

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

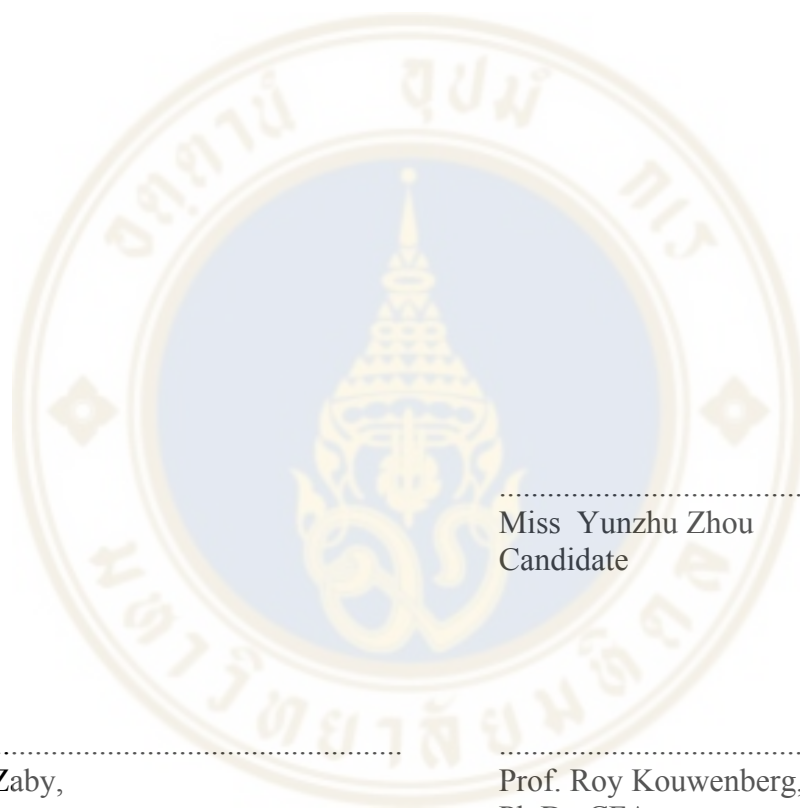


**A THEMATIC PAPER SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR
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Thematic paper
entitled
**DISCOUNTED CASH FLOW VALUATION OF OISHI GROUP
PUBLIC COMPANY LIMITED**

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.....
Miss Yunzhu Zhou
Candidate

.....
Simon Zaby,
Ph.D.
Advisor

.....
Prof. Roy Kouwenberg,
Ph.D., CFA
Chairperson

.....
Assoc. Prof. Vichita Ractham,
Ph.D.
Dean
College of Management
Mahidol University

.....
Worapong Janyangyuen,
D.B.A.
Committee member

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Yunzhu Zhou

DISCOUNTED CASH FLOW VALUATION OF OISHI GROUP PUBLIC COMPANY LIMITED

YUNZHU ZHOU 6249144

M.M. (CORPORATE FINANCE)

THEMATIC PAPER ADVISORY COMMITTEE: SIMON ZABY, Ph.D., PROF.
ROY KOUWENBERG, Ph.D., CFA, WORAPONG JANYANGYUEN, D.B.A.**ABSTRACT**

In this paper, the discounted cash flow (DCF) valuation method was selected to estimate the share value of Oishi Group Public Company Limited (Oishi), based on the projections of expected cash flows. In light of the Covid-19's changing customer behavior, which has resulted in an increase in the healthy and well-being trend as well as the rapid development of online meal delivery, Oishi's growth in both the food and beverage businesses has been boosted. Oishi's target stock price for the year ended 2021 was expected to be 49.33 Baht per share, representing an 18% increase over the current price of 41.75 Baht per share on July 7, 2021. According to our DCF analysis, the present stock price is undervalued. As a result, we issued a BUY recommendation. Furthermore, there were several flaws in DCF valuation, such as future cash flow predictions being less accurate in a unique situation like the Covid-19 outbreak. Therefore, the value must be carefully examined. However, the valuation value provides investors and other interested parties in food beverage companies with guidance on intrinsic valuation.

KEY WORDS: Oishi/ Valuation/ Discounted Cash Flow/ Beverage/ Food

80 pages

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LIST OF ABBREVIATIONS

1Q	First Quarter
1Q 2020	First Quarter of 2020
1Q 2021	First Quarter of 2021
ASEAN-5	Indonesia, Malaysia, The Philippines, Singapore and Thailand
ASEAN	Association of Southeast Asian Nations
BOD	Board of Directors
BV	Book Value
BVPS	Book Value Per Share
CAGR	Compound Annual Growth Rate
CAPEX	Capital Expenditure
CAPM	Capital Asset Pricing Model
COGS	Costs of Goods Sold
Covid-19	Coronavirus Disease 2019
CG	Corporate Governance
Oishi / The company	Oishi Group Public Company Limited
DCF	Discounted Cash Flow
EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortization
EBIT	Earnings Before Interest and Taxes
EPS	Earnings per share
EV	Enterprise Value
EV/EBITDA	Enterprise Value-to-Earnings Before Interest, Taxes, Depreciation, and Amortization
FCF	Free Cash Flow
FMI	The Food Marketing Institute
GDP	Gross Domestic Product
HTC	Haad Thip Public Company Limited

LIST OF ABBREVIATIONS (cont.)

Ichitan	Ichitan Group Public Company Limited
IMF	International Monetary Fund
IOD	Institute of Directors Association
MN	Million
NHB	Naturally Healthy Beverages
NI	Net Income
R&D	Research and Development
P/BV	Price-to-Book Value Ratio
PCL	Public Company Limited
P/E	Price-to-Earnings Ratio
PR	Public Relations
PV	Present Value
Rf	Risk Free Rate
ROA	Return on Assets
ROE	Return on Equity
RTD	Ready-to-drink
SAPPE	Sappe Public Company Limited
SD	Standard Deviation
SET	Stock Exchange of Thailand
SG&A	Selling, General and Administrative Expenses
SSB	Sugar-Sweetened Beverage
SSS	Same-Store Sales
TFMAMA	Thai President Foods Public Company Limited
TFRS	Thai Financial Reporting Standards
ThaiBev	Thai Beverage Public Company Limited
THB	Thai Baht
TIPCO	Tipco Foods Public Company Limited
WACC	Weighted Average Cost of Capital
YoY	Year-Over-Year

CHAPTER I

INTRODUCTION

Oishi Group Public Company Limited (Oishi) is a subsidiary of Thai Beverage Public Company Limited (ThaiBev) and was listed on the Stock Exchange of Thailand (SET) in August 2004. The company was established in 1999 and is situated in Bangkok, Thailand. Oishi operates Japanese restaurants throughout Thailand and around the world through its subsidiaries. It is divided into two segments: Food and Beverage. The company also sells ramen, snack, frozen meals, ready-to-cook, ready-to-eat items, green tea, fruit juice flavoured drinks, herbal drinks, and drinking water, besides food and beverage products under the Oishi brand.

Oishi is a mid-market capital stock with a market value of 15.7 billion baht. ThaiBev, which is Oishi's largest shareholder, has the majority of 79.66% of the company's paid-up capital. Furthermore, Oishi's dividend payout is roughly 55% to 65%. Due to high cash-generating capabilities and liquidity, it will reach 77% in 2021, with a dividend policy of not less than 40% (Oishi, 2021).

The company's total sales and service revenue were 11,007 million THB in 2020, down 19.2% from 13,631 million THB in 2019, due to Covid-19 pandemic, particularly lockdown regulations. Oishi As a result, the ratio of beverage sales and services to food sales and services fell to 55:45 from 48:52 in the previous year. In addition, the ratio of domestic to international revenue is roughly 90:10 (Oishi, 2021).

According to the sales projections, it is assumed to increase by 0.7% of compound annual growth rate (CAGR) from 2021 to 2024, primarily due to increased domestic and international total sales. After 2024, we estimate that the company's sales will rise at a constant rate of 0.7% per year, based on the expected total sales revenue growth rate for both the domestic and international markets. Sales revenue for two segments is estimated by establishing a link with nominal GDP, consumption spending, and population predictions.

The objective of this paper is to estimate the stock price of Oishi for the years 2021 and 2022, using the DCF valuation, including the study of financial and business performance. So, first of all, there will be an introduction of Oishi with its product portfolio and operational activities. Secondly, the analysis of the country's economy, industry in which Oishi is operating also, comparable competitors to apply in Porter's Five Forces model will describe. Next, historical financial statements analysis is conducted, besides critical statements projections are carried out. Following is the valuation of Oishi and the potential risks and downside possibilities that may affect the recommendation. Finally, the conclusion part will summarize all analysis and valuation results.

We recommend a "BUY" for Oishi Group Public Company Limited's stock with a target price of 49.33 Baht, representing an 18% upside from the closing price of 41.75 Baht on July 7, 2021, the Discounted Free Cash Flow to Firm method.

Table 1.1 Market Profile and Recommendation

Data Date July 7, 2021	
Recommendation	BUY
Target Price	THB 49.33
Closing Price	THB 41.75
Upside	18%
52-Week Range	37.25-51.5
Dividend Yield	2.97%
Share Outstanding	375 M
Market Cap	15,656.25 M
P/E	21.43
EPS	THB 1.88
Dividend Per Share	THB 1.24



Source: S&P Capital IQ (2021)

CHAPTER II

BUSINESS DESCRIPTION

2.1 Introduction to Oishi PCL.,

Oishi is regarded as one of the largest Thai Conglomerates operating Japanese restaurants and distributing Green Tea Beverages. Oishi has had a strong market position and significant market share in the food and beverages industry for 20 years.

Oishi was established in 1999 and ran a Japanese restaurant operation under the "Oishi" brand name in Thailand. In 2004, Oishi was listed on SET with the registered capital of THB 375 million, in the name of ticker OISHI. Started in 2007, Oishi introduced non-alcoholic beverages. After two years of being a listed company, ThaiBev became the major shareholder with 79.66% in 2008. In 2019, Oishi Delivery Company Limited was set up to meet customers' lifestyles and demands with delivery and online services.

Oishi is operating businesses and exporting its products worldwide. Oishi established Oishi International Holdings Limited in Hong Kong in 2012 to support international expansion. Further, in 2014, more subsidiaries were founded in Thailand, Singapore, Myanmar, and Vietnam to expand their presence. Later, Oishi set up not only subsidiaries but also business operations that were generated in foreign markets.

Remarkably, in February 2020, the company changed Par Value to THB 1/share from an initial of THB 2/share, which will be effective onwards. Currently, the shares outstanding of Oishi is 375 million in total. The company has achieved Thailand's Most Social Award 2020 and Thailand's Most Admired Brand 2020. Also, the company has been appraised as "A+" for the credit rating by Tris Rating Co., Ltd. The rating reflects Oishi's strong position in the market as a well-recognized brand and healthy finance. As for the outlook, Oishi is expected to be stable and will be able to

sustain its position in both the ready-to-drink (RTD) tea market and restaurant businesses (Oishi, 2021).

Oishi's RTD tea sustained the number one market share among competitors in 2020 during the Covid-19 pandemic, though revenue was lower than in 2019 (Figure 2.1). As a market leader, the Oishi beverage sector has held a strong position as number one in Cambodia, Laos, and Myanmar, although the Covid-19 situation affected exporting (Oishi, April 8, 2021).

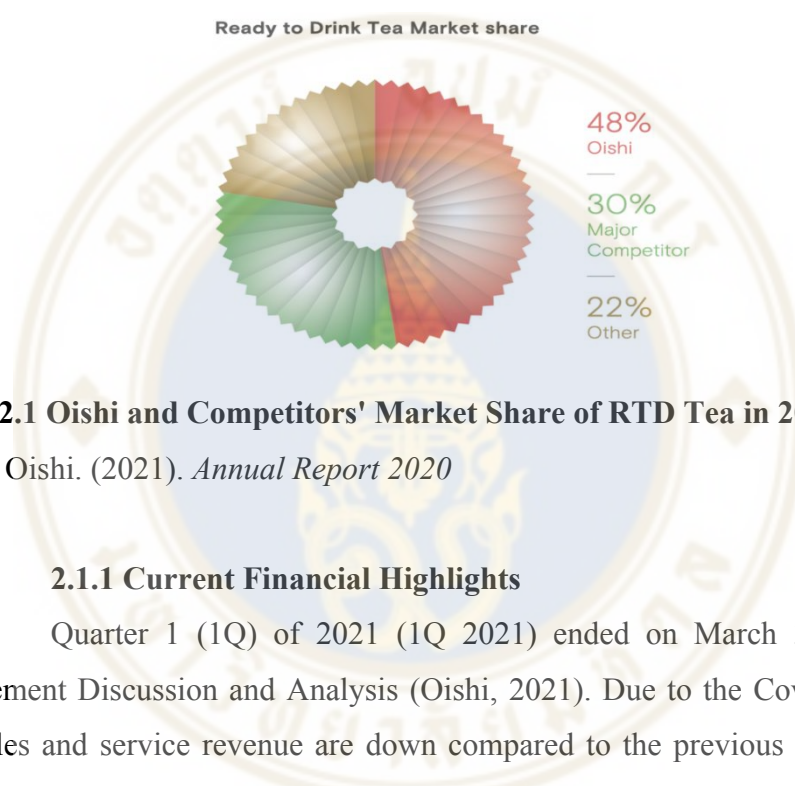


Figure 2.1 Oishi and Competitors' Market Share of RTD Tea in 2020

Source: Oishi. (2021). *Annual Report 2020*

2.1.1 Current Financial Highlights

Quarter 1 (1Q) of 2021 (1Q 2021) ended on March 31, according to Management Discussion and Analysis (Oishi, 2021). Due to the Covid-19 pandemic, total sales and service revenue are down compared to the previous year, resulting in decreased export revenue and fewer dine-in customers at the restaurant business. However, because the corporation can control expenses well, there is less influence on the total profit margin. In 2020, the net profit margin is 9.2%, up from 9.0% in 2019 (**Table 2.1**). Besides, thanks to solid operating results and debt-free operations, Oishi's financial situation remained strong enough to fund future investment (no interest-bearing debt on the balance sheet).

Table 2.1 Financial Ratios of Oishi

(THB mn)	Year			Quarter		
Financial Ratios	2019	2020	% Change	1Q20	1Q21	%Change
Gross Margin (%)	35.3%	32.9%	-6.8%	35.5%	33.1%	-6.8%
EBITDA Margin (%)	16.1%	16.7%	3.7%	17.5%	17.8%	1.7%
Net Margin (%)	9.0%	9.2%	2.2%	10.6%	8.4%	-20.8%
Current Ratio (x)	2.0	2.1	5.0%			
D/E Ratios (x)	0.0	0.0	0.0			
Cash and Cash Equivale	1,127	1,700	50.8%			

Source: Oishi. (2021). *Analyst Meeting 2020*

2.1.2 Vision and Mission Statements of Oishi

The vision Statement of Oishi Group is "to be the leader and innovator of the Japanese food and beverage business for the quality of life and wellness of consumers and create sustainable business growth" (Oishi, 2021).

Oishi set up mission statements for various aspects of operations, such as the choice of raw materials, production processes, quality of products, etc.

1."Maintain the quality of production and service of the restaurant, bakery and health beverage businesses; as well as maintaining the popularity of ‘Oishi’ products among the customers, and give priority to the standards of the product manufacturing and operation.

2.Select quality raw materials that bring the highest customer satisfaction to be well recognized in both local and overseas markets.

3.Continuously improve the production process by using modern technology and the research and development of products.

4.Increase production efficiency and the Company’s competitiveness, in terms of prices and quality, against the local and overseas market competitors. This will help contribute to Thai economic growth.

5.Conduct business in accordance with good governance principles while considering all stakeholders' benefits in order to create sustainable business growth.” (Oishi, 2021)

2.1.3 Products Portfolio of Oishi

Oishi is operating a business under two main segments: Japanese food and beverages. Under the food sector, the company operates Japanese-style restaurants. It distributes ready-to-eat and ready-to-cook packaged food with the support of its subsidiaries through Thailand as well as in other operating countries. At present, Oishi has opened over 268 restaurants throughout Bangkok, regarded as tourist areas and provincial areas. As an overseas outlet store, one branch of Shabushi has been operated in Myanmar with a supporting subsidiary, Oishi Myanmar Ltd. Most outlets take place at the frequently visited malls. Since various Japanese restaurants are operated in many reachable areas, the company wants to cover nearly all target groups of customers for this business segment (Oishi, 2021).



Figure 2.2 Various Types of Japanese Restaurants Operating Under “Oishi”

Source: Oishi. (2021). *Annual Report 2020*

Another segment under food business Oishi operates is the production and distribution of Japanese style ready-to-cook (frozen) and ready-to-eat (chilled) products. Both product types are targeted at those who prefer convenience with limited time but concern about quality and value for money. For those products, convenience stores and supermarkets play the distribution medium in Bangkok and provincial areas, especially 7-Eleven stores. Oishi distributes packaged food to foreign markets to expand its international presence and maintain its original customer base with the help

of local and overseas subsidiaries in Myanmar, Singapore, Hong Kong, and Vietnam (Oishi, 2021).



Figure 2.3 Various Products of Packaged Food Distributing Under “Oishi”

Source: Oishi. (2021). *Annual Report 2020*

Under the beverage sector, Oishi produces and distributes Japanese green tea with various flavours and different bottle sizes for diverse consumer segments. There are three different beverage brands under the “Oishi” name; OISHI GREEN TEA, OISHI GOLD, and OISHI CHAKULZA. The company focuses on young generations like teenagers, college students, and working-age consumers who are careful of health and modernity. As the most contributor of overall revenue for recent years, Oishi has been distributing more than 80% of beverages through a strong distributor, ThaiBev and Sermsook Public Company Limited, domestically and internationally to maximize the coverage efficiently (Oishi, 2021).



Figure 2.4 Brands of Ready-to-Drink Green Tea Beverages of Oishi

Source: Oishi. (2021). *Annual Report 2020*

Another product and service line that Oishi has recently introduced and operated is called Oishi Delivery, together with one of the subsidiaries of Oishi, Oishi Delivery Co., Ltd., in 2019. The company established its own delivery service meanwhile Oishi serves online orders through Grab Food, Food Panda, and Line Man within Bangkok, also available in other districts. The purpose is to serve Oishi Group restaurants' healthy and fresh menu at any time conveniently by targeting the young generation consumers, especially health lovers. Moreover, Oishi has started one brand of Oishi To Go and one Oishi Food Truck for consumers to serve delicious and healthy dishes conveniently (Oishi, 2021).

2.2 Revenue Structure

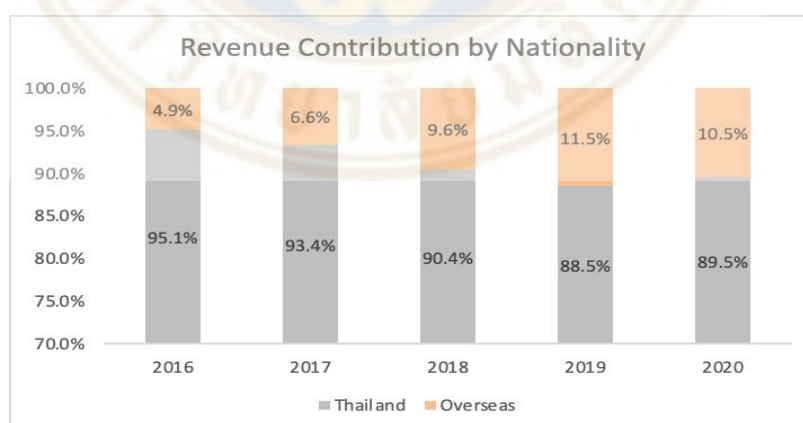
The beverage and food businesses generated roughly 56% and 44% of Oishi's sales in 2020, respectively (**Table 2.2**), with the food business sales consisting of restaurant and packaged food sales. For the year 2020, overall sales from two segments were 11,366 million THB, down from 13,757 million THB in 2019. This decrease is primarily due to a drop in sales from the food business due to the impact of Covid-19.

Table 2.2 Revenue Structure

Income by business type	Operated by	Consolidated Financial Statements					
		2020 (as of September 30, 2020)		2019 (as of September 30, 2019)		2018 (as of 30 September 2019)	
		Million Baht	%	Million Baht	%	Million Baht	%
Beverage business	The Company and Oishi Trading Co., Ltd	6,340	56%	6,602	48%	6,927	51%
Food and restaurant business	The Company, Oishi Ramen Co.,Ltd., Oishi Food Services Co., Ltd. and Oishi Myanmar Limited	5,026	44%	7,155	52%	6,653	49%
Total		11,366	100	13,757	100	13,580	100%

Source: Oishi. (2021). *Annual Report 2020*

Thailand and other countries where Oishi's Japanese restaurants are opening had to follow government regulations to prevent the spread rate of Covid-19 like social distancing and awareness of health and safety. Besides, since the beginning of 2019, sales contribution from the overseas market has increased by slightly more than 10% over the previous year (**Figure 2.5**). The sales distribution between domestic and overseas is around 90:10.

**Figure 2.5 Revenue Contribution by Nationality (% of total revenue)**

Source: Refinitiv (2021), Oishi. (2021). *Annual Report 2020*

2.2.1 Sources of Revenue

2.2.1.1 Revenue Contribution by Beverage Business

The beverages produced and sold by the company and Oishi Trading Co., Ltd. include Oishi Green Tea, Oishi Gold, Oishi Black Tea, Oishi Chakulza, and Jubjai.

The revenue from beverage sales and service in 2020 was Baht 6,004 million, down Baht 497 million or 7.6% from the previous year. The decline in beverage revenue is primarily due to a loss in export revenue and order delays caused by the COVID-19 outbreak in crucial export countries like Cambodia and Myanmar.

Domestic revenue from Oishi product sales increased thanks to the launch of “Oishi Plus C” and a summer campaign that has helped expand young customers' base through online channels. In addition, the company efficiently managed to control and reduce packaging costs and facility renovation costs. As a result, in 2020, the net profit increase (excluding extraordinary items) increased by 9.3% for one year (Figure 2.6).

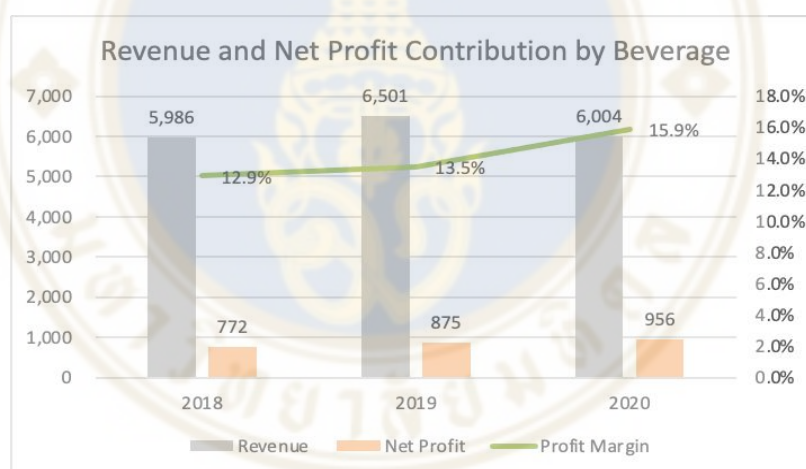


Figure 2.6 Revenue and Net Profit Contribution by Beverage Business Segment

Source: Oishi. (2021). *Analyst Meeting of 1Q21*

2.2.1.2 Revenue Contribution by Food Business

The food business is run by Oishi Ramen Co., Ltd, Oishi Food Services Co., Ltd, and Oishi Myanmar Limited, including restaurants and packaged food. Under the names Oishi Grand, Oishi Japanese Buffet, Nikuya, Shabushi, Oishi Ramen, Oishi Delivery, Kazokutel, and Kakashi, it operates Japanese restaurants and a snack shop.

In 2020, food sales totalled Baht 5,003 million, a significant decrease of Baht 7,130 million (42.5%) from the previous year (**Figure 2.7**). Due to the government initiatives to contain the pandemic, such as a social distancing policy limiting the number of customers who attend and a shorter operational period for restaurants. The Company then developed the new Oishi-to-go model, which offered a variety of menu options for takeout. The growing number of outlets that may offer delivery channels presented appealing promotional campaigns that helped mitigate decreasing dine-in sales. Furthermore, TFRS 16 resulted in higher costs, hurting the food business the most (Oishi, 2021).

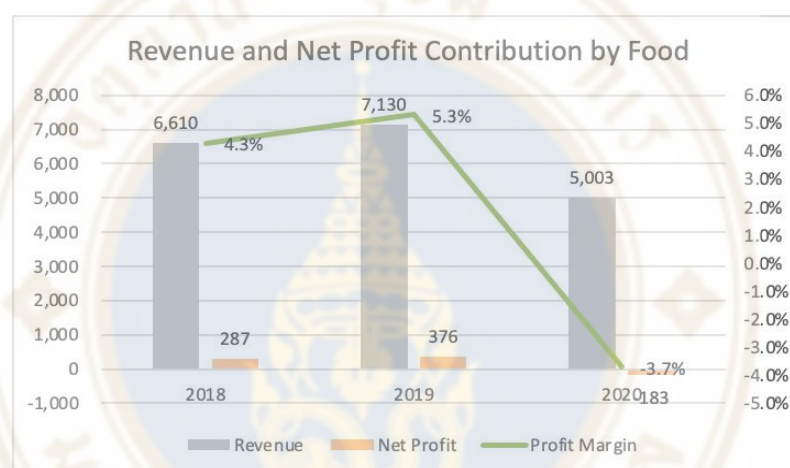


Figure 2.7 Revenue and Net Profit Contribution by Food Business Segment

Source: Oishi. (2021). *Analyst Meeting of 1Q21*

2.3 Oishi's Strategies

Oishi Group of companies has set up key business strategies that are the main contributor to the company, including all food and beverage businesses' success in 7 different perspectives.

Brands – Oishi focuses mainly on product quality to build up and strengthen the brand image to recognize consumers who are health conscious and love Japanese-style dining. Additionally, the company is determined to fulfil and meet consumers' lifestyles with healthy, fresh, various, and nutritious menus in innovative

ways; related to products, activities, and campaigns in reaching out to the new generation of consumers.

Growth – the company sticks to the growth of its business sectors. Its growth strategy mainly aims to drive growth in revenue and operating performance and the development of innovations in the food and beverage business in domestic and international markets.

Diversity – Oishi aims to serve and fulfil the demands of all consumer groups in alignments by offering many ranges of products and services. The company continues to expand its businesses overseas to diversify revenue streams. With the collaborations of professional teams and subsidiaries, Oishi aims to enter high potential markets, domestically and internationally.

Reach – the company's major distributors and subsidiaries are the primary support of the firm distribution strategy for Oishi products. Working together with a skilful marketing team results in the broad coverage of products to consumers.

Professionalism – the company has a professional build-up strategy to reinforce professional teams and collaborations through developed human resources functions and creating a good working environment.

Customer Analysis Strategy & Continuous Marketing Strategy – the company performs marketing activities to learn customers' perspectives about the products to consistently maintain and implement public relations (PR) strategy in several media like television (TV), radio, and printing. Now additionally, it focuses on the new online digital media.

Efficient Cost Management Strategy – throughout efficient raw material cost management and good relationship and negotiation skills with suppliers, the company maintains production costs, business performances, and product quality. Moreover, the result contributes to the company getting savings from the economy of scale.

Oishi has set up new strategic priorities for 2021 for each business line; restaurant, beverage, and packaged food.



Figure 2.8 Oishi Group's Strategic Priorities for FY2021

Source: Oishi. (April 8, 2021). *Analyst Meeting 2020*

Oishi commits itself to the environment, economy, and society to bring up better and positive developments as an international corporation. Oishi has set up its standards and responsibility for the external environment in which it operates and profits. Oishi is aiming to sustain their success through maintaining and caring for the environment. So, the company wants to use eco-friendly packages for reuse. Besides, Oishi has set up good terms of food waste management to reduce waste efficiently in the production and raw material procurement processes. Economically, Oishi wants to sustain it by providing innovative and healthy products and services. Finally, Oishi provides many scholarship programs for the entire society and implements and leads environmental projects. During this critical and sensitive Covid-19 situation, the company takes care of employee's health (Oishi, April 8, 2021).

2.3.1 SWOT Analysis of Oishi

Through studying Oishi's operations, we learned its core strengths and the weaknesses and external impacts. The following is a summary of Oishi's SWOT analysis. The detailed and complete analysis is provided as **Appendix A**.

Table 2.3 SWTO Analysis of Oishi

Strengths	Weaknesses
<ul style="list-style-type: none"> - Good brand reputation - Outstanding customer satisfaction and experience - Nationwide distribution network - Strong financial position - Research and Development 	<ul style="list-style-type: none"> - Raw materials and production costs - The supplier relationship
Opportunities	Threats
<ul style="list-style-type: none"> - International market expansion - Advanced technology and digital platform - New lifestyle and health awareness 	<ul style="list-style-type: none"> - Intense market competition - Sugar excise tax - Natural disasters

2.4 Management and Corporate Governance

In 2020, according to the report from the Thai Institute of Directors, Oishi had scored 92 in corporate governance scores, higher than the average scores of listed companies, 83 (Figure 2.9).

Good Corporate Governance Scores								
	Oishi Group							Listed co Avg 2020
	2014	2015	2016	2017	2018	2019	2020	
Rights of Shareholders	89	94	95	95	95	95	95	94
Equitable Treatment of Shareholders	96	98	99	99	99	99	99	94
Role of Stakeholders	76	80	79	91	92	93	97	83
Disclosure and Transparency	84	87	89	93	96	96	97	87
Board Responsibilities	70	76	81	81	85	84	85	76
Total score	78	84	86	88	91	91	92	83

Figure 2.9 Corporate Governance Scores of Oishi

Source: Oishi. (April 8, 2021). *Analyst Meeting 2020*

The company has seven committees, according to the Securities and Exchange Commission's notification dated November 18, 2020 (Oishi, 2021), including the Board of Directors (BOD), Executive Committee, Audit Committee, Sustainability and Risk Management Committee, and Good Corporate Governance (CG) Committee (**Figure 2.10**). President & Chief Executive Officer, Executive Vice President, Senior Vice President, and Vice President are the company's executives.

Oishi's BOD recognizes the necessity of conducting business transparently and honestly. The BOD has established its own CG policies following the SET principles to ensure transparency and build confidence among shareholders, investors, and other related parties, intending to raise the company's CG to parity with that of other leading companies. By 2020, Oishi is recognized as an excellent CG business by the Thai Institute of Directors Association, supporting the SET (Oishi's CG score from SET is 5).

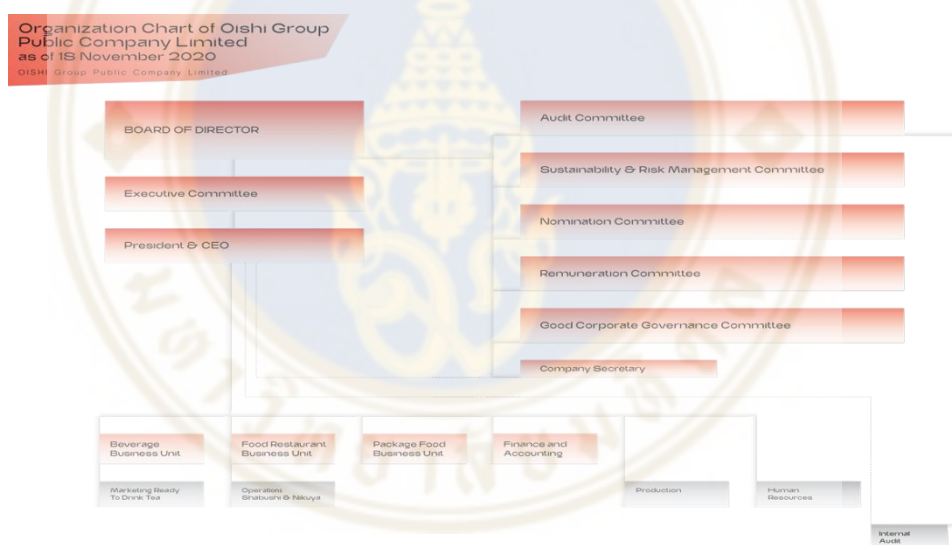


Figure 2.10 Organization Chart of Oishi

Source: Oishi. (2021). *Annual Report 2020*

CHAPTER III

ANALYSIS OF MACROECONOMY, INDUSTRY, AND COMPETITORS

3.1 Thailand's Macroeconomic Outlook

3.1.1 The GDP of World and Country

Thailand has made significant economic and social progress over the past decades, thanks to a robust policy framework, a welcoming business environment, and a focus on citizens' well-being. There would be a positive impact on Thailand's real gross domestic product (GDP) growth under the Thailand 4.0 strategy. According to the Ministry of Commerce, Thailand 4.0 aims to encourage and support creativity, innovation, research and development (R&D), higher technologies, and green technology. However, beginning early 2020, the global outbreak Covid-19 has had a significant impact on the economy. According to the World Economy Outlook, global real GDP growth was -3.3 percent in 2020 and 6 percent in 2021, reported by the International Monetary Fund (IMF). In contrast, Thailand's real GDP growth would be 2.6 percent in 2021 (Figure 3.1).



Annual Percent Change	2019	2020	2021 (F)	2022 (F)	2023 (F)	2024 (F)	2025 (F)
World	2.8	-3.3	6	4.4	3.5	3.4	3.3
Thailand	2.3	-6.1	2.6	5.6	3.8	3.5	3.6

Figure 3.1 The World and Thailand's Real GDP growth (Annual percent change)

Source: IMF World Economic Outlook. (April, 2021)

3.1.2 Economic Glance and Outlook

Currently, the economic recovery would be slow, and achieving high-income country status will necessitate more policy reforms aimed at increasing productivity and building human capital. Due to tourism being one of the significant contributors to Thailand's GDP, the pandemic's lengthy duration and impact on the tourism sector remains a significant downside risk. Many countries have been put on lockdown, and international travel has been limited and controlled indefinitely, negatively impacting Thailand's tourism economy. As a result, Thailand's economy has suffered a more significant decline than that of other countries. Furthermore, Thailand's exporting sector is another critical economic sector affected by the epidemic, creating worldwide supply chain delays and major commercial disruptions.

The economy is projected to rebound in 2022, when most people have been vaccinated against Covid-19, after falling sharply in the previous two years. Exports should gain from a rebound in key international markets. Moreover, the ASEAN market plays an essential role in Oishi's overseas operations. The company strives to consistently improve its export business across ASEAN markets to achieve higher sales performance in Cambodia, Laos, and Myanmar.

3.1.3 Thailand's Population Trend and Consumer Expenditure

According to the Trade Markets report (2021), Thailand is Southeast Asia's second-largest economy after Indonesia. Its upper-middle-income position serves as an economic anchor for its growing neighbor countries. Rising wages in the country instill hope in the population and drive consumer demand for a wide range of goods. Consumers have been spending more on experiences, such as dining out and traveling, as their incomes have increased. Thai consumers have a penchant for overindulging and making impulse purchases, according to Statistics report value of household consumption expenditure in Thailand in 2019 (**Appendix E**). We calculated the proportion of consumption expenditure by product category in total expenditure, they consume many food and non-alcoholic beverages, restaurants, hotels, and transportation, accounting for 23.0%, 18.4%, and 13.8% of all purchases, respectively (**Table 3.1**).

Table 3.1 Individual Consumption Expenditure of Thailand

Consumption Expenditure By Product Category	% of Total Expenditure
Food and non-alcoholic beverages	23.0%
Restaurants and hotels	18.4%
Transport	13.8%
Miscellaneous goods and services	12.6%
Housing, water, electricity, gas and other fuels	8.7%
Recreation and culture	5.5%
Health	4.5%
Clothing and footwear	4.1%
Furnishings, household equipment and routine maintenance of the house	4.1%
Alcoholic beverages, tobacco and narcotics	3.0%
Communication	2.0%
Education	0.2%

On the other hand, according to studies conducted by the Department of Economic and Social Affairs, 58% of the Thai population is between the ages of 25 and 69 years old (United Nations Population, 2021). Moreover, the younger generation is more interested in leading a healthy lifestyle, thus, they spend much money on healthier food and supplement products. Consumer confidence has been improving in Thailand due to social media and ongoing economic progress, which has promoted more spending.

3.2 Analysis of Food and Beverage Industry

3.2.1 Industry Pattern

The industry where Oishi has been operating, the food and beverage industry, can be mentioned as an Oligopoly market, where firmly positioned firms dominate with significant barriers. The dominated firms are making profits and creating value through product differentiation since commodity products are mostly look-alike also, the basic needs of consumers. Products are differentiated and upgraded to match most consumers' tastes, seasonal needs, and changing lifestyles. So, R&D plays a vital role in this industry to continuously study the market, competitors, and consumers' behavior. Here, massive advertising and marketing are the most helpful tools to build up the firms' and product's position and value. Because of the nature of the industry, competition is intense, so it is essential to be in touch and

communicate with both loyal and potential consumers with a vast network of distribution.

3.2.2 Consumption or Demand

When considering the consumption or demand, the focus will be only on food and the non-alcoholic sector. During the outbreak of the Covid-19, the sales of non-alcoholic drinks suffered decreased sales volume and value in 2020 due to the distribution issue and more health awareness. However, the non-alcoholic beverages sector has seen a better situation than alcoholic drinks.

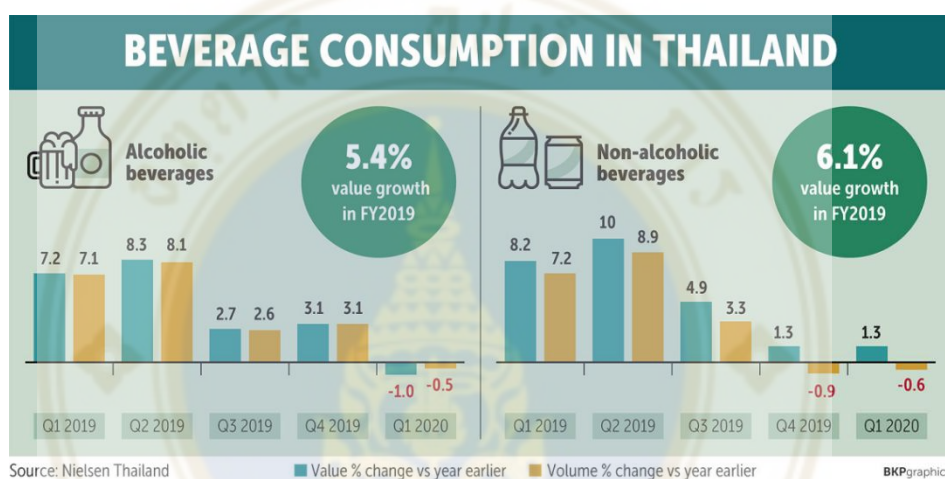


Figure 3.2 Beverage Consumption in Thailand

The consumers' expenditure on food and non-alcoholic drinks from 2015 to 2020 has a slightly upward trend, which means some market opportunities are underlying to be explored and exploited (**Figure 3.3**). Firms have to make sure that they possess competitive advantages against strong peers because of less price sensitivity of consumers due to the product's nature and various choices.

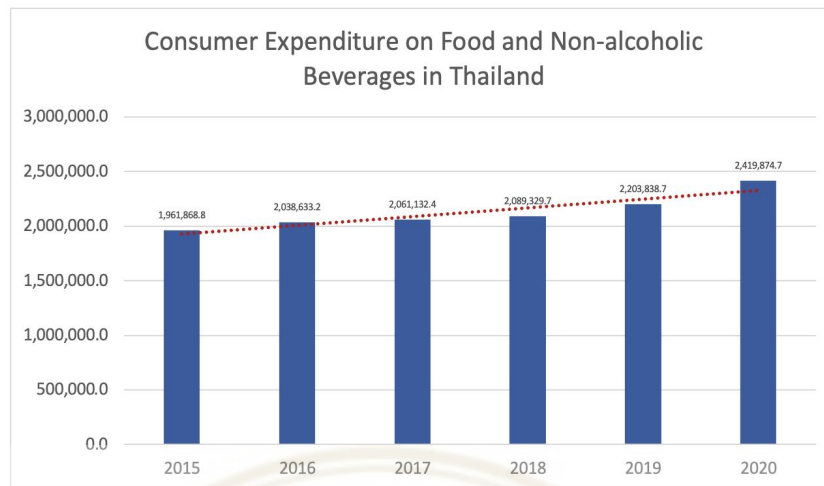


Figure 3.3 Consumer Expenditure on Food and Non-alcoholic Beverages in Thailand

Source: Euromonitor. (2021)

Among the soft drink categories under non-alcoholic beverages, carbonated drinks dominated most market shares in 2019, followed by drinking water (Figure 3.4). In 2020, during the Covid-19, all those drinks had suffered a decrease in sales. The reason is the weak distribution channels.



Figure 3.4 Soft Drink Market of Thailand, 2019

3.2.3 Role of Advertising and Distribution

Knowing that marketing and advertising are practical and valuable for firms in the food and beverage industry, the utilization trend of those tools also needs to be studied. Both advertising and marketing campaigns were not staying at the same place. They kept changing according to the social standards and usage of technologies. Earlier, companies advertised in traditional ways through printed media, radio, and TV. Then, as the numbers of internet and social media users are increasing in Thailand, exploit advantages by using the internet effectively to communicate with consumers constantly with online and digital marketing through mainly utilized social applications like Facebook, Instagram, and LINE. Thanks to social media applications, many famous bloggers have evolved to provide information and recommendations for specific areas such as electronics, hotels, beauty services, and restaurants or foods. Some restaurants and food services are working together with famous and reliable food bloggers also with social influencers as a tool for advertising.

When it comes to the distribution or supply chain part, most companies work together with reliable national distributors to reach out to almost every part of the domestic country when expanding business internationally. At least, firms establish subsidiaries to focus only on distribution. For example, the distribution network of Oishi for almost all product types depends upon ThaiBev.

3.2.4 Covid-19 Changing Consumer Behavior

3.2.4.1 Healthy and Well-being Trend to Meet Consumer

Needs

The Food Marketing Institute (FMI, 2021) report stated that the Covid-19 pandemic had highlighted growing consumer interest in health and well-being and a new focus on the scientific connection between nutrient-rich foods and improved health. Increasingly, consumers are opting into buying foods and beverages that have specific healthy ingredients. On the other hand, together with the emerging healthy trend in Thailand, Thai food products have received much attention in foreign countries. Especially, operators in the ASEAN food and beverage industry are moving and growing continuously, following health care. According to this fact, food and

beverages are not just things to sustain life but more important in nutrition, such as having health benefits, convenience, and fast food.

Thailand's consumption lives have changed dramatically because of the Covid-19 pandemic. Consumers shifted their spending on more natural products and drinks due to the increased emphasis on health and immunity and the increased time spent at home. As a result, natural flavors, such as those created with fruit's natural sweetness rather than artificial ones, are more likely to be preferred by consumers. Therefore, domestic companies are well-represented in Naturally Healthy Beverages (NHB) in Thailand, and they have an advantage over international competitors due to their better understanding of local consumer preferences. Leading brands such as Oishi Gold Gyokuro No Sugar by Oishi Group PCL and the release of Shizuoka Tencha Gyokuro by Ichitan Group PCL (Ichitan) are good examples. According to the report namely NHB in Thailand, naturally healthy RTD tea is expected to increase at a 25 percent retail current value CAGR from 2018 to 2020 and a 10 percent retail volume CAGR during the forecast period, resulting in 1.327 billion THB in sales by 2023 (Figure 3.5).

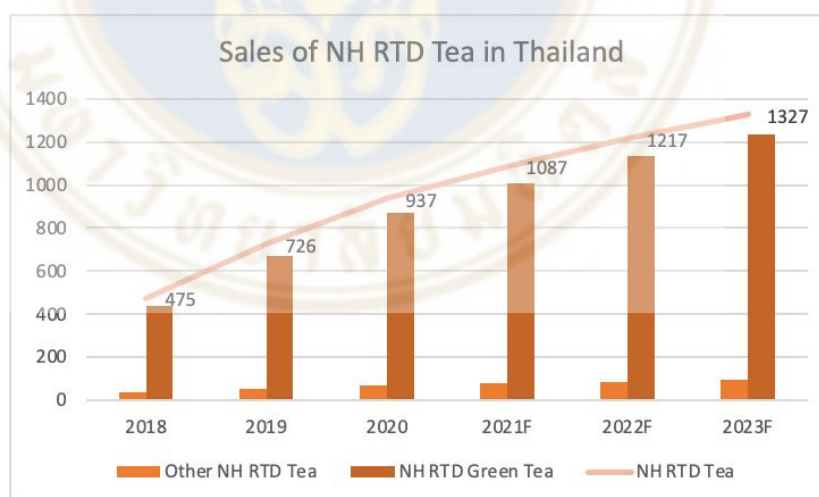


Figure 3.5 The sales of Naturally Healthy RTD Tea in Thailand (THB Million)

Source: Euromonitor. (January, 2021)

3.2.4.2 Online Food Delivery New Normal Market

Since the COVID-19 outbreak, people's food-purchasing habits had shifted more to online when individuals avoided going out and isolated

themselves. Food delivery applications that allow for home delivery transactions have become more popular than ordering online and picking up at the restaurant (Limsarun et al., 2021). The Covid-19 pandemic triggered an exponential growth rate (GR) of food delivery applications platforms in 2020, resulting in a 78-84 percent increase in transactions, reaching 66-68 million in comparison to the previous year (Kasikorn Research Center, 2020). Currently, Line Man, GrabFood, Get, and FoodPanda are Thailand's four most extensive online food delivery services.

Besides, according to the We Are Social and Hootsuite report Digital 2020; Thailand has 52 million internet users who spend about nine hours per day on mobile internet, which is higher than any other Southeast Asian country (**Figure 3.6**). Thailand's online meal delivery sector is one of Southeast Asia's fastest-growing online food delivery markets. Furthermore, consumers, particularly time-conscious office employees and middle-class groups in Bangkok, increasingly rely on meal delivery services (Sukanya & Russell, 2020). Thailand's changing lifestyles and the growing use of the internet and cellphones are some of the market's leading drivers.

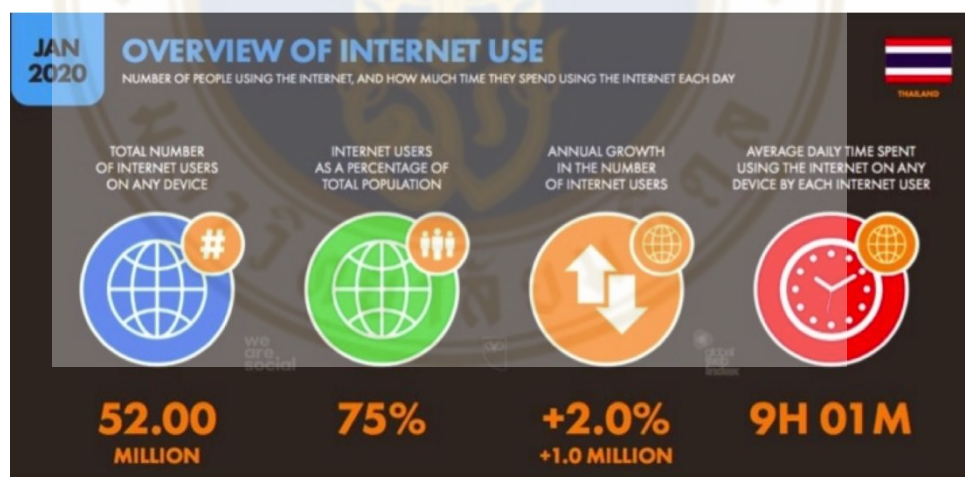


Figure 3.6 Overview of Internet Use in Thailand

Source: We are social and Hootsuite. (2020). *Digital Report 2020*

3.2.5 Sugar Tax Pushes Innovation

Thailand has had a sugar-sweetened beverage (SSB) excise tax in place since September 2017. However, there are still doubts about how individual-level SSB consumption has changed after the tax was established. A nutrients study found that

consumption of several taxed SSBs increased on average, and a significant change in consumption was for non-zero percentages of sugar tea (500mL, bottle) (13.8 percent). Green tea drinks have the least amount of sugar compared to other drinks and are consequently the least affected by tax (Phulkerd et al., 2020). As a result, RTD tea drink companies like Oishi were more likely to bear the tax burden in order to keep their product prices stable, allowing green tea companies to gain market share among middle-and low-income consumers in the first phase of excise tax on sugar drinks (Sept 16, 2017 - Sept 30, 2019).

As the second part of the excise tax on sugary drinks takes effect on October 1st, 2019, Thailand's beverage sector wants to become more innovative with products and services by the forces of an increase in the sugar tax rate (**Figure 3.7**). In the year 2020, there was a rush of new product development in the category of NHBs. Two factors triggered this: first, the new sugary beverage excise tax, which went into force in October 2019, and second, a shift in consumer drinking patterns as the COVID-19 pandemic focused on health and wellbeing. As a result of these factors, innovations in unsweetened choices have emerged. Therefore, consumers are becoming more aware of the damaging effects of the high sugar tax and the increased focus on health, immunity, and nutrition brought on by the COVID-19 pandemic.



	New rates	Current rates
<6 grammes	0	0
6-<8 grammes	10 satang	10 satang
8-<10 grammes	30 satang	30 satang
10-<14 grammes	1 baht	50 satang
14-<18 grammes	3 baht	1 baht
≥18 grammes	5 baht	1 baht

Unit: Sugar content/100ml

Figure 3.7 Thailand's Sugar Tax Rate of Second Phase

3.2.6 Oishi within the Food and Beverage Industry during the Covid-19 Outbreak

According to the analyst meeting of Oishi for the financial year 2020, food and beverage businesses' sales were impacted of Covid-19 outbreak. However, Oishi could sustain its significant and robust market position as the market leader in the beverage sector and is one of the major players in the food sector (Oishi, February 10, 2021). Due to the type of industry, companies within the food and beverage industry must perform a continuous study of the market situation and economy. Oishi's most flexible and appropriate strategies support Oishi to be successful in surviving during a problematic situation. For example, thanks to the government's taxation on sugar level and consequences of the Covid-19, people got more attention on healthy lifestyle and realized the importance of healthy food and diet. Under these consumer behavioral changes, Oishi implemented new innovative premium drinks produced more naturally with less sugar. Recently, according to the analyst meeting on 9 June 2021, Oishi introduced new product categories which are more focused on health and functional RTD green tea, like Oishi Gold Wakoucha and Oishi Gold Genmaicha. At Oishi's restaurants, the menus are updated every 2 to 3 months to be under the demands of consumers and the promise to provide healthy and fresh meals (Oishi, June 9 2021).

Besides, to get in touch with consumers, Oishi has made good use of all communicating channels and online marketing campaigns, including influencer marketing in introducing new products. Oishi is very well known of the industry situation and what areas need to be exploited. When consumers were afraid of going outside and working from home, Oishi expanded the online delivery service through its delivery channel and delivery partners. In the food sector, Oishi provides campaigns at stores and on delivery. Oishi realizes the importance of R&D and invested a lot in that area to fulfill consumers' demands, create differentiation, increase its competitiveness, and reach out to more consumers.

3.3 Oishi and Peers in the Competitive Market

To analyze the competition state of Oishi, Porter's Five Forces model is conducted generally including all perspectives from the food and beverage sectors.

3.3.1 Porter's Five Forces

High competition in the industry: although Oishi has various business sectors, they are not much different from competitors. There are few competitors around Oishi's market position, but each has a relatively strong capability of operations and marketing. Moreover, Oishi has to compete against solid and same-sized peers in each product line, Japanese restaurant, packaged food, and RTD tea products. In the middle of the intense competition, Oishi has an advantage in stores or restaurant locations and distribution network with the support of Thailand's largest distributor, ThaiBev.

The medium potential of new entrants: when considering all business lines of Oishi, it seems like the threat of new competitors is not very low because newcomers will be there at any time separately. Due to demand and popularity, sales figures of restaurants, besides, with the advanced technology and machines, newcomers can enter the market with fewer assets at first but with mass interest in marketing and public promotions. Still, they need more expenditure for R&D and distribution channels.

Low bargaining power of suppliers: Oishi mainly focuses on product quality as the critical factor to fight against competitors. So, the premium qualified raw materials are required not only for the restaurants but also for beverages and packaged foods. Oishi needs to have qualified and trustworthy suppliers to prevent the material shortage and disadvantage in pricing. Because of those factors, Oishi has a policy not to depend upon only one or very few competitors and always continue looking for qualified suppliers with medium to long contracts. As for the suppliers' side, they may not want to lose customers like Oishi, who frequently orders large quantities, would affect their sales and income.

Medium bargaining power of consumers: according to Oishi's target group of customers, middle and high income, who are less price-sensitive and want to be offered value of money products with essential qualities, it seems Oishi's consumers have not so much power but not that very low. It tends to assume that due to Oishi's capabilities like being flexible, able to fulfill market and consumer behavior changes with healthy and fresh materials, updated and innovative services, and usage of advanced technology.

Very High threat of substitute products: for each product line of Oishi has a higher chance to face the substitute products' threat. For example, RTD tea beverages can be substituted by instant coffee or other fruit juice and maybe ice cream. Other convenient delivered meals can replace packaged foods due to easy online service and delivery. For the Japanese-style restaurants, other small, medium, and only online service ones and take-away service counters can be its threat (Oishi, 2021).

The following diagram (**Figure 3.8**) is provided to access Porter's Five Forces analysis of Oishi easily and visually.

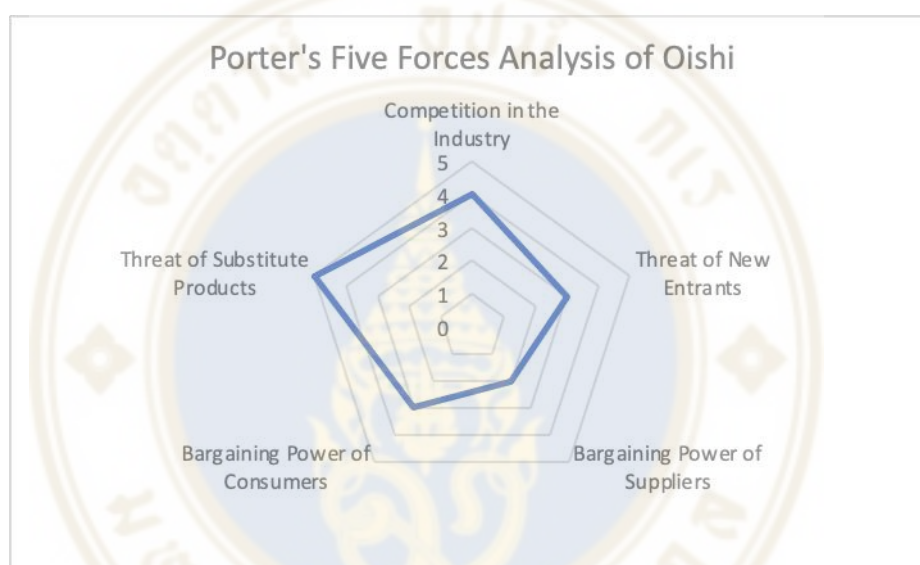


Figure 3.8 Porter's Five Forces Analysis of Oishi

3.3.2 Competitors of Oishi

As being a conglomerate, Oishi is currently operating three primary business segments, Japanese-style restaurants, packaged foods, and beverages. So, when determining the competitors of Oishi, it is required to identify potential ones for each business segment.

3.3.2.1 Beverage Business

Oishi is positioned as the market leader in RTD tea sales, in both volume and value in Thailand among its competitors, according to data from Euromonitor (**Figure 3.9**).

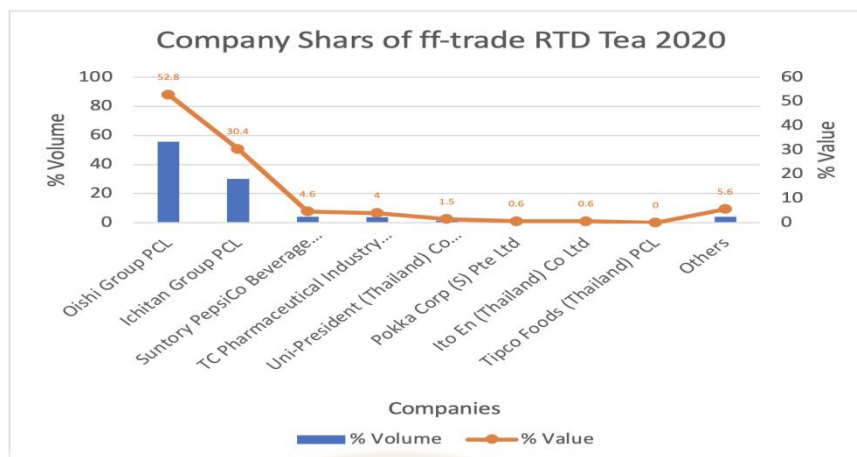


Figure 3.9 Company Shares of Off-trade RTD Tea in Volume & Value, 2020

Source: Euromonitor. (2021)

Among all those competitors, the most threatening competitors to Oishi are Ichitan Group PCL and Tipco Foods PCL in terms of sales and due to the nature of business and product types for the beverage sector. Other competitors have significant influential on Oishi in terms of products and marketing strategies as customers have wide of alternatives within the same store. Oishi has to be ahead of its competitors since it contributes significantly to its yearly revenue.

Ichitan Group PCL, founded in 2010, is headquartered in Bangkok, Thailand manufactures and distributes RTD green tea drinks, herbal drinks, juice mixed with jelly, and energy drinks. It also suffered the impact of the economic downturn and decreased sales due to the Covid-19 outbreak. Ichitan has focused on functional soft drinks and expansion export operations to hedge and diversify the risks and losses. In 2020, Ichitan followed Oishi's market position as a second market leader in the RTD tea industry (Euromonitor, 2021).

Tipco Foods PCL (TIPCO) was founded in 1976 in Bangkok, Thailand, producing processed fruit products, fruit juices, and RTD beverages. Mostly, its core products are made through fruit and plant-based, herbal. Within the juice sector under the soft drink industry, TIPCO is standing at a third market position (Euromonitor, 2021), which threatens the Oishi group since consumers' health awareness is increasing.

Sappe PCL (SAPPE) manufactures and distributes healthy food and beverage products together with its subsidiaries within Thailand and internationally. It was founded in May 1988 in the name of Sapanan General Food Company Limited later, changed its name to SAPPE in 2013. SAPPE's main products are coconut-based food and drink products, fruit flavored drinks, functional drinks, RTD vegetable and fruit juices, and also chewy jellies. On top of that, recently, SAPPE has introduced very a new functional drink targeted to female customers. Compared to Oishi's products, SAPPE's goods are threatening as a kind of alternative to RTD tea.

Haad Thip PCL (HTC) was founded in 1969 in the name of Nakhon Thip Company Limited. The company was listed on SET in 1988 and changed its name to the current one. It is one of the well-known and market dominant brands in the beverage sector as a granted franchise by the Coca-Cola Company (USA). Products manufactured and distributed by this business are sparkling beverages, non-carbonated beverages, and drinking water, which can be the potential substitute brand to Oishi.

3.3.2.2 Restaurant

For the restaurant business sector, Oishi's competitors will be ones running Japanese-style restaurants. Moreover, indirect competition states are needed to be aware. So, as potential competitors of Oishi, **Wow Factor PCL** has been chosen. The business has been operating in the food and beverage sector by running many restaurants. It is managing different diversified restaurants: Japanese-style, European-style, pastry business, and also pizza, DOMINO's PIZZA. Under Japanese-style restaurants, they are operating affordable and premium shabu buffet restaurants. Besides, other types of restaurants are challenging alternatives to Oishi's operated restaurants.

3.3.2.3 Package Food

The most visible and apparent packaged food brand among counters in 7-Eleven stores and other convenient stores and supermarkets are from **NSL Foods PCL**, founded in 2003 in Nonthaburi, Thailand. It operates under the packaged foods and meats producer industry and the most familiar products would be hot sandwiches, chilled bakery and microwavable chilled packaged foods. Another

obvious ready-to-eat package food brand among most convenient stores is ***Thai President Foods PCL*** (TFMAMA), well-known product is MAMA instant noodles. The company was established in February 1972 as a joint venture with a company from Taiwan. This firm produces, exports, and imports instant noodles, bread, biscuits as well as beverages.



CHAPTER IV

OISHI'S FINANCIAL STATEMENT ANALYSIS

4.1 Study of Historical Financial Data

In this part, study and analysis of Oishi's past financial performances will be explained, including important figures from income statements, free cash flow, and some financial ratios. After that, projected statements of Oishi will be explained with key assumptions which will be utilized in the DCF and relative valuations.

4.1.1 Sales

The sales of Oishi for the five years (2016-2020) have a decreased CAGR of 5.3%, 2018 and 2020 had lower sales (**Figure 4.1**). According to the management discussion of 2018, the sales decreased due to the lower sales of 15% in the beverage segment, while the food segment had only a 1.7% increment through the expansion of new restaurants (Oishi, 2021). The sales figure in 2018 was also affected by the sugar tax exercise. In 2019, there was the highest sales figure among five years because of the introduction of new beverages and the establishment of the Oishi Delivery operation. Oishi had the lowest sales figure in 2020 due to the impact of Covid-19 outbreak.

When comparing quarterly data, the first-quarter sales in 2021 have decreased by 18.2% than in 2020. Oishi suffered from dine-in restaurants' closure and distraction in the distribution of beverages, besides the export postponements to the critical countries due to the Covid-19 (Oishi, 2021).

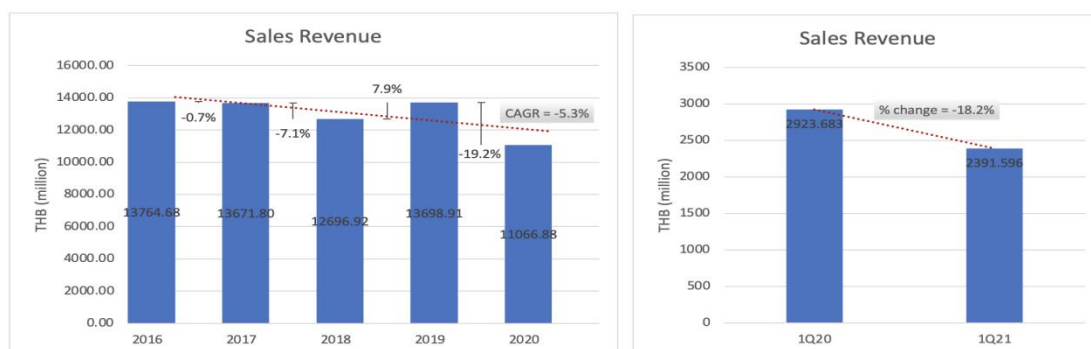


Figure 4.1 Oishi's Sales

When comparing the sales of Oishi with its competitors like Ichitan and TFMAMA (**Figure 4.2**), which are operating in the food and beverage industry with dominant positions, Oishi has a good sales figure. In contrast, TFMAMA has an immense number of sales among the three companies.

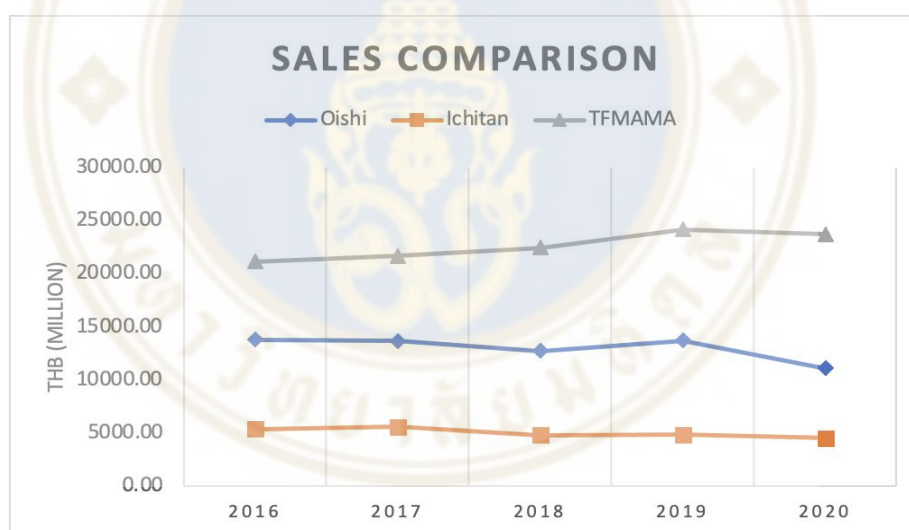


Figure 4.2 Sales Comparison of Oishi, Ichitan, and TFMAMA

4.1.2 Costs of Goods Sold (COGS)

Oishi's COGS have been decreasing steadily during the past five years (2016-2020), except in 2019 (**Figure 4.3**). During those years before 2019, Oishi managed operational activities effectively and efficiently and reduced raw materials and packaging (Oishi, 2021). Since sales have increased in 2019 due to product and business extensions and resumption of UHT OEM operation after the fire incident in

2017, Oishi had utilized the highest costs in managing and supporting those activities. Still, the year 2020 had the lowest COGS by the lowest sales. Moreover, 1Q 2021 also had lower costs than in 1Q 2020, decreased by 16.6%. While both economy and company's growth was stagnant, Oishi's effective management of raw materials procurement, waste management in restaurants, lower operation costs, and packaging costs contributed to the decreased sales in 2020 during slow sales rates during the Covid-19.

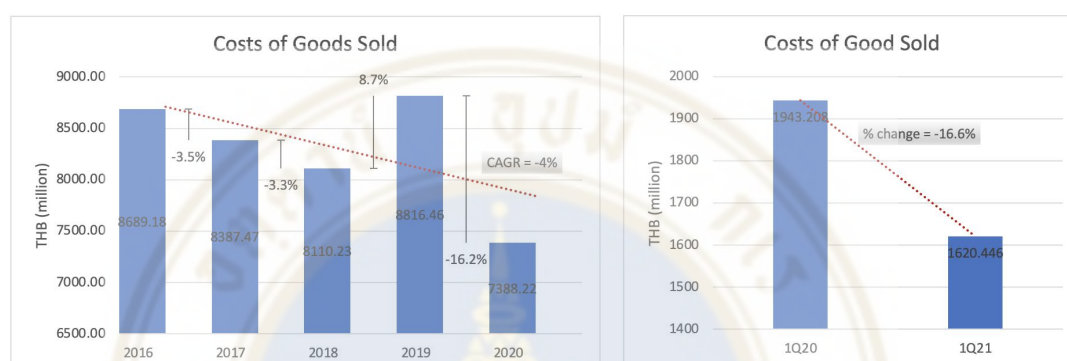


Figure 4.3 Oishi's COGS

4.1.3 Expenses

Oishi's Selling and Administrative (SG&A) expenses decreased since 2016 thanks to well-managed and effective expenses controlled in both food and beverages segments (**Figure 4.4**). There was a slightly increased expense in 2019 due to the higher admin expenses with the business growth. Compared to 1Q 2020, 1Q 2021's expenses were lower by 22.2%. The reduction was supported by effective marketing and advertising costs control, negotiation with the landlord about the rental expenses. Moreover, the company managed to control expenses at the restaurants with modifications to take away and home delivery services (Oishi, 2021).

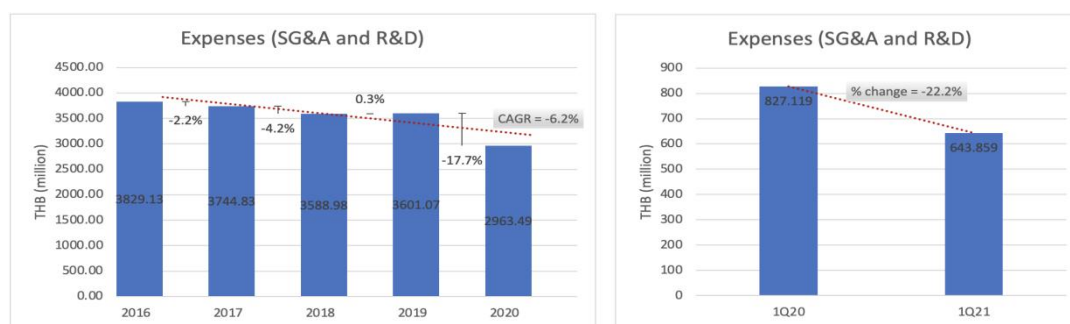


Figure 4.4 Expenses of Oishi

4.1.4 Net Income (NI)

Throughout the five years (2016-2020), the NI of Oishi was not stable yet; it had the least alteration amount with a decreased CAGR of 1.4%. Oishi had the lowest NI in 2018, and the cause was mainly from the decreased sales in the beverage segment with slightly increased sales in the food business. The year 2020 was also one of the years with lower NI due to the consequences of the Covid-19 impact. In the 1Q 2021's NI decreased by 62.3% compared to the same quarter in 2020 (**Figure 4.5**).

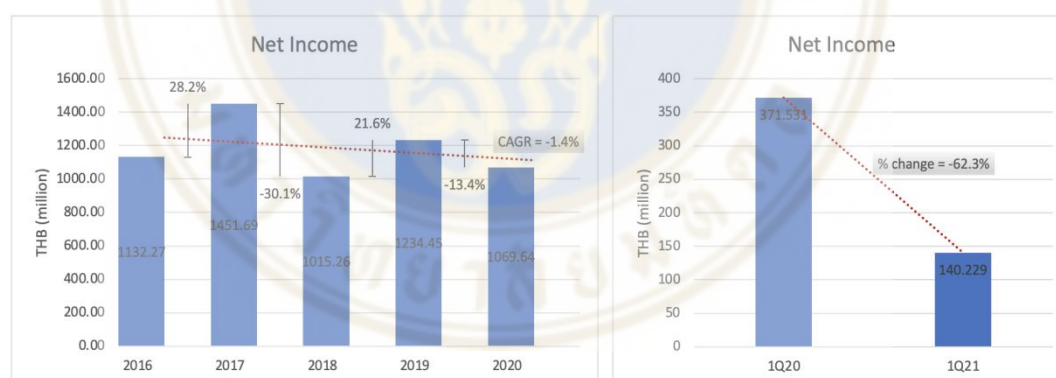


Figure 4.5 Oishi's NI

Afterwards, sales contribution rates to the NI of Oishi compared to Ichitan and TFMAMA are discovered (**Table 4.1**). From 2016 to 2020, Oishi spent over half of the sales—the lowest amount among the three companies, on COGS. However, Oishi's sales spending on expenses is the largest, with overall nearly 27%, while Ichitan and TFMAMA spent around 15% approximately. Though TFMAMA had the highest sales amount compared to Oishi and Ichitan, the contribution to NI is very low,

even 0% roughly. For Oishi, on average, around 9% of sales contributed to NI—the highest contribution among the two comparable firms. Due to all those considerations, Oishi can handle well-managed operational activities with effective cost control to attain higher profitability.

Table 4.1 Peers Analysis - Oishi, Ichitan, and TFMAMA

	Oishi					Ichitan					TFMAMA				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Sales	13764.68	13671.80	12696.92	13698.91	11066.88	5360.48	5586.44	4804.28	4809.86	4517.77	21143.70	21632.70	22436.90	24145.70	23707.10
COGS	8689.18	8387.47	8110.23	8816.46	7388.22	3943.94	4202.99	4020.07	3805.68	3503.66	13,968.8	14,354.6	14,528.3	15,300.6	14,850.0
	63.1%	61.3%	63.9%	64.4%	66.8%	73.6%	75.2%	83.7%	79.1%	77.6%	66.1%	66.4%	64.8%	63.4%	62.6%
Gross Profit	5075.50	5284.33	4586.69	4882.45	3678.65	1416.54	1383.44	784.21	1004.19	1014.11	7,174.9	7,278.1	7,908.6	8,845.1	8,857.1
	36.9%	38.7%	36.1%	35.6%	33.2%	26.4%	24.8%	16.3%	20.9%	22.4%	33.9%	33.6%	35.2%	36.6%	37.4%
Expenses	3829.13	3744.83	3588.98	3601.07	2963.49	877.36	856.30	649.60	566.58	458.17	3433.4	3611.5	3627.8	3830.9	3611.1
	27.8%	27.4%	28.3%	26.3%	26.8%	16.4%	15.3%	13.5%	11.8%	10.1%	16.2%	16.7%	16.2%	15.9%	15.2%
Net Income	1132.27	1451.69	1015.26	1234.45	1069.64	368.48	315.09	43.84	407.45	515.53	2,871.20	2,853.50	3,404.40	3,943.10	4,090.00
	8.2%	10.6%	8.0%	9.0%	9.7%	6.9%	5.6%	0.9%	8.5%	11.4%	0.0%	0.0%	0.0%	0.0%	0.0%

4.1.5 Earnings Per Share (EPS)

As seen in **Figure 4.6**, compared to Oishi, Ichitan and TFMAMA's EPS have steadily grown over the last five years, with a CAGR of 9.33% and 9.25%, respectively. Except for 2018, Ichitan's EPS had been on the rise, rising to 0.4 by 2020, with a positive CAGR of 13.62%. However, Oishi, Ichitan, and TFMAMA's EPS fell to 0.37, 0.09, and 2.56 in 1Q 2021. It was when the Covid-19 pandemic began, and companies suffered a significant drop in sales and NI due to the ongoing shutdown. Despite this, Oishi's EPS outperformed its competitors throughout its five years.

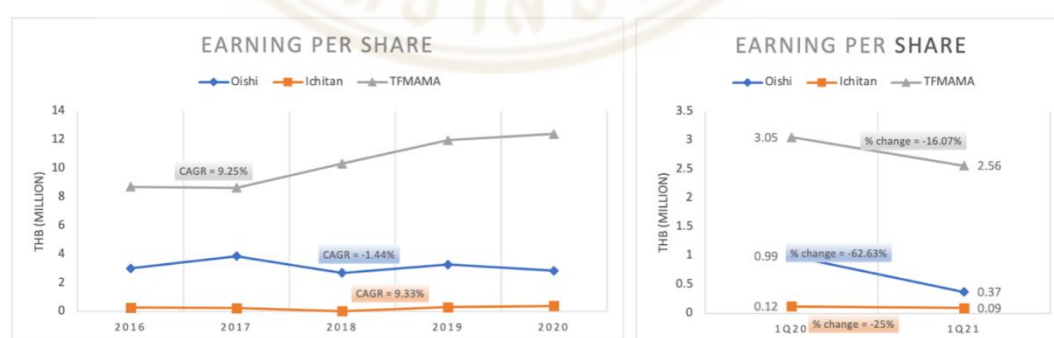


Figure 4.6 Peers Analysis - EPS

4.1.6 Free Cash Flow (FCF)

Figure 4.7 shows the historical FCF of Oishi and its competitors over the last five years, and the formula of FCF is equal to EBIT after Tax plus Depreciation plus Working Capital Change minus CAPEX. Oishi's FCF trend was fluctuating with a CAGR of 0.85%. In 2018, it dropped dramatically due to higher tax expenses from other receivables insurance reimbursement for fire incidents in 2017. The FCF of Ichitan had grown gradually during 2016-2020 as well. On the contrary, TFMAMA's EPS had a dropping trend but still had a higher free cash flow than Oishi and Ichitan since its depreciation contributed when COVID-19 impacted its NI in 2020. On the other hand, Ichitan's free cash flow increased by 3.33% in 1Q 2021 compared to the same period in 2020, whereas its competitors showed a drop because of decreasing NI.

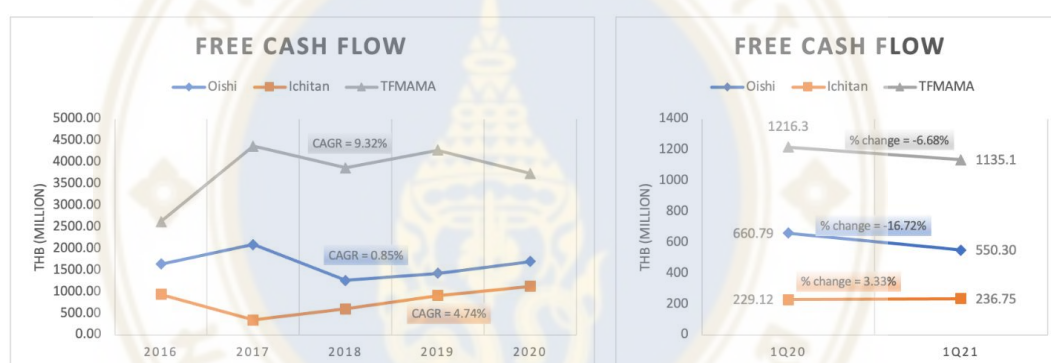


Figure 4.7 Peers Analysis - FCF

4.1.7 DuPont Analysis

Under the DuPont analysis, ROE equals Net Profit Margin multiplied by Asset Turnover multiplied by Equity Multiplier. Table 4.2 shows the ROE of Oishi, Ichitan, and TFMAMA by Dupont analysis for the last three years (2018-2020). ROE of Oishi has dropped because of the equity multiplier decrease over the years, yet the net profit margin has grown slightly, showing that Oishi management was doing well. ROE of Ichitan was up because of a higher net profit margin, which was achieved through efficient operations and lower finance costs. However, compared to Oishi and Ichitan, the ROE of TFMAMA dropped, particularly in 2020, due to a considerable decrease in its net profit margin. For asset turnover, three companies were steady, and Oishi was higher, implying that Oishi can produce sales from its assets more

effectively than Ichitan and TFMAMA. However, it fell slightly to 1.3 times from 1.5 times the previous year.

Table 4.2 Dupont Analysis of ROE

Dupont Analysis	Oishi			Ichitan			TFMAMA		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
Net Profit Margin (%)	8.0%	9.0%	9.7%	0.9%	8.5%	11.4%	15.2%	16.3%	7.3%
Asset Turnover	1.3	1.5	1.3	0.6	0.6	0.6	0.7	0.7	0.7
Equity Multiplier	1.67	1.43	1.25	1.41	1.31	1.21	1.15	1.14	1.13
Dupont Analysis (ROE)	17.4%	19.3%	15.8%	0.8%	6.7%	8.3%	12.2%	13.0%	5.8%

4.1.8 Liquidity Ratio Analysis

The current ratio of Oishi, Ichitan, and TFMAMA during the last five years and the 1Qs of 2020 and 2021 are shown in **Figure 4.8**. Compared with the current ratio of Oishi and Ichitan, TFMAMA is higher than the others indicating that TFMAMA had a stronger liquidity position than them. On the other hand, the quick ratio removes inventory and other current assets and is tighter for assets converted to cash in a short period. Also, TFMAMA had a more excellent quick ratio than Oishi and Ichitan, meaning that it could use liquidity assets to cover short-term debt and obligations more quickly and easily. Besides, the three companies had higher current and quick ratios in the quarter of 2021 than in the same period of 2020 as the Covid-19 started to epidemic, demonstrating that they sought to react and adapt well throughout this challenging moment.

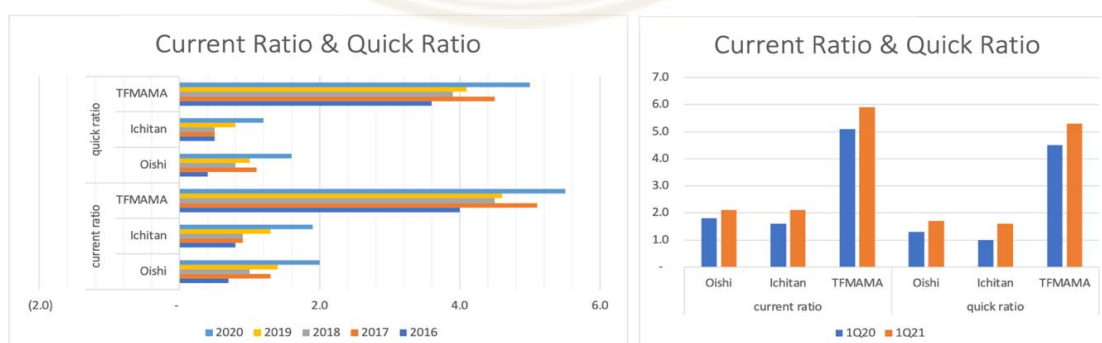


Figure 4.8 Peers Analysis - Current Ratio & Quick Ratio

From **Figure 4.9**, another short-term liquidity ratio (Cash Conversion Cycle) can be observed. Oishi had a better and lower cash conversion cycle than peers, implying that it could rapidly make the cash of investment and return. Conversely, Ichitan and TFMAMA's cash conversion cycle was positive, and Ichitan is higher than TFMAMA, meaning that it required longer to convert its inventory or other resources into cash flow.

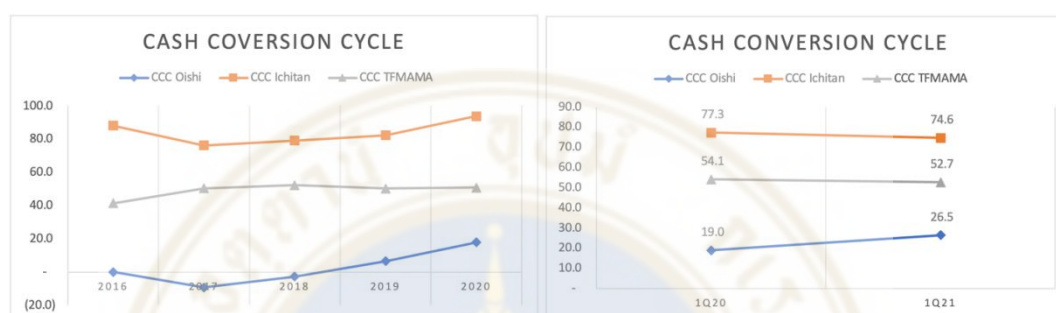


Figure 4.9 Peers Analysis - Cash Conversion Cycle

4.2 Projections of Oishi's Financial Statement

4.2.1 Domestic Sales Revenue

Starting from 2016, the domestic sales of Oishi are the main dominator of all sales, nearly 85% each year (Refinitiv & Oishi, 2021). So, as the first step to forecast Oishi's sales for the next three years from 2021 to 2024, the assumptions for domestic beverage sales of Oishi will be determined by using two approaches, the forecasted domestic RTD tea industry growth, and estimated per capita consumption. We focus mainly on the RTD tea segment since it is the leading business operation in earning profits as part of the beverage business. The consumption expenditure of Thailand is a pivotal driver to calculate the forecasted average RTD tea industry size (**Appendix F**).

First and foremost, the value of consumption expenditure for Thailand (**Table 4.3**) is calculated using the percentage of consumption expenditure as Thailand's nominal GDP to start the first approach. According to Euromonitor,

Thailand's future nominal GDP (2021-2024) is forecasted to be growing at a slow pace. The same will be for future expenditure (Euromonitor, 2021) (**Appendix F**).

Table 4.3 Calculation of Thailand's Consumption Expenditure in Thai Baht

	2016	2017	2018	2019	2020	Last 3Y CAGR (2017-2020)	2021F	2022F	2023F	2024F
Normal GDP (BT BN)	14,590	15,489	16,369	16,898	15,698	0.45%	16,923	18,109	19,195	20,304
Historic and Forecasted YoY Growth (%)		6.2%	5.7%	3.2%	-7.1%		7.8%	7.0%	6.0%	5.8%
Consumption Expenditure as % of GDP	57%	57%	56%	58%	62%		60%	59%	58%	58%
Consumption Expenditure (BT BN)	8,316.492	8,813	9,232	9,835	9,764		10,103	10,594	11,210	11,837

Source: Euromonitor. (2021), Own Calculation

Next, per capita consumption is used to calculate the forecasted industry size. The population data of Thailand is collected from UN Data. Then, the yearly expenditure is divided by the respective population numbers. Since the calculated number is for all expenditures, but the focus is mainly on the RTD tea industry, we tried to calculate the expenditure for the specific industry in the same method as all expenditure values. After that, the relationship between overall consumption expenditure per capita and only for the RTD tea industry was found through the linear regression formula from the below scatter plot (**Figure 4.10**).

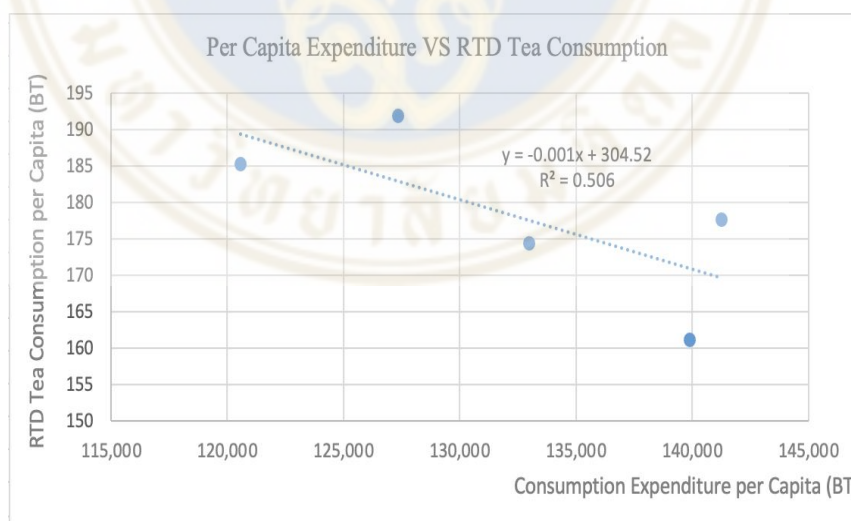


Figure 4.10 Relationship between Per Capital Expenditure and RTD Tea Consumption

According to the equation, **RTD tea Consumption per Capita = -0.001 (Consumption Expenditure per Capita) + 304.52**, and the excellent correlation of

those two factors, the forecasted consumption expenditure per capita from 2021 to 2024 is calculated. Lastly, the forecasted RTD tea industry size is calculated with a -5.1% CAGR (**Table 4.4**). Eventually, Oishi's forecasted domestic sales can be computed using the average industry sizes from two approaches with estimated domestic volume share, 48%.

When estimating Oishi's RTD tea beverages' domestic sales volume share, the previous domestic market shares are reviewed firstly through yearly annual reports that Oishi had published. In 2020, Oishi's domestic sales were 48% regardless of the Covid-19 situation (Oishi, 2021). So, we assume that shortly, Oishi's domestic shares of RTD tea would be at the same level as in 2020, at least for 2021 and later years. However, there was a decline in the RTD tea industry's value for the 1Q ended in March 2021 by -13.5%, a fact we cannot leave out for the consideration for the sales forecast for the whole year (Oishi, February 10, 2021) (**Appendix G**). After all, the expected domestic sales of RTD tea from 2021 to 2024 are obtained with a CAGR of -6.7%.

Table 4.4 Forecasted Domestic Beverage Business Sales Revenue of Oishi

Domestic Beverage Sales Forecast	2016	2017	2018	2019	2020	Last 3Y CAGR (2017-2020)	2021F	2022F	2023F	2024F	Next 3Y CAGR (2021-2024)
RTD Tea Industry Size (BT MN)	12,774	13,279	12,107	12,370	11,249	-5.4%	9,447	8,906	8,270	7,674	-6.7%
YoY Growth (%)		3.9%	-8.8%	2.2%	-9.1%		-16.0%	-5.7%	-7.1%	-7.2%	
Domestic Volume Share (%)	43%	46%	45%	45%	48%		48%	48%	48%	48%	
RTD Tea sales (BT MN)	5,493	6,108	5,448	5,567	5,400	-4.0%	4,535	4,275	3,969	3,683	-6.7%
YoY Growth (%)		11.2%	-10.8%	2.2%	-3.0%		-16.0%	-5.7%	-7.1%	-7.2%	
Approach 1: Relative Growth											
Consumption Expenditure (BT BN)	8,316	8,813	9,232	9,835	9,764	3.5%	10,103	10,594	11,210	11,837	5.4%
YoY Growth (%)		6.0%	4.8%	6.5%	-0.7%		3.5%	4.9%	5.8%	5.6%	
RTD Tea CAGR / Consumption Expenditure CAGR						(1.5%)					
RTD Tea Growth						(0.05)	(0.08)	(0.09)	(0.09)		
RTD Tea Industry Size (BT MN)						-13.5%	9,208	8,516	7,749	7,078	-8.4%
Expected YoY Growth (%)							-18.1%	-7.5%	-9.0%	-8.7%	
Approach 2: Per Capita Consumption											
Population (MN)	68.97	69.21	69.43	69.63	69.80	0.3%	69.95	70.08	70.18	70.27	0.1%
Consumption Expenditure Per Capita (BT)	120,580	127,338	132,972	141,250	139,890	3.2%	144,430	151,170	159,727	168,461	5.3%
RDT Tea Consumption Per Capita (BT)	185	192	174	178	161	-5.6%	160	153	145	136	
						-13.5%	138	133	125	118	-5.3%
RTD Tea Industry Size (BT MN)							9,687	9,296	8,790	8,270	-5.1%
Expected YoY Growth (%)							-13.9%	-4.0%	-5.4%	-5.9%	

We mainly focus on the restaurants' segment to forecast the food business sales since it is one of the principal business operations in earning profits. The forecasted sales values are calculated by averaging the forecasted sales values of two approaches, expected sales growth with changes in the number of restaurants and the same-store-sales growth (SSS) (**Table 4.5**). The number of outlets that Oishi has been running and the sales revenue of the food business are observed from Oishi's yearly annual reports. Changes in the number of outlets are computed which contributes to

getting the average number of stores that Oishi would run in the future. Then, with that average number, expected numbers of outlets for forecasted years are derived. The same to calculate the average sales made from each restaurant. Finally, the expected sales are calculated by multiplying the average revenues with the expected outlet's numbers. Additionally, the percentage changes in sales of 1Q 2021 compared to 2020s, -18.2%, is considered in calculation of the expected sales.

As for the second approach, the year-over-year sales GR is calculated and then averaged from 2016 to 2020 to estimate the coming year's sales by assuming no changes in the numbers of outlets. Only for the year 2021, we used -18.2% as SSS growth. Then, as the final step, the sales values are calculated by applying the average values of two approaches to obtain Oishi's food business's forecasted domestic sales revenue.

Table 4.5 Forecasted Domestic Food Business Sales Revenue of Oishi

Domestic Food Business Forecast	2016	2017	2018	2019	2020	Last 3Y CAGR (2017-2020)	Average (2017-2020)	2021F	2022F	2023F	2024F	Next 3Y CAGR (2021-2024)	
Total Food Sales (BTMN)	4,449	6,660	6,835	6,609	4,772	-10.5%		4,715	4,891	5,073	5,260	3.7%	
<i>Expected YoY Growth (%)</i>								-1.2%	3.7%	3.7%	3.7%		
Number of Restaurant	239	238	250	264	268								
Approach 1: Increase in Outlets													
New Outlets		-1	12	14	4		7.25						
Average Sales per Stores (BTMN)	18.62	27.98	27.34	25.03	17.81		24.54						
Forecasted New Outlets								275	283	290	297		
							-18.2%						
Total Outlets Sales (BTMN)								5,525	5,671	5,816	5,962	2.6%	
<i>Expected YoY Growth (%)</i>								20.07	15.8%	2.6%	2.5%		
Approach 2: SSS Growth													
Same-Store-Sales Growth		49.7%	2.6%	-3.3%	-27.8%		-5.3%						
Total Stores Sales								-18.2%	3,904	4,111	4,329	4,559	5.3%

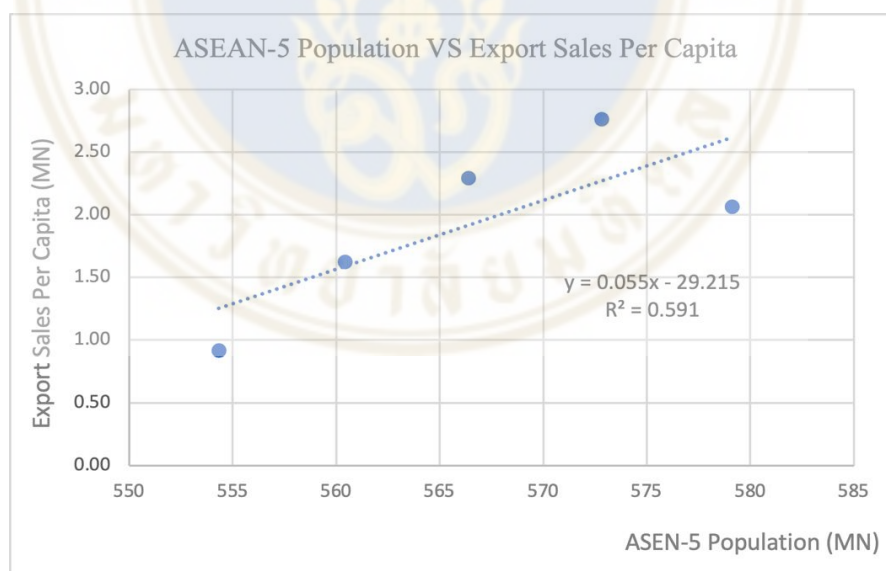
4.2.2 Overseas Sales Revenue

Though Oishi operates restaurants and businesses in other countries, in ASEAN and EU, the overseas sales contribution is very low for the last 4-year period (2016-2020) (Refinitiv & Oishi, 2021). Among those shares, ASEAN countries play an essential contributor to Oishi's food and beverage export sales. So, to forecast the export sales revenue of Oishi, the growth of export sales per capita of ASEAN-5 is used as a critical driver (**Table 4.6**). The population data of both historical and forecasted are collected from IMF, while export sales for the past years are from the annual reports of Oishi. Then, the export sales of each year are divided by the population of ASEAN-5 to get the per capita values.

Table 4.6 Forecasted Oversea or Export Sales Revenue of Oishi

Export Business Forecast	2016	2017	2018	2019	2020	Last 3Y CAGR (2017-2020)	2021F	2022F	2023F	2024F	Next 3Y CAGR (2021-2024)
Total Export Sales (BTMN)	507	909	1,297	1,582	1,194	9.52%	1,451	1,640	1,798	1,973	10.78%
YoY Growth (%)		79%	43%	22%	-25%		22%	13%	10%	10%	
Approach 1: ASEN-5 Population											
ASEN-5 Population (MN)	554	560	566	573	579		584	591	596	601	0.96%
Export Sales Per Capita (MN)	0.91	1.62	2.29	2.76	2.06	8.33%	2.92	3.27	3.55	3.86	9.73%
						-15%	2.48	2.78	3.02	3.28	
Export Sales (BTMN)							1,451	1,640	1,798	1,973	10.78%

Based on those data, we tried to obtain the relationship between the ASEAN-5 population and export sales per capita with the help of a linear regression model (**Figure 4.11**). According to the regression formula with an acceptable amount of correlation, **Export Sales per Capita = 0.055 (ASEAN-5 Population) - 29.215**, the forecasted values for export sales per capita for the year 2021-2024 are calculated with 9.73% CAGR. The impact of Covid-19 on Oishi's net export to foreign markets has decreased by 15% when comparing with 1Q 2021 (Oishi, February 10, 2021). So, extended export sales per capita for coming years are obtained by multiplying with the decreased percentage. Finally, the projected export sales of Oishi (2021-2024) are computed with a CAGR of 10.78%.

**Figure 4.11 Relationship between ASEAN-5 and Export Sales of Oishi**

After forecasting both domestic and overseas sales for all business segments of Oishi, together with those forecasted sales values, the total forecasted sales revenue of Oishi is estimated by adding all those values with a CAGR of 0.7%

(Table 4.7). Average sales values are used for calculating the expected domestic sales, but only one approach is applied for the overseas sales.

Table 4.7 Forecasted Total Sales Revenue of Oishi

Total Sales Forecast (BAHT MILLION)	2016	2017	2018	2019	2020	Last 3Y CAGR (2017-2020)	2021F	2022F	2023F	2024F	Next 3Y CAGR (2021-2024)	Note
Domestic												
Beverage	5,493	6,108	5,448	5,567	5,400	-4.0%	4,535	4,275	3,969	3,683	-6.7%	Approach 1&2
Food	4,449	6,660	6,835	6,609	4,772	-10.5%	4,715	4,891	5,073	5,260	3.7%	Approach 1&2
Overseas	507	909	1,297	1,582	1,194	9.5%	1,451	1,640	1,798	1,973	10.8%	Approach 1
Total Sales	10,449	13,677	13,580	13,757	11,366	-6.0%	10,701	10,806	10,840	10,917	0.7%	

4.2.3 SG&A

When forecasting Oishi's forecasted SG&A expenses, we tried to search the relationship between SG&A and total sales. According to the management discussion of Oishi, at times when sales had increased, Oishi spent more on the selling expenses also in the marketing and advertising fields. The same for the admin costs, too, when the business is expended. That is why we use the linear regression method to calculate estimated SG&A (Figure 4.12).

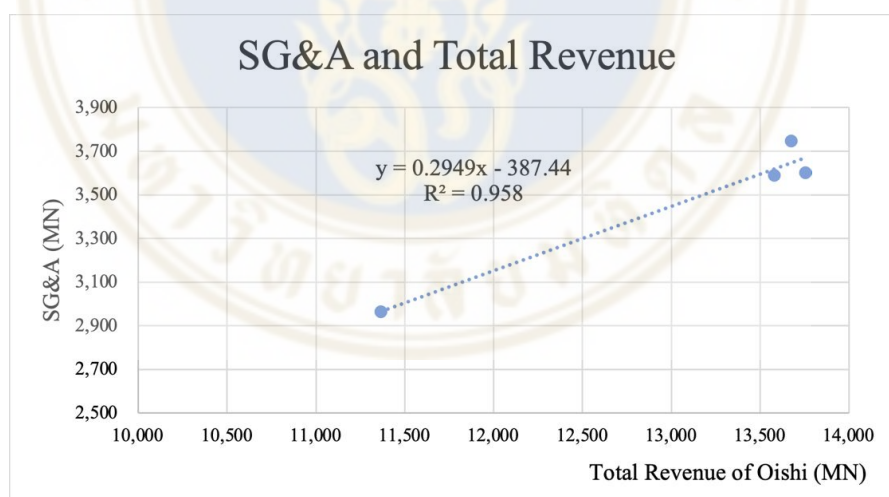


Figure 4.12 Relationship between SG&A and Total Sales

4.2.4 Pro Forma Statement

The COGS of Oishi refers to the direct cost of items created or bought that are then sold over time. COGS projections were based on a proportion of sales. The COGS were computed as the percentage of sales that will remain 63% from 2021 to 2024, based on the average of the previous four years' proportion in total sales.

Interest expenses and other similar items are applied to profit or loss for the period they are incurred. We used the effective interest approach to forecast financial costs, which was derived by multiplying the estimated interest-bearing debt based on capital structure forecasts from 2021 to 2024 by the cost of debt 2.28%. The effective interest rate can be considered as the true cost of borrowing from the borrower's perspective. On the other hand, investors must predict an investment's annual projected return, which is why we used the effective interest method.

We used a 6% effective tax rate for the tax. This is because Oishi has previously calculated an effective tax rate much lower than the corporate tax rate of 20%. As a result, we assumed that the disparities between effective and marginal taxes would persist, leaving Oishi with an effective rate in the future.

Below is the projection of a pro forma statement (**Table 4.8**).

Table 4.8 Pro Forma Statement

Oishi Group (BT MN)									Last 3Y CAGR (2017-2020)	Next 3Y CAGR (2021-2024)
Year	2017	2018	2019	2020	2021F	2022F	2023F	2024F		
Domestic	12,768	12,283	12,175	10,172	9,249	9,166	9,042	8,944	-7.30%	-1.11%
- Beverage	6,108	5,448	5,567	5,400	4,535	4,275	3,969	3,683	-4.03%	-6.70%
- Food	6,660	6,835	6,609	4,772	4,715	4,891	5,073	5,260	-10.51%	3.72%
Overseas	909	1,297	1,582	1,194	1,451	1,640	1,798	1,973	9.52%	10.78%
Total Revenue	13,677	13,580	13,757	11,366	10,701	10,806	10,840	10,917	-5.98%	0.67%
Cost of Sales	8,387	8,110	8,816	7,388	6,741	6,808	6,829	6,878	-4.14%	0.67%
SG&A	3,745	3,589	3,601	2,963	2,768	2,799	2,809	2,832	-7.50%	0.76%
Other Expenses	-	710	37	-	-	-	-	-	0.00%	0.00%
Total Expenses	12,132	12,409	12,455	10,352	9,510	9,607	9,639	9,710	-5.15%	0.70%
EBIT	1,545	1,171	1,302	1,014	1,191	1,199	1,202	1,207	-13.08%	0.45%
Financial Cost	(53.70)	(44.90)	(20.80)	(0.20)	(14.47)	(10.89)	(5.49)	(3.68)		
Tax	(47.91)	(117.78)	(73.78)	52.30	(70.60)	(71.28)	(71.76)	(72.22)		
Net Profit	1,443	1,008	1,207	1,066	1,106	1,117	1,124	1,131	-9.59%	0.76%
EPS (BT)	3.85	2.69	3.22	2.84	2.95	2.98	3.00	3.02		
No. Shares (MN)	375	375	375	375	375	375	375	375		

The earnings per share calculations for the last four years and the next four years were based on the profit for the year attributable to ordinary shareholders of the

company and the number of ordinary shares outstanding during the year. The shareholders authorized a reduction in the par value of the company's shares from the initial value of 2 THB per share to 1 THB per share. As a result, the number of ordinary shares issued will increase from 187,50 million to 375,00 million. Oishi's registered and paid-up capital will remain at Baht 375,00 million (Oishi, 2021). Oishi's EPS is expected to increase by 0.76% CAGR from 2021-2024, from 2.95 Baht per share in 2021 to 2.98 Baht per share in 2024. With an endless number of outstanding shares, the increase in earnings per share is due to Oishi's NI.



CHAPTER V

VALUATION OF OISHI PCL.,

5.1 Discounted Cash Flow

Based on the last four years of free cash flow, the discounted cash flow (DCF) method is used to predict Oishi's future value. DCF is a method of estimating an investment's value based on predicted future cash flows. We projected free cash flow for the next four years in order to perform a DCF analysis. Because it has a constant operating level to projection, the approach is suited for Oishi. The valuation should take into account the free cash flow to the firm (FCFF), weighted average capital cost (WACC), time period (n), and terminal value (TV).

As seen below, their discrete period can be entered into the DCF model.

$$\begin{aligned} \text{Value of firm} &= \sum_{t=1}^{\infty} \frac{\text{FCFF}_t}{(1 + \text{WACC})^t} \\ &= \frac{\text{FCFF}_1}{(1 + \text{WACC})^1} + \frac{\text{FCFF}_2}{(1 + \text{WACC})^2} + \dots + \frac{\text{FCFF}_n}{(1 + \text{WACC})^n} + \frac{\text{TV}}{(1 + \text{WACC})^n} \end{aligned}$$

Where:

FCFF_t = Cash flow in the period

WACC = Weighted average cost of capita

n = Period

TV = Terminal value

5.1.1 Weighted Average Cost of Capital

To match the discounted rate to the free cash flow to the Oishi, we set the discount rate proportionate to the subject's WACC using the discounted cash flow approach. The WACC takes account the cost of equity and debt, as well as their relative weighing. The cost of capital is determined using the WACC approach as the

sum of the cost of equity and debt multiplied by its proportional weight, which is represented as follows.

$$\text{WACC} = (E/V \times R_e) + (D/V \times R_d \times (1-T))$$

where:

E=Market value of the firm's equity (Market Cap)

D=Market value of the firm's debt

V=E+D

R_e=Cost of equity (required rate of return)

R_d=Cost of debt (yield to maturity on existing debt)

T=Applicable tax rate

According to Oishi's most recent capital structure, the market value of the firm is THB 6,978 million, and the market value of the firm's debt is THB 322 million. Thus the weight of equity and debt is 96.59% and 4.14%, respectively, as of May 31, 2021. The debt is interest-bearing debt, which is made up of the current ratio of long-term debt to short-term debt. Total common equity is calculated as the number of 375 million in the market.

5.1.1.1 Cost of Equity

Cost of equity derived from the pricing model (CAPM), which can be applied as below.

$$R_e = R_f + \beta \times \text{MRP}$$

Where:

R_f = the risk-free rate (10-year government bond yield)

β= relative market risk

MRP = market risk premium

- Risk Free Rate

1.72% is the risk-free rate. On July 7, 2021, We received a ten-year government bond yield from the Thai Bond Market Association (ThaiBMA, 2021).

- Beta (β)

The essential input for DCF valuation is beta, which is a very crucial metric. Beta is a measure of systematic risk in which the equity returns of a

company differ from the total market return. The choice of beta in this report is based on two techniques of comparison.

Method 1: Using SLOPE and Regression function to calculate Oishi's beta in Excel.

We estimated the beta using the excel regression method, with Oishi's five-year monthly return as an independent variable and SET as a dependent variable, obtaining a slope of 0.996 (**Appendix H**). Oishi's beta coefficient is 0.9293, implying that its typical stock price volatility is virtually comparable to market price volatility during a five-year period. For every one percentage point rise in SET returns, Oishi returns increase by 0.9293 percentage points (**Figure 5.1**).

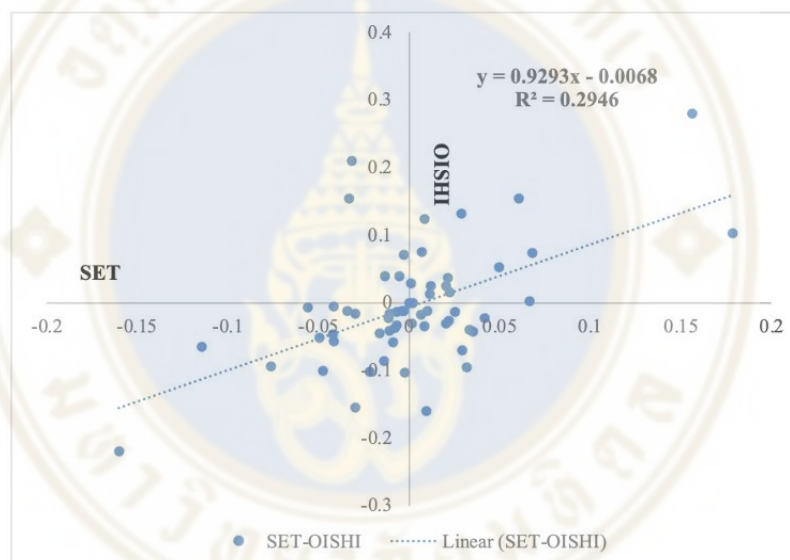


Figure 5.1 The Linear Regression Between the Return of Oishi and SET

Method 2: Using the Unlevering peer-group beta, calculate Oishi's Re-levering beta.

According to Hamada's equation, when leverage is used, a company's cost of capital will be changed (Hamada, 1972). It is used to calculate the cost of capital of leveraged organizations using capital expenses from similar businesses. Companies having relative risk, and, as a result, similar unlevered betas would be considered equivalent.

To begin, we located all of the listed peers and identified their levered betas, which we then unlever using the DE ratio and tax rate particular to each company using the formula:

$$\text{Beta (Unlevered)} = \text{Beta (Levered)} / [1 + ((1 - \text{Tax}) * (\text{Debt}/\text{Equity}))]$$

Calculate the average unlevered peer-group beta in the second step, then relever this beta using Oishi's particular DE ratio and tax rate using the formula:

$$\text{Beta (Levered)} = \text{Beta (Unlevered)} * [1 + ((1 - \text{Tax}) * (\text{Debt}/\text{Equity}))]$$

Oishi's levered beta, as defined by industry parameters and management expectations, is 0.9577 (Table 5.1).

Table 5.1 The Levered Beta of Oishi Calculation

Stock	Levered beta	Unlevered beta	Tax rate	Debt/Equity	Net debt (THB mn)	Equity (THB mn)
TIPCO	1.7	1.32	20%	35.8%	1514	4231
ICHI	1.32	1.30	6%	1.4%	92	6402
SAPPE	0.92	0.90	20%	2.9%	82	2858
HTC	0.32	0.29	8%	13.0%	466	3598
W	1.94	1.61	20%	25.8%	229	887
TFMAMA	0.09	0.09	12%	0.3%	87	26826
Peer Average	1.05	0.9179	14%	13.2%	412	7467
Oishi	0.9577		6%	4.6%	322	6978

Source: Refinitiv

In comparison to method 1 and method 2, this report will be based on method 2 (beta=0.9577), because it is a more in-depth analysis of a company's cost of capital, illustrating how other factors of financial leverage connect to the overall riskiness of the business. Method 1, on the other hand, calculated beta using regression, which has an r squared of 0.2946, is regarded as relatively uncorrelated.

- Market Risk Premium

According to the Country Default Spread and Premium report, Thailand's market risk premium is 7.68%, which was last updated in January 2021 (Damodaran).

Table 5.2 Thailand Market Risk Premium

Country	Moody's Rating	Rating-based Default	Total Equity Risk	Market Risk Premium
Thailand	Baa1	1.41%	6.27%	7.68%

The needed cost of equity under these assumptions is as follows.

$$R_e = 1.72\% + 0.66 \times 7.68\% = 6.57\%$$

5.1.1.2 Cost of debt

The cost of debt is one component of WACC; however, because interest payments are tax-deductible, the cost of debt must be multiplied (1-tax rate), resulting in the value of the tax shield. Utilized the effective tax rate, which was computed by dividing the proportion of total tax expense by taxable income. We discussed why we used the effective tax rate in the preceding section of the pro forma statement. The pre-cost of debt was calculated using all outstanding debt's current yield to maturity with a coupon rate of 2.28%.

After that, we calculate WACC indicated in **Table 5.3**.

Table 5.3 WACC Calculation

WACC Calculation	
Capital Structure	
Debt to Total Capitalization	4.41%
Cost of Total Capitalization	95.59%
Debt / Equity	4.62%
Cost of Equity	
Risk Free Rate	1.72%
Market Risk Premium	7.68%
Beta	0.96
Cost of Equity	9.08%
Cost of Debt	
Cost of Debt	2.28%
Tax Rate	6%
After Tax Cost of Debt	2.14%
WACC	8.77%

5.1.2 Terminal Growth Rate

In a discounted cash flow model, the terminal growth rate is employed beyond the projection period; we will assume that the firm's free cash flow will continue to grow at the terminal growth rate of 0.7%. It is calculated using the expected total sales revenue growth rate for both the domestic and international markets. Sales revenue for two segments is estimated by establishing a link with nominal GDP, consumption spending, and population predictions.

To double-check the accuracy of the terminal growth rate, we compared Thailand's future GDP growth rate to the expected inflation rate. The terminal growth rate is more than the expected inflation growth in the coming year and does not exceed the GDP growth rate for the next four years (**Table 5.4**). Furthermore, the food and beverage service industry will experience a decline in the future when compared to historical growth because the consumption expenditure share of GDP growth is projected to drop by 0.8% from 2012 to 2024, with the food and beverage sector accounting for the majority of it. Population growth, which is expected to slow in the next four years, impacts consumer spending. Following in their footsteps will be the food and beverage sectors. So, the perpetual growth rate of 0.7% is appropriate for Oishi.

Table 5.4 Long-term Growth Rate Comparison

Reference	Historical	Forecasts	
	(2010-2020)	(2020-2021)	(2021-2024)
Oishi Total Sales Revenue	2.95%	-9.07%	0.70%
Food and Beverage Services Industry	3.20%		
GDP	3.8%	7.8%	6.3%
Consumer Expenditure % as of GDP	1.20%	-4.10%	-0.80%
Total Population	0.40%	0.20%	0.10%
Inflation Growth	-0.837% (2020)	0.172% (2021)	1.993% (2024)

5.1.3 Free Cash Flow Projections

After paying for operational expenses and capital investment, projections of the cash generated by a company's business operations. The following formula is used to calculate the firm's free cash flow.

**Free Cash Flow to the Firm = EBIT after Tax + Depreciation +
Working Capital Change - CAPEX**

The EBIT after-tax, sales revenue, COGS, SG&A expense, and tax expense predictions are all estimated. In the previous section of the pro forma statement, the forecast process for them was also outlined.

5.1.3.1 Working Capital

Accounts receivable plus inventory minus accounts payable equals working capital. The difference between this year's working capital form and the prior year's working capital form is used to determine changes in working capital. To evaluate significant line items from the balance sheet, we used historical patterns and common sense. Account receivable, inventory, and account payable estimates are based on account receivable, inventory, and account payable days, respectively.

Therefore, the projections for account receivable is equal to sales revenue divided by 365 days and then multiplied by the assumption of 22 days of account receivable as the account receivable days are moving concerning market share. The forecast for inventory equals COGS divided by 365 days and then multiplied by the assumption of 25 days of inventory as slower inventory turns from Covid-19 and new outlets open. The forecast of account payable is equal to COGS divided by 365 days and then multiplied by the assumption of 28 days of account payable by extending credit to the customer (Table 5.5).

Table 5.5 The Forecast of Working Capital

	2017	2018	2019	2020	2021F	2022F	2023F	2024F
Total revenues	13,677	13,580	13,757	11,366	10,701	10,806	10,840	10,917
Cost of goods sold	8,387	8,110	8,816	7,388	6,741	6,808	6,829	6,878
Account recieveble days	15	20	18	22	22	22	22	22
Inventory days	18	17	18	24	25	25	25	25
Account payable days	43	40	29	28	28	28	28	28
Account receivable	709	670	686	631	645	651	653	658
Inventory	360	404	451	498	462	466	468	471
Account payable	977	809	613	510	517	522	524	528
Working capital	92	265	524	619	590	595	597	601

5.1.3.2 Depreciation and CAPEX

The fixed assets on the balance sheet, including property, plant, and equipment, are related to the forecasts of depreciation and CAPEX. Based on the

previous four years, the rate of depreciation dividends by fixed assets is in the range of 14% to 16% (15.6% in 2020), assuming that the rate will be 15% in future years as fixed assets grow.

The fixed assets have a slow steady growth per year, with the expectation of 2020, where new restaurant stores expand with the correct format. With the investments and ongoing growth strategy of Oishi, peak CAPEX cycle is expected to be done and ongoing CAPEX is for maintenance of around 10 % of fixed assets (Table 5.6).

Table 5.6 The Forecasts of Depreciation & CAPEX

	2017	2018	2019	2020	2021F	2022F	2023F	2024F
Fixed Assets	6,676	5,924	5,886	5,321	5,641	5,696	5,715	5,755
Depreciation	1,017	866	871	828	846	854	857	863
<i>Depreciation / Fixed Assets</i>	15%	15%	15%	16%	15%	15%	15%	15%
CAPEX	512	779	929	285	564	570	571	575
<i>CAPEX / Fixed Assets</i>	8%	13%	16%	5%	10%	10%	10%	10%

5.1.4 DCF Valuation Result

The discounted cash flow approach estimates Oishi's present equity value from 2021 to 2024 with a terminal value by taking free cash flow from the last projected year times (1+ perpetual growth rate), as shown in Table 5.7.

$$TV = FCF (1+g) / (WACC - g)$$

where:

TV = Terminal value

FCF = Terminal free cash flow

g = Perpetual growth of free cash flow

Table 5.7 Discounted Cash Flow

Period	0	1	2	3	Terminal	
	2020	2021F	2022F	2023F	2024F	
EBIT	1,014	1,191	1,199	1,202	1,207	
Tax	52.3	(70.6)	(71.3)	(71.8)	(72.2)	
EBIT After Tax	1,067	1,120	1,128	1,130	1,135	
Depreciation	828	846	854	857	863	
Working Capital Change	96	(30)	6	2	4	
CAPEX	(285)	(564)	(570)	(571)	(575)	
Cash Flow To The Firm (FCFF)	1,705	1,373	1,418	1,417	1,427	17,809
Discounted Cashflow		1,373	1,304	1,198	1,109	13,839
PV of Firm Value (THB mn)	18,823					
Net Debt (THB mn)	322					
PV of Equity Value (THB mn)	18,501					
No. of Shares (mn)	375					
EST. SHARE VALUE (THB)	49.33					

We calculated the terminal value at 17,809 million, which is 70.8% of the total free cash flow, using a discounted rate of 8.77% and a terminal growth rate of 0.7%. The present value of equity is computed by subtracting the net debt 322 million from the firm's present value of 18,501 million. Following that, the anticipated share value is 49.33 Baht per share in 2021F, which is the present value of the equity dividend divided by the number of shares (375 million shares). Meanwhile, We calculated the stock price for 2022F using the expected share price of Oishi in 2021F (49.33 Baht) and the required rate of return (9.08%), which is 53.81 Baht per share.

5.1.5 Implied Cost of Capital

According to SET, companies with a market capitalization of \$10 or more have a large capitalization, which is defined as the total number of outstanding shares in the market multiplied by the current price of each share (SET, 2021). Oishi now has a market valuation of 15.7 billion Baht, which is in the middle of the market capitalization spectrum (**Table 5.8**). Mid-capitalization equities, on the other hand, are slightly more volatile and risky than large-capitalization companies. To represent the risk of investing in mid-capitalization having lower liquidity than large-capitalization, the needed equity return should be more significant than 9.08%.

Table 5.8 Oishi Public Ownership Summary

Type	Common Stock Equivalent Held	% of Total Shares Outstanding	Market Value (THB in nm)	Position Date
Institutions	27,267,600	7.27	1138.4	
Corporations (Public)	298,720,398	79.66	12471.5	
Individuals/Insiders	17,137,700	4.57	715.5	
Public and Other	31,874,302	8.50	1330.8	
Total	375,000,000	100.00	15656.2	
Top Holders				
Thai Beverage Public Company Limited	298,720,398	79.66	12417.5	May-27-2021
DBS Group Holdings Limited, Asset Management Arm	17,910,200	4.78	747.7	May-27-2021
Jurangkool, Thaveechat	15,789,400	4.21	659.2	Dec-14-2020
UBS Asset Management	9,357,400	2.50	390.7	Dec-31-2019
Jurangkool, Hatairatn	1,348,300	0.36	56.3	May-27-2021

Source: S&P Capital IQ (2021)

In order to examine the return of equity for Oishi, we calculated the cost of equity derived from the current market price of 41.75 Baht on July 7, 2021. The implied WACC is 10.35%, based on terminal growth of 0.7% and the after-tax cost of debt of 2.14%. The value obtained by solving the WACC equation for the implied cost of equity is 10.73% (Table 5.9), which is greater than the value obtained by applying CAPM, which is 9.08%.

Table 5.9 Implied WACC and Cost of Equity

Stock Price (Baht)	Perpetual Growth	Implied WACC	Implied Cost of Equity
41.75	0.70%	10.35%	10.73%

5.1.6 Expected Return

Thai Beverage Public Company Limited is Oishi's largest stakeholder, owning 79.66% of the company's paid-up capital (Oishi, 2020). As a result of ThaiBev's considerable influence on Oishi's management and operations, the required equity return should be greater than 9.08% to represent the risk associated with investing in public corporations. On the other hand, Oishi has a policy of paying a dividend of not less than 40% of net profit after tax and legal reserves, and the company's dividend payment history reflects this policy. The rate of return Oishi provides to equity investors has the most significant impact on the weighted average cost of capital; hence, the expected return for shareholders is the most significant factor to consider when capitalizing dividends.

Based on this information, we got the new cost of equity generated applied the dividend capitalization model, which is calculated by dividing the dividend per share for the following year (1.24) by the current share price (41.75 Baht) on July 7, 2021, plus the dividend growth rate of 7.68% (2018-2020). As a result, we derived a new cost of equity of 10.65% and used the WACC method to obtain a new estimated WACC of 10.27%. Below is the cost of equity calculated from the dividend capitalization model formula.

$$Re = (D1 / P0) + g$$

Where:

Re = Cost of equity

D1 = Dividends / Share next year

P0 = Current share price

g = Dividend growth rate

We used the discounted cash flow model to estimate the stock price for 2021F, which is 42.06 Baht per share. There is minimal difference between the current stock price (41.75 Baht) on July 7, 2021, which is based on our forecasts FCFE with the same terminal growth rate.

We estimated the stock price for 2021F using the discounted cash flow model, which came out to 42.06 Baht per share based on our estimates FCFE with WACC of 10.27% and terminal growth of 0.7%. It is only slightly different compared with the current stock price of 41.75 Baht on July 7, 2021.

5.2 Valuation Recommendation

To see if Oishi's market price is undervalued, we compared the required rate of return and expected return of Oishi's shareholders to the implied cost of equity and found that both estimated WACC are lower than implied WACC. As a result, it can be stated that Oishi's current stock price is undervalued (**Table 5.10**).

Table 5.10 Oishi's Stock Price Comparison

After-tax Cost of Debt	Perpetual Growth	Cost of Equity	WACC	Stock Price (Baht/Share)	Reference
2.14%	0.7%	10.73%	10.35%	41.75	Implied WACC
2.14%	0.7%	10.65%	10.27%	42.06	Expected Return
2.14%	0.7%	9.08%	8.77%	49.33	DCF

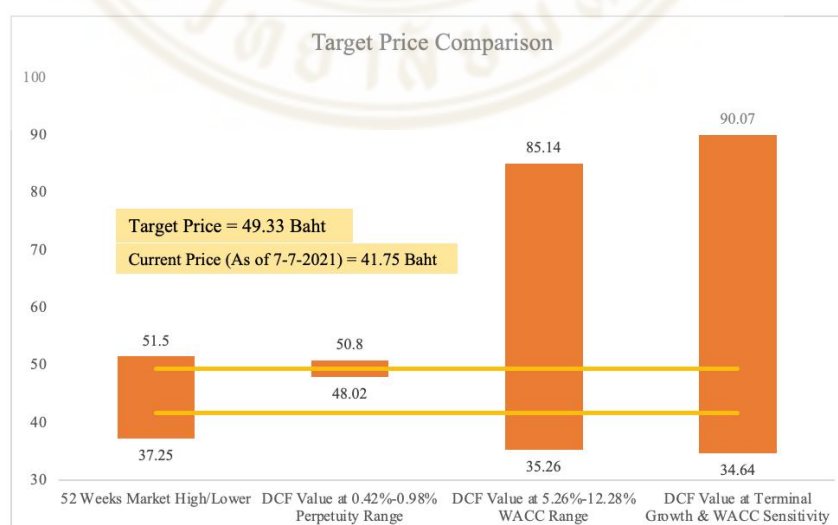
According to rating guidelines, there are three categories of recommendation on the target stock (**Table 5.11**). The predicted stock price of 49.33 Baht represents an 18% upside over the current stock price of 41.75 baht on July 7, 2021. As a result, the DCF method's suggestion is to “BUY”.

Table 5.11 Rating Criteria

Rating Rules:	
Buy	10% or Great Upside
Hold	Less than 10% Upside or Greater than 10% Downside
Sell	Lower than 10% Downside

5.2.1 Sensitivity Analysis

The sensitivity study of Oishi is depicted in **Figure 5.2**, which represents the stock price range utilizing four approaches: 52-week market price, DCF valuation with adjusted terminal growth rate, DCF valuation with adjusted WACC, and DCF valuation between -40% and +40% growth range of both components.

**Figure 5.2 Oishi's Football Field of Target Price Comparison**

The discounted cash flow model is derived from four essential input factors: cost of debt, cost of equity, WACC, and terminal growth rate, and sensitivity analysis is used to assess both the target and input variables. For the sensitive study of those main input parameters, we built a growth range based on previous results between -50% and 50% to examine how these components move and how one influences the other (Table 5.12).

Table 5.12 Sensitivity Analysis

Deviation	cost of debt	stock price	cost of equity	stock price	WACC	stock price	Terminal growth	stock price
		49.33		49.33		49.33		49.33
-50%	1.07%	49.61	4.54%	103.39	4.39%	104.67	0.35%	47.68
-40%	1.29%	49.55	5.45%	84.42	5.26%	85.09	0.42%	48.00
-30%	1.50%	49.50	6.35%	71.47	6.14%	71.83	0.49%	48.32
-20%	1.71%	49.44	7.26%	62.07	7.02%	62.25	0.56%	48.65
-10%	1.93%	49.39	8.17%	54.94	7.89%	55.00	0.63%	48.99
0	2.14%	49.33	9.08%	49.33	8.77%	49.33	0.70%	49.33
10%	2.12%	49.34	9.98%	44.82	9.65%	44.77	0.77%	49.68
20%	2.31%	49.29	10.89%	41.10	10.52%	41.03	0.84%	50.04
30%	2.51%	49.24	11.80%	37.99	11.40%	37.90	0.91%	50.40
40%	2.70%	49.19	12.71%	35.35	12.28%	35.24	0.98%	50.77
50%	2.89%	49.14	13.61%	33.08	13.16%	32.96	1.05%	51.14

We also make a spider chart to trace the sensitivity of each major element, as illustrated in Figure 5.3, to compare sensitivity. The stock price is most sensitive to the WACC, as the slope is higher than others, indicating that one unit of WACC changes will significantly influence the stock price. In contrast, the stock price is less vulnerable to the cost of debt with the lowest capital structure weighting (4.41%).

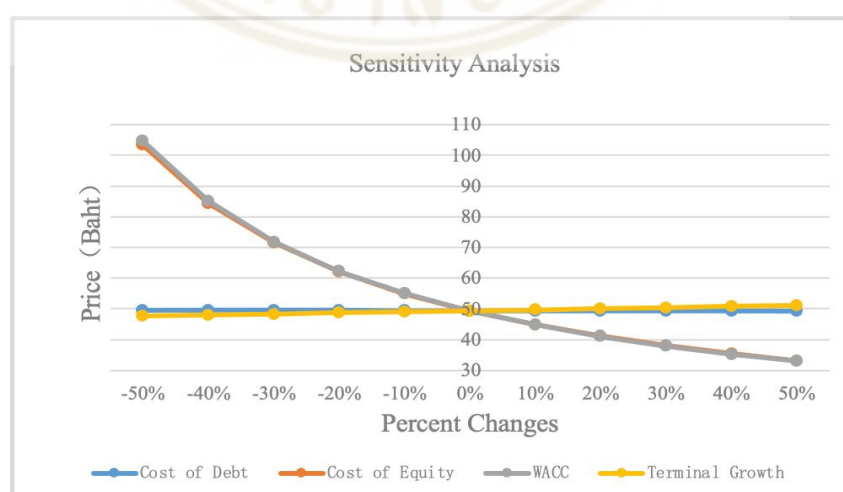


Figure 5.3 Spider Chart of Sensitivity Analysis

Table 5.13 shows the results of a sensitivity study of perpetual growth and WACC, which was based on a 10% step change in WACC and terminal growth rate. To illustrate how different WACC affects stock value while maintaining the terminal growth constant at 0.7%, for example, the WACC increased 10% to 9.65% from 8.77%, causing the stock price to decline to 44.80 Baht per share from 49.33 Baht per share. On the other hand, to investigate how alternative terminal growth rate affects stock price, we used a constant WACC of 8.77%. With the same 10% increase, there is a lower impact than WACC (price from 49.33 Baht to 49.71 Baht per share).

Table 5.13 Sensitivity Analysis of Perpetual Growth and WACC

	Base	WACC								
		49.33	5.26%	6.14%	7.02%	7.89%	8.77%	9.65%	10.52%	11.40%
Perpetual Growth	0.42%	80.74	68.79	60.01	53.30	47.99	43.70	40.15	37.17	34.63
	0.49%	81.78	69.52	60.55	53.71	48.32	43.96	40.36	37.35	34.78
	0.56%	82.85	70.27	61.11	54.13	48.65	44.23	40.58	37.53	34.93
	0.63%	83.95	71.04	61.67	54.56	48.99	44.50	40.80	37.71	35.08
	0.70%	85.09	71.83	62.25	55.00	49.33	44.77	41.03	37.90	35.24
	0.77%	86.26	72.64	62.84	55.45	49.68	45.05	41.26	38.09	35.40
	0.84%	87.47	73.47	63.44	55.90	50.04	45.34	41.49	38.28	35.56
	0.91%	88.72	74.32	64.06	56.37	50.40	45.62	41.72	38.47	35.72
	0.98%	90.01	75.20	64.69	56.84	50.76	45.92	41.96	38.67	35.89

According to the aforementioned analysis, WACC is the most sensitive input factor for stock price, and the target price of 49.33 Baht per share is determined by 8.77% of WACC as 9.08% of the cost of equity using the DCF model.

5.2.2 Investment Risks and Downsides Possibilities

All the described risks are summarized using the risk assessment matrix with two factors: probability and impact of risks.

5.2.2.1 Financial Risks

Oishi intends to develop its export operations across the ASEAN region in order to boost sales in Cambodia, Laos, and Myanmar. In Myanmar, Oishi's subsidiary currently operates one Shabushi restaurant in Yangon. Foreign currency can have a minor impact on revenues and operating costs. Approximately 10% of total sales revenue is currently produced outside of the overseas market. Oishi is subject to **foreign currency risk** of purchases and sales of goods denominated in

foreign currencies (Oishi, 2021). However, there are no substantial concentrations of foreign currency risk.

The company has possibility to expose to **interest rate risk** from its borrowing. Therefore, the risk is that future market interest rates will affect the company's operations and cash flow because loan interest rates are mainly fixed. However, the company's interest-bearing debt is around 5%. The loan amount is small compared to the company's equity, and the policy interest rate is reduced. As a result, the company will have a lower interest rate risk, which will help its debt financing.

The low free float of the company's securities poses a risk of transaction liquidity on SET. The company has a free float of 20.34 % as of December 14, 2020, resulting in relatively low liquidity transactions of the securities listed on SET (Oishi, 2021). Shareholders may face the danger of not selling the company's stock at the desired price right away.

5.2.2.2 Market Risks

Consumer confidence and consumption levels may be affected by **economic threats**. Due to the unpredictability and uncertainty of the economy, business operations may see an increase in raw material costs, labour costs, and other expenses. Challenges such as the Covid-19 pandemic, a significant drop in tourism, or an economic slowdown caused by the temporary closure of enterprises have had a cascading effect on consumer employment and purchasing power, causing people to be more cautious with their purchases. The drop in beverage income was attributable primarily to a decrease in export sales and order delays caused by the Covid-19 in the overseas market. Furthermore, consumers are more cautious and attentive to their spending than ever before, resulting in a decline in the number of customers at restaurants and the amount of money spent on each service.

The beverage industry has significant **risk in competition**, and new high-potential entrepreneurs with aggressive marketing strategies have always sought to break into the market. However, Oishi has increased its competitiveness through its brands and product image via excellent advertising, marketing, and promotional operations. Due to the growing popularity of Japanese cuisine in Thailand, numerous new Japanese restaurant operators appear regularly for the food business. Several competitors open stores with the same menu and close. On the other hand,

Oishi has procedures to compete on product quality, advertising, and promotional activities without decreasing prices, giving it a competitive advantage.

The Covid-19 pandemic would hasten tendencies that were previously thought to take years to develop. The internet becomes a basic infrastructure that can be accessed anytime and from any location, making life easier. Covid-19 **changes consumer behaviour** toward more internet-based purchases. Even after Covid-19, online purchase habits will undoubtedly persist. Customers are seeking faster and more convenient services so that small and medium service providers are growing in popularity. People, on the other hand, are increasingly concerned about their health and cleanliness. Following the Covid-19 trends, a new normalized social responsibility standard and a more accessible medical and public health system will emerge. Importantly, all businesses are responsible to provide and fulfill consumers' demand as trendy, including the same to Oishi.

5.2.2.3 Operational Risks

For the food business, **the location of the store** is critical while the competition is intense. It is vital to get the most convenient and crowded place with a medium-to-long-term contract with a trustworthy landlord when expanding the business. There are some likelihoods that when the contract is close to expiring, OISHI might not rent the current operating place, or the landlord increases the rent. Both risks have a moderate impact on Oishi's expenses and can affect the lower in making sales.

As fresh and good quality raw materials contribute essentially to Oishi's success, Oishi has to maintain the relationship with the current suppliers. As there are fewer qualified suppliers in the market, the riskier for the company to get influenced by the **suppliers' power** through fluctuation in the procurement costs, which will affect higher production costs. However, Oishi has planned out very well by acquiring from many suppliers and always searching for new qualified suppliers.

5.2.2.4 Political Risks

When considering the regulations, for OISHI, the import and export regulations and consumer-centered regulations have to be considered. For example, when the government exercised the sugar tax, other additional expenses relating to the production and as well as in the product development process are costed

to Oishi in order to adjust the taxable sugar level. The same goes for the import or export regulations. It is essential to study the regulations and laws regarding import and export that would impact sales, net profit, and EPS then, finally the share price.

All the described risks are summarized using the risk assessment matrix with two factors: probability and impact of risks.



Figure 5.4 Risks Assessment Matrix relating to Oishi

Source: Oishi. (2021). *Annual Report 2020*

CHAPTER VI

CONCLUSIONS

In this thematic paper, Oishi is evaluated by the DCF valuation method to determine the appropriate target price. After making assumptions about the company's earnings, perpetual growth rate, cost of debt, and cost of equity, the DCF valuation method determines the company's intrinsic value using expected free cash flows in the future, discounted back to the present value.

The share price of Oishi is estimated using the DCF model, with a projection period of 2021-2024 and the assumption that the company will grow at a terminal growth rate of 0.7% indefinitely. According to the CAPM, which is used to calculate the cost of equity is 9.08%. The target price for Oishi has been set at 49.33 Baht, representing an 18% increase over its closing price of 41.75 Baht on July 7, 2021. Furthermore, we perform a sensitivity analysis using the two fundamental input parameters of WACC and perpetual growth to obtain a possible stock price range of 34.63 Baht to 90.01 Baht per share, with the stock price decreasing as the most sensitive element of WACC increases.

There are two important considerations to weigh when determining whether or not a company is undervalued. On the one hand, ThaiBev owns 79.66% of Oishi's paid-up capital, and Oishi has a market valuation of \$15.7 billion. Therefore, we calculated the implied WACC to evaluate whether a company's stock is overvalued or undervalued. With terminal growth of 0.9% and a constant after-tax cost of debt of 2.14%, the calculations of the implied WACC is 10.35%, and the cost of equity is 10.73% based on the current stock price. On the other hand, using the dividend capitalization model and considering Oishi's dividend policy and shareholder structure, we computed the new required rate of return to be 10.65%. We find that the current price (41.75 Baht) is undervalued because all implied costs of equity are more extraordinary than the required return and expected return.

Furthermore, to evaluate the estimated stock price of Oishi, we compared the stock price range from DCF and the stock price range from the previous 52 weeks. The reasonable price is 49.33 Baht, providing a potential upside of 18% over the 41.75 Baht per share as of July 7 2021. At the same time, we predicted the target share price in 2022 to be 53.81 Baht, representing a potential upside of 29% over the current share price. To conclude, Oishi current stock is undervalued, and we issue a “BUY” recommendation.

6.1 Triggers for Re-assessment

For the “triggers for re-assessment”, the discounted cash flow method is influenced by various assumptions, whether controllable factors like capital structure policy of the company or uncontrolled factors like economy and government policy. There are three main factors for the DCF method needed to consider: terminal growth rate, discounted rate, and future cash flow.

Terminal Growth Rate. The selection of terminal growth is an integral part of the DCF method. Because it is factored into the DCF method's terminal value calculation, which accounts for a significant amount of a company's value, we should forecast real growth if we wish to choose a terminal growth that reflects an improvement in business economic conditions. However, it necessitates making tricky predictions about future performance. As a result, the critical trigger for reevaluating the value for terminal growth and determining what constitutes a fair forecast for a company's change in economic position.

Discounted Rate. It refers to the process of adding a risk premium to the cost of capital and then using the sum as the discount rate to account for the risk of an investment. The discount rate is commonly calculated using market necessary rates of return for debt and equity and the company's capital structure's split between the outstanding debt and equity. As a result, when the capital structure changes significantly, the valuation should be re-assess.

Future Cash Flows. The cash flows are forecasted utilizing a series of assumptions about how the business will perform in the future and then anticipating how this business performance translates into the cash flow created by the business in

the DCF analysis. Changing future cash flow assumptions on a DCF makes it very easy to boost or lower the valuation significantly. As a result, the vital trigger point to re-assess is uncertain assumptions and variable valuation technique instructions to forecast.

6.2 Limitations

In terms of the "limitations of this valuation," the DCF valuation is extremely sensitive to a large number of forecasts and so can vary widely. If even one fundamental assumption is dramatically incorrect, the valuation can be drastically different. The outcome will be inaccurate if erroneous assumptions are applied. The terminal value, in particular, accounts for far too much of the total value. Even slight changes in terminal year assumptions might have a big influence on the ultimate valuation.

Furthermore, any market-related valuation information, such as the valuation of comparable companies, is ignored in DCF valuation. As a result, DCF should be used in conjunction with other valuation approaches, lest a problematic assumption or two result in a result that differs significantly from what market forces indicate. The DCF model is also ineffective for short-term investing. Instead, it focuses on creating long-term value.

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Appendix A: SWOT Analysis of Oishi

Strengths

- Good brand reputation: Thailand's Most Admired Brand 2020, Oishi, has been awarded for the ninth year in a row as the most trusted and admired brand in the RTD tea category (Annual Report of Oishi Group Public Company Limited, 2020).
- Outstanding customer satisfaction and experience: Customer satisfaction for food business can be described using four critical metrics detailed from the feedback below: 91% for ambient of atmosphere and facilities, 92% customer service, 87% for quality of food, and 91% for delivery service.
- Nationwide distribution network: Thai Beverage Public Company Limited (ThaiBev) is Thailand's largest distributor of both alcoholic and non-alcoholic beverages. ThaiBev, as Oishi's largest stakeholder and a key strategic partner for Oishi, guaranteed the company's distribution network is solid and steady.
- Strong Financial Position: Oishi has a strong balance sheet, and sufficient cash flow from zero debt status is regarded as solid leaving room for future finance and investment. At the same time, the company payout ratio has remained higher than the dividend payout policy, at 40%, during the challenging period.
- R&D: Focus on new product development across all categories and continue developing and launching healthy packaged foods.

Weaknesses

- Raw materials and production costs: Other than RTD tea products, the sales volume of other items is deemed low compared to the market size, resulting in a high production cost due to the manufacturing plants not being used to their maximum potential.
- The supplier relationship: Due to the necessity to make only high-quality products made of premium materials, there is no policy to purchase raw

materials from specific suppliers, resulting in a material scarcity or a price bargaining disadvantage.

Threats

- Very competitive: The food and beverage industry is highly competitive, and there have always been new high-potential competitors looking to break into the market with effective marketing strategies.
- Sugar excise tax: Because ready-to-drink is one of the beverage goods subject to excise tax, company owners have to alter the product's selling price and continually explore new sugar-free products.
- Natural disasters: The COVID-19 outbreak has significantly impacted all businesses and industries, particularly the food and beverage industry. Chain effects caused by challenges such as a significant drop in tourism and an economic slowdown resulting from the lockdown have affected customers' purchasing power.

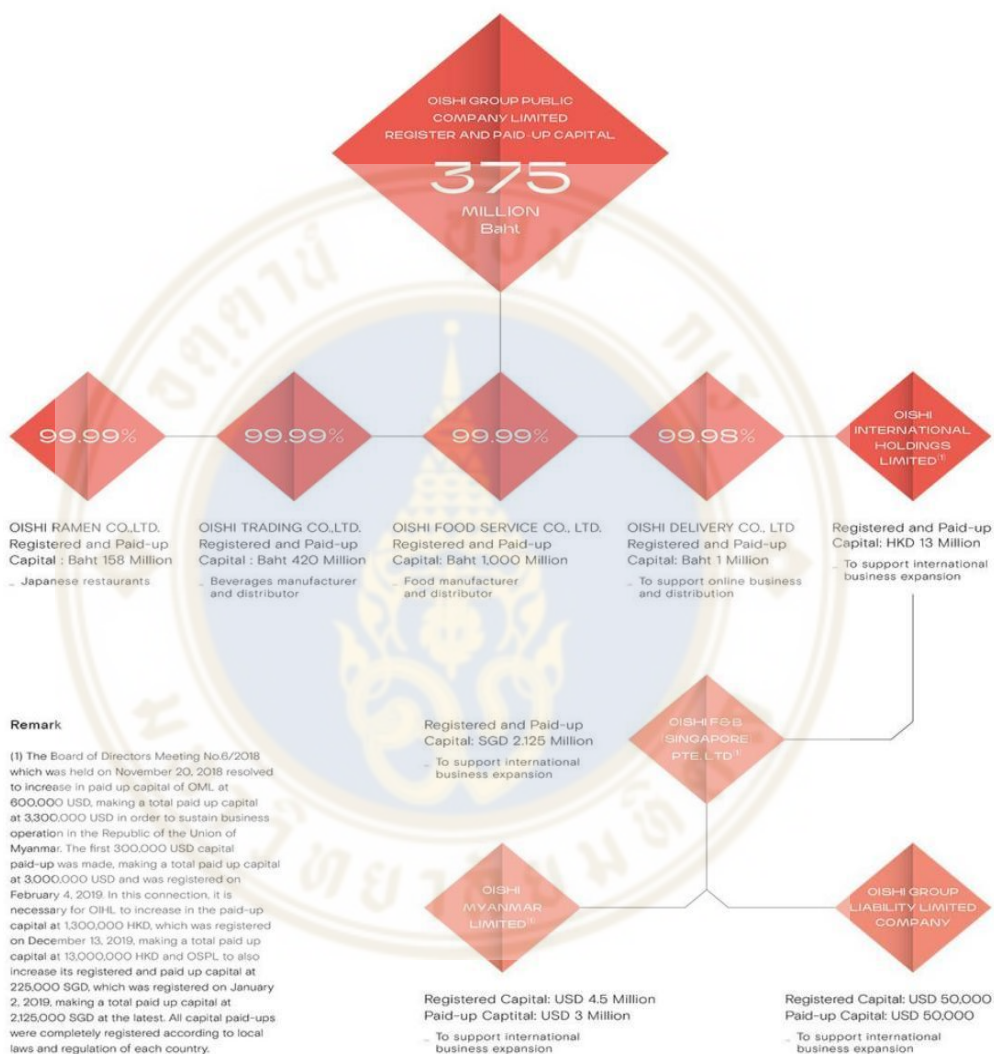
Opportunities

- International market expansion: Oishi currently holds the number one market share in the beverage business in Cambodia, Laos, and Myanmar, indicating that there are still prospective markets in Asia such as China, currently with a stable growth economic environment. The well-recognized product quality and current market situation hold potential to expand into the European countries too.
- Advanced technology and digital platform: With the growing expansion of the delivery channel, which is becoming increasingly active in the lifestyle of metropolitan consumers, advanced technology and digital platforms are becoming more critical. Customers will be able to communicate with these more directly as a result of this.
- New lifestyle and health awareness: People are becoming more health-conscious regarding food and beverages, and healthier cuisines and teas are becoming more tempting to customers.

Appendix B: Group Structure of Oishi

OISHI GROUP STRUCTURE

As at November 18, 2020



Appendix C: Corporate Governance Scores of Oishi in 2020

AGM Quality Score								Listed co Avg 2019
	2014	2015	2016	2017	2018	2019	2020 [*]	
Oishi Group	97	100	99.25	100	99	100	98.5	93.95



Appendix D: Shareholder Structure of Oishi

Figure D-1 Oishi major shareholders

Ref	Shareholders' name	Shares	%
1.	Thai Beverage Public Company Limited	298,720,398	79.66
2.	UOB KAY HIAN PRIVATE LIMITED	18,000,000	4.80
3.	DBS BANK LTD.	17,910,200	4.78
4.	Mr. Thaweechat Jurangkool	15,789,400	4.21
5.	BANK OF SINGAPORE LIMITED-THB SEG AC	9,357,400	2.50
6.	Mr. Ayuth Charnsethikul	1,960,000	0.52
7.	Mrs. Hatairat Jurangkool	1,234,200	0.33
8.	Thai NVDR Company Limited	1,201,418	0.32
9.	Ms. Orapan Assamongkol	986,400	0.26
10.	Mrs. Nipaporn Siripong	847,300	0.23
11.	Free Float shareholders	8,993,284	2.39
	Total	375,000,000	100

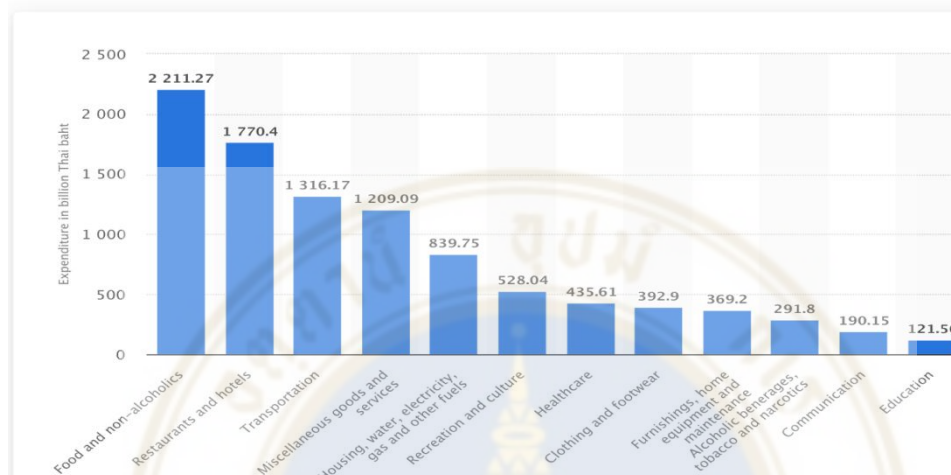
Figure D-2 ThaiBev major shareholders

Ref	Shareholders' name	Shares	%
1.	The Central Depository (Pte) Limited	12,305,567,766	48.99
2.	Siriwana Company Limited	11,368,060,000	45.27
3.	Mr. Thanapa Sirivadhanabhakdi	107,000,000	0.43
4.	Mrs. Thapanee Techajareonvikul	107,000,000	0.43
5.	Mr. Panote Sirivadhanabhakdi	107,000,000	0.43
6.	Mrs. Wallapa Traisorat	107,000,000	0.43
7.	Mr. Natthavat Tejapaibul	92,377,500	0.37
8.	Mrs. Atinant Bijananda	88,660,756	0.35
9.	Mrs. Chompoonuch Tejapaibul	70,000,000	0.28
10.	Mrs. Varang Chaiyawan	65,650,500	0.26

Source: Oishi Annual Report (2020)

Appendix E: Value of household consumption expenditure in Thailand in 2019, by category

(in billion Thai baht)



Source: Statistics (2021)

Appendix F: Macroeconomic of Thailand

Figure F-1 Food and beverage service industry growth

Market Sizes | Historical/Forecast | Period growth

Geography	Category	Data Type	Unit	2010 - 2020 %	2010 - 2020 CAGR %	2010 - 2020 Absolute
Thailand	Food and Beverage Services	Establishments	outlet	37.6	3.2	48,897.0

Figure F-2 Historical GDP growth

Economies and Consumers Annual Data | Historical | Period growth

Geography	Category	Data Type	Unit	Current Constant	2010 - 2020 %	2010 - 2020 CAGR %	2010 - 2020 Absolute
Thailand	GDP	Socio-economic indicators	THB million	Current Prices	45.2	3.8	4,890,141.0

Figure F-3 Forecasts GDP growth

Economies and Consumers Annual Data | Forecast | Period growth

Categories	Geography	Data Type	Unit	Current Constant	2021 - 2024 %	2021 - 2024 CAGR %	2021 - 2024 Absolute
GDP	Thailand	Socio-economic indicators	THB million	Current Prices	20.0	6.3	3,380,699.8

Figure F-4 Thailand's GDP

Economies and Consumers Annual Data | Historical/Forecast

Geography	Category	Data Type	Unit	Current Constant	2016	2017	2018	2019	2020	2021	2022	2023	2024
Thailand	GDP	Socio-economic indicators	THB million	Current Prices	14,590,337.0	15,488,664.0	16,368,705.0	16,898,086.0	15,698,286.0	16,923,013.2	18,108,877.3	19,195,368.9	20,303,713.0

Figure F-5 Consumer Expenditure as of % GDP

Economies and Consumers Annual Data | Historical/Forecast

Geography	Category	Data Type	Unit	Current Constant	2016	2017	2018	2019	2020	2021	2022	2023	2024
Thailand	Consumer Expenditure as % of GDP	Socio-economic indicators	% of total GDP	-	57.0	56.9	56.4	58.2	62.2	59.7	58.5	58.4	58.3

Source: Euromonitor. (2021)

Appendix G: Market Share of RTD (%) in Thailand

Beverage: Oishi Sustains Number 1 Market Share in RTD Tea with Incremental Gap from Major Competitor



 Thailand – % Market share of Ready-to-Drink Tea (RTD Tea) by Value

Moving Average 12 months (MAT) Mar-21's Value = THB 10,533 mn

Value	% YoY
	MAT- Mar21
RTD Tea	-13.5%
Oishi Corp.	- 7.1%
Second Player	-14.5%



Appendix H: Beta estimating by using regression in Excel

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.54272665
R Square	0.29455222
Adjusted R Square	0.28238933
Standard Error	0.07221947
Observations	60

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0.126308934	0.126308934	24.21728312	7.47028E-06
Residual	58	0.302507847	0.005215653		
Total	59	0.428816781			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	-0.0068125	0.009325105	-0.73055766	0.467990255	-0.02547875	0.011853699	-0.02547875	0.011853699
X Variable 1	0.92929154	0.188837949	4.921105884	7.47028E-06	0.551291318	1.307291767	0.551291318	1.307291767