciation.** Depreciation was considered as a function of fixed assets; it was estimated to be 10% of fixed assets in the balance sheet, as per the historical trend. The fixed assets averaged at a growth of 8% per year, with exception of 2019, where new plant was built in Myanmar.

Capex averaged at THB 1 Billion per year with the exception of 2019, with the set up of bottling plant in Myanmar. With the investments and growth strategy of OSP, it is assumed that capex will grow at a rate of 10% per annum.

#### **4.2.3 Terminal Growth Rate**

The terminal growth rate of OSP was assumed based on the forecasted growth rate for the domestic and overseas market, where the latter was estimated based on the forecasted growth rate in Myanmar. As per the section on sales growth, the growth rate was an estimation of the three industries as a function of GDP or GDP per capita. The terminal growth rate follows the same logic. The result is a terminal growth rate of approximately 3.97% as below.

**Table 4.13 Terminal Growth Rate**

Growth	Long term Growth	PROP.
Total	3.97%	
Domestic sales	3.75%	85%
Oversea sales	5.25%	15%

The underlying assumption is that the product portfolio mix will remain relatively stable (e.g. energy drinks will remain as the core business) and the proportion of domestic sales to overseas sales will also remain stable.

To cross-check the validity of the terminal growth rate, the terminal growth rate was compared to the Thailand's GDP growth rate. After evaluating and comparison, it is concluded to accept the 3.97% as the terminal growth rate beyond 2025 as well, as not exceeding the GDP CAGR 5.5%.

**Table 4.14 Thailand's GDP 2020 to 2025 CAGR**

Geography	Category	Data Type	Unit	Current Constant	2020 - 2025 CAGR %
Thailand	GDP	Socio-economic Indicators	THB million	Current Prices	5.5

Source: Euromonitor/Thailand GDP CAGR

#### 4.2.4 WACC Calculation

The weighted average cost of capital (WACC) takes into account the cost of equity and the cost of debt. The WACC for OSP is calculated to be 7.56%, implying that the expected return to shareholders and debtholders is approximately 7.56%. The table below indicates the inputs used to calculate the WACC.

**Table 4.15 Components of WACC**

TERMINAL GROWTH	3.97%		Growth	Long term Growth	PROP.
BETA	0.83	Setsmart	Total	3.97%	
RISK FREE	1.41%	Thaibma(10 Years Government Bond)	Domestic sales	3.75%	85%
EQUITY RISK PREMIUM	7.58%	Damodaran included country risk	Oversea sales	5.25%	15%
RQD, RETURN ON EQUITY	7.70%	The expected return from the investors (CAPM)			
			Current Share price		38
COST OF DEBT	3.24%		# shares (Mn)		3,003.75
AFTER TAX COST OF DEBT	2.59%		Equity Value (BtMn)		18,023
Tax	20.00%		Debt (BtMn)		502
WACC	7.56%		DEBT / (EQUITY + NET DEBT)		3%

$$\begin{aligned}
 \text{Weighted Average Cost of Capital} &= \frac{E}{V} \cdot R_e + \left(\frac{D}{V} \cdot R_d\right)(1 - T) \\
 &= (97\%)(7.7\%) + (3\%)(3.24\%)(1-20\%) \\
 &\approx 7.56\%
 \end{aligned}$$

Key assumptions and the calculation of WACC are further elaborated below, explaining the components of the cost of debt and cost of equity.

### Cost of Equity

The cost of equity ( $R_e$ ) is the rate of return that shareholders would require to compensate for the risk of investing. OSP's cost of equity was derived using the capital asset pricing model (CAPM) method, which is described as below:

$$\text{Req. Return on equity} = \text{Risk free rate} + (\text{Beta} * \text{Equity Risk Premium})$$

As there is no investment that is considered as completely risk-free, the yield of the 10-year Thai government bond was used as a proxy for the risk-free rate. It is determined to be 1.42% (ThaiBMA, 2020).

The equity risk premium was derived from NYU Stern database for Thailand (Damodaran), where the equity risk premium is listed as 7.58%

OSP is considered as a large-cap company with high liquidity, as noted through its membership in the SET50 Index, which comprises the top 50 companies with the highest market capitalization and liquidity in Thailand. Due to the liquidity and high market capitalization, OSP is considered as less volatile and less risk than the market. The beta was calculated through the regression of OSP returns on the SET using 1.5-year daily returns. The resulting beta was 0.83, implying that OSP stock is less volatile than the market. With these assumptions, the required return on equity is:

$$\begin{aligned}
 \text{Req. Return on equity} &= 1.41\% + (0.83 * 7.58\%) \\
 &= 7.7\%
 \end{aligned}$$



## Cost of Debt

The cost of debt ( $R_d$ ) was extrapolated from the effective interest rate that OSP pays on existing debt, defined as the external financing such as interest-bearing long-term loans. The effective cost of debt is calculated to be 3.24%. With a tax rate of 20%, the after-tax cost of debt is 2.59% after its IPO in 2018, OSP deleveraged significantly, with the debt as a proportion of total value equivalent to approximately 3%.



### 4.2.5 DCF Valuation Results

The results from the previous section were combined to calculate the present value of equity value, which was equivalent to THB 119 billion. Divided by the number of shares, the estimated share price should be THB 39.40.

**Table 4.16 Estimation of share value**

	2020			
PV OF FIRM VALUE	118,726			
NET DEBT	502			
PV OF EQUITY VALUE	118,224			
No. OF SHARES (MN)	3,004	Current Share price	18-Dec-20	38
EST. SHARE VALUE	39.4		Upside	4%

The estimated stock value provides a 4% upside to the current share price as at Dec 18<sup>th</sup>, 2020.

### 4.3 Sensitivity Analysis

Throughout the DCF model, there were several assumptions that were made to determine the intrinsic value of OSP. Sensitivity analysis was conducted for the terminal growth rate and the WACC.

**Table 4.17 Sensitivity Analysis**

		Terminal Growth						
		2.47%	2.97%	3.47%	3.97%	4.47%	4.97%	5.47%
WACC	6.04%	41.7	47.7	56.0	68.2	88.3	127.1	234.1
	6.54%	36.6	41.0	46.8	55.0	67.0	86.7	124.8
	7.04%	32.6	36.0	40.3	46.0	54.0	65.8	85.1
	7.54%	29.4	32.0	35.3	39.6	45.2	53.1	64.7
	8.04%	26.7	28.9	31.5	34.7	38.9	44.4	52.1
	8.54%	24.5	26.3	28.4	30.9	34.1	38.2	43.6
	9.04%	22.6	24.1	25.8	27.9	30.4	33.5	37.6

The sensitivity analysis was conducted with a 0.5% step change in terminal growth and WACC. The table above illustrates the share price change based on the

different parameters used. The maximum price is equivalent to THB 234.10 and the lowest price is equivalent to THB 22.60.

From the table, it is noted that a small change in WACC or terminal growth rate could impact the calculated valuation. For example, a 0.5% increase in WACC results in a share price of THB 34.70, which would indicate a downside potential of 2% compared to the upside potential of 12% with a WACC of 7.56%. Conversely, a 0.5% decrease in WACC would increase the price to THB 46.0.

Regarding the WACC, the weighted average cost of capital is mostly impacted by the cost of equity due to the low levels of debt after IPO. Given that the average company listed on the SET have WACC between 9% to 10%, it is unlikely that the estimated WACC for OSP to be below 6.5%. At the same time, OSP has high market capitalization (THB 105 billion), present on the SET 50 as the top 50 companies with the highest market capitalization and high liquidity, it is determined that the risk is lower than for other Thai companies. Investors would not require the return on equity as high as its riskier counterparts. Therefore, it is most likely that the WACC would be within the range of 6.5% to 8.5%.

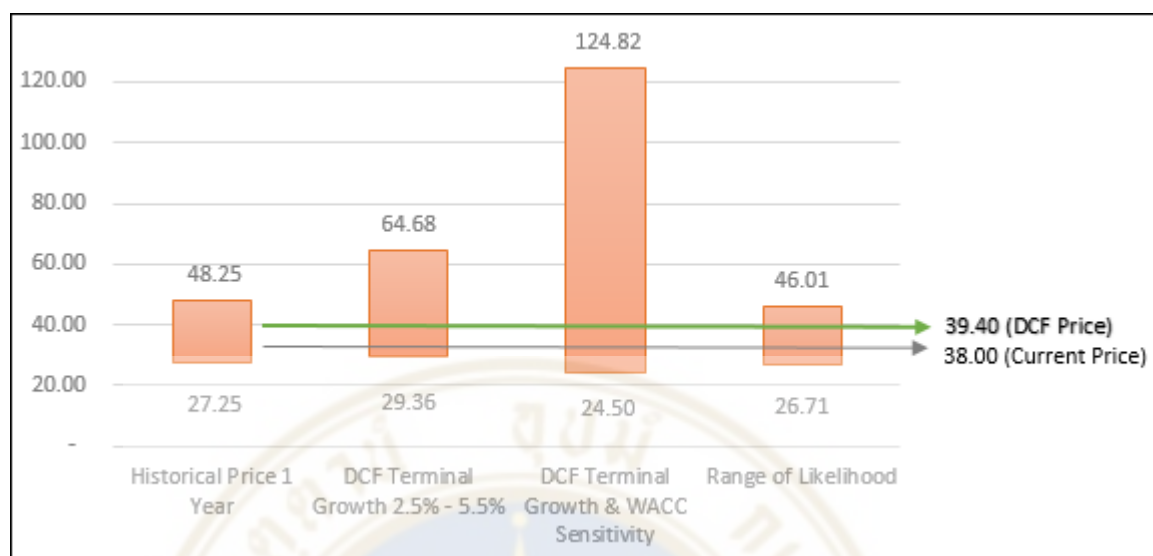
Another sensitivity test was conducted to hold the share price constant at its current share price (THB 38.00) and calculate the implied cost of equity at variable terminal growth rates, all other variables constant. The table below indicates the results.

**Table 4.18 Implied Return on Equity and Implied WACC**

THB 38.00						
Terminal Growth Rate	1.00%	2.00%	3.00%	3.97%	5.00%	6.00%
Return on Equity (Implied)	5.53%	6.40%	7.27%	8.13%	9.04%	9.94%
WACC (Implied)	5.45%	6.29%	7.15%	7.98%	8.87%	9.74%

The implied return on equity for the share price of THB38.00 is approximately 8.13% given the assumed terminal growth rate. The implied return on equity is at a reasonable rate for Thailand stocks. However, at lower terminal growth rates, the implied return on equity becomes too low to be valid. The implication is that, although the original DCF parameters provided a share price with upside potential, the signal may not be strong.

## 4.4 Valuation Recommendation



**Figure 4.19 Valuation Summary**

The estimated intrinsic share price, as calculated from the DCF was THB 39.40, providing upside potential of 4%.

The valuation summary illustrates the summary of information regarding the share prices. The historical price 1 year identified the high and low of OSP in the last 52-week period. The DCF terminal growth 2.5% - 5.5% indicates the calculated share price from the DCF with the terminal growth rate variable between the range of 2.5% and 5.5%, all other variables constant. Lastly, the DCF terminal growth and WACC sensitivity illustrates the upper and lower limit in share price from the sensitivity analysis with WACC range 6.5% to 8.5% and terminal growth rate from 2.5% to 5.5%.

Although the price valuation summary appears to provide high upside potential compared to the current price of THB 38.00, several considerations are taken into account. The sensitivity of the WACC and terminal growth rate can cause a high variability in recommended prices (as per THB 100 range from the sensitivity analysis). It was determined that the most likely range for WACC and terminal growth rate are 7.0%-8.0% and 2.5% - 4%, respectively. This assumption generated the range of share price from THB 26.71 to THB 46.01, illustrated in the valuation summary as “Range of Likelihood.”

**Table 4.20 Upside and Downside Potential**

	Price	Potential
Current Price	38	
High	46.01	21%
Target Price	39.4	4%
Low	26.71	-30%

From the range, it is observed that there is a potential upside of 21% and a downside potential of 30%. Additionally, from the conclusions of the implied rate of return, the buy recommendation is not considered strong. Therefore, it is concluded OPS stock is not undervalued and recommend to HOLD.





## CHAPTER V

### INVESTMENT RISKS & DOWNSIDE POSSIBILITIES

An investment risks and downside possibilities are applied by estimating the impact and likelihood of incidents below to foreseen future negative impact and downside as follows:

**Table 5.1 Risk Matrix**

RISK ASSESSMENT MATRIX			
Low -->	Slow population growth	Foreign Investment Risk (Incl. Currency)	
Risk Matrix	Demographic Changes	Government & Regulation Risks Raw Material Price Risk	Competition risk Economic Risks
<--High			
	<-- Low	Likelihood	High -->

**Economic Risk.** Due to the global Covid-19 crisis, the economy went in a downtrend in 2020, impacting purchasing power. The pandemic had an impact on almost all industries, including those considered defensive, such as FMCG, food and beverage, and supermarkets. With events such as the lockdowns in multiple cities and the protests in Bangkok, there was an impact on employment and on the ability of people to purchase goods. There was an evident impact on OSP financials with less than positive results in Q2/2020; there was a recovery period in Q3/2020, with positive sales growth of 1.1%

y.o.y for 9M2020. The gradual recovery highlights the resilience of the 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 sales generation.

**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 are 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 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 a financial analysis of the company and its valuation.

The discounted cashflow (DCF) valuation method was selected to estimate the share value of Osotspa Public Company Limited based on its expected future cash flows. Key elements of the financial statement were forecasted based on the financial statement, the industry trends, and OSP’s announced strategies. The CAPM model was used to compute the cost of equity, which was used in the WACC calculation.

It was determined that the target price for OSP stock was THB 39.40, providing potential upside of 4% on THB 38.00 per share as at 18th Dec 2020. With the sensitivity analysis, it was determined that the intrinsic share price could range from THB 26.71 to THB 46.01, depending on the assumptions of WACC and terminal growth. This range provides an upside potential of 21% and downside risk of 30%. As the buy signal from the target price is not strong, I recommend investors to HOLD the stock.

The DCF analysis has some limitations which could impact the validity of the target price. There were several assumptions that needed to be made to progress with the valuation. The target share price was very sensitive to an incremental change in the WACC, which could change the recommendations. Furthermore, there were several operational assumptions made regarding the future cash flows and the terminal growth rate, impacting the valuation. One of these assumptions included the consistency of cash conversion cycle, which was used to estimate the working capital portion of the cash flow. In 2020, it was already observed that customer payment terms would be extended



in response to the global crisis. Furthermore, the assumptions concluded for the sales growth and terminal growth rate were based on the economic growth of two countries and three industries. The proportion of sales and growth rate are assumed to be constant, but with the ambition to expand internationally and into several markets such as Vietnam and Cambodia, the geographical and product profile of sales could change.

Several of the assumptions were made based on the assumption that the publicly announced initiatives will have moderate or high levels of success. For example, the assumption of improved net profit margins stems from the estimation of cost optimization of THB 800 m over 3 to 5 years with the Fit Fast Firm initiative. It also assumes sales growth will be maintained through the e-commerce strategy and modern sales point strategy (such as vending machines). The assumption is further included that there will be successful penetration and growth in the Myanmar market with the new bottling plant. If the successes are not realized, then the forecasts will be incorrect and will need to be revised downward.

Lastly, the DCF does not take into account any future events which could strongly impact OSP's strategy or performance, such as those listed in the risk section. An example of items not accounted for are potential future investments and joint ventures, which appears to be a popular strategy as highlighted by its JV with Japan's Calpis, investment in a vending machine company, and JV with Myanmar's Loi Hein.



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