

DISCOUNTED CASH FLOW VALUATION OF ICHITAN GROUP



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**A THEMATIC PAPER SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF MASTER OF MANAGEMENT
COLLEGE OF MANAGEMENT
MAHIDOL UNIVERSITY
2023**

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Thematic paper
entitled
**DISCOUNTED CASH FLOW VALUATION OF
ICHITAN GROUP PUBLIC COMPANY LIMITED**

was submitted to the College of Management, Mahidol University
for the degree of Master of Management

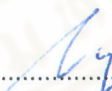
on
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ACKNOWLEDGEMENTS

I would like to express my appreciation to my professors for their invaluable guidance and support throughout my academic journey. Their expertise and insightful teachings have equipped me with the knowledge and skills necessary for my future career aspirations.

Furthermore, I wish to extend my gratitude to my friends at CMMU especially Kanjana Boonsaenunt who support and encourage me during my academic journey. Their companionship and motivation have contributed to making my academic journey both enriching and enjoyable.

In addition, I would like to acknowledge and express my thanks to my friends who always support me mentally during difficult times.

Lastly, I am deeply thankful to my family for their financial, emotional, and physical support throughout my academic journey. Their unconditional love, encouragement, and belief in my abilities have been the keys to my success.

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DISCOUNTED CASH FLOW VALUATION OF ICHITAN GROUP

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M.M. (CORPORATE FINANCE)

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ABSTRACT

In this thematic paper, the intrinsic value of Ichitan Group (ICHI)'s share price was evaluated using the discounted cash flow (DCF) valuation approach. ICHI is a company listed on the stock exchange of Thailand (SET) that produces and sells ready-to-drink tea beverages under various brands such as Ichitan and Yen Yen. The DCF analysis indicated that the company's sales revenue is expected to grow at a compound annual growth rate (CAGR) of 5.43% from 2021 to 2026, driven by the growth of ready-to-drink coffee and tea in Thailand. Beyond 2026, it was assumed that the company's sales growth rate would be 2.96% per annum (perpetual growth), based on a forecast of growth in the ready-to-drink tea and coffee market in Thailand in 2027. The target stock price for ICHI was determined to be 10.99 baht per share, which is 14.83% lower than the current market price of 12.90 baht per share as of 10 March 2023. Based on this assessment, it is recommended to HOLD ICHI shares.

KEY WORDS: ICHI/ Valuation/ Discounted Cash Flow/ Ready to drink tea

48 pages

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CHAPTER I

INTRODUCTION

The Ready-to-Drink (RTD) tea industry in Thailand are driven by changing consumer preferences and increasing health awareness. The market is highly competitive, with both domestic and international brands vying for market share. One of the key factors driving the growth of the RTD tea industry in Thailand is the increasing popularity of health and wellness products. Many consumers are looking for healthier beverage options and turning to RTD tea as a low-sugar alternative to carbonated soft drinks. Additionally, the rise of e-commerce and online shopping has made it easier for consumers to access and purchase RTD tea products. Another factor driving the growth of the RTD tea industry in Thailand is the country's hot and humid climate, which makes cold beverages, including RTD tea, particularly appealing. The popularity of iced tea in Thailand has also influenced the growth of RTD tea, as consumers are increasingly looking for convenient and portable options for on-the-go consumption. In terms of market share, both domestic and international brands are competing in the RTD tea industry in Thailand. Popular domestic brands include Oishi and Ichitan.

Ichitan Group Public Company Limited is a Thailand-based company that specializes in producing and selling ready-to-drink tea beverages. The company was founded in 2010 and has since grown into one of the leading beverage manufacturers in Thailand, with a strong presence across Southeast Asia and beyond. The company is aiming to produce high-quality tea products using natural ingredients, without artificial preservatives or coloring. The company's products include a wide range of teas, including green tea, black tea, and herbal teas, as well as innovative tea-based beverages such as milk tea and fruit tea.

In addition to its focus on product quality, Ichitan is also known for its innovative marketing strategies and unique brand identity. The company's distinctive red and black packaging and quirky advertising campaigns have helped it to stand out

in a crowded marketplace and attract a loyal customer base. The company's latest financial statements, as of 2023, Ichitan Group has continued to achieve strong growth in revenue and net income. Ichitan has also expanded its operations, with new production facilities. The market capitalization of Ichitan (ICHI) is 16,510 million baht.

Based on the information available on the Ichitan Group website and the 2023 annual report, there have been a few recent significant developments for the company. Ichitan Group has launched several initiatives to promote sustainability and reduce its environmental impact, including the use of biodegradable packaging and the installation of solar panels at its production facilities. The company tried to innovate and introduce new products to its portfolio. Most importantly, the company has continued to increase productivity and cost efficiency of their production line. In 2022, Ichitan Group opened a new production facility. The new facility has a production capacity of up to 200 million bottles per year. It is equipped with high technology machinery to ensure the quality and consistency of Ichitan's products.

In this paper, we will provide a detailed recommendation for ICHI using the discounted cash flow (DCF) method. The method is widely used to estimate the value of an investment by calculating the present value of its expected future cash flows. By discounting future cash flows, the DCF method considers the time value of money and provides a more accurate estimate of the investment's true value.

To calculate the value of ICHI, we will assume the free cash flow to firm (FCFF) and growth rate based on the ready-to-drink tea industry's growth and the company's historical performance. We will also calculate the discount rate or weighted average cost of capital (WACC) using publicly available information. The WACC is a critical component of the DCF method as it represents the minimum rate of return required by investors to invest in the company.

We acknowledge that the growth rate and WACC are important inputs in the DCF method and are subject to uncertainty. Therefore, we will also perform a sensitivity analysis to understand how changes in these variables could impact the value of ICHI. By conducting a sensitivity analysis, we can identify the key drivers of the company's value and evaluate the potential risks and opportunities related to investing in ICHI.



CHAPTER II

BUSINESS DESCRIPTION



Ichitan Group Public Company limited is a beverage company based in Thailand. The company is known for being specialized in the production and distribution of tea products. It was established on September 3rd, 2010, by Mr. Tan Passakornnatee and is headquartered in Bangkok, Thailand. Ichitan Group is known for its popular iced tea brand, "Ichitan," which is widely available in Southeast Asia. The company also offers a range of other tea- based products, including green tea, oolong tea, and black tea.

In 1999, before establishing Ichitan, Mr. Tan founded a successful Japanese buffet restaurant, named Oishi and was the original founder of Oishi Group, which is Ichitan's biggest competitor by market share which created a popularity of ready-to-drink tea beverages in Thailand under "Oishi Green Tea" brand. Nevertheless, ThaiBev acquired Oishi group, owning 89.93% of shares. Mr. Tan, then, resigned from Oishi group in 2010 and started Mai Tan, or Ichitan.



Ichitan's registered capital of 500 million baht was intended for its Japanese fusion restaurant business. However, the company's team redirected their efforts towards the beverage industry and successfully became the top provider of high-quality green tea beverages in Thailand. In January 2013, Ichitan withdrew from the food industry altogether.

On December 31, 2015, the company possessed a registered capital and paid-up capital of Baht 1,300 million, which was divided into 1,300 million ordinary shares, each valued at Baht 1.00. The company's main activities include manufacturing and distributing beverages such as "ICHITAN green tea" (ready-to-drink), "Yen Yen

by ICHITAN" (herbal drink), "ICHITAN Chew Chew" (green tea with chewy coconut cubes), and "Bireley's by Ichitan" (fruit juices and jellies).

Currently, the company has a total production capacity of 1,500 million bottles and 200 million boxes per year, with 7 bottle production lines and 2 box production lines. The company can produce and sell 21 flavors and 7 product lines in total.

According to Ichitan's Annual Report 2021, it was stated that ICHITAN aims to be a market leader in the high-quality, innovative beverage industry that develops alongside a moral society. The Company then improves product quality and introduces new products to broaden its offering and satisfy consumer demand. This involves creating business possibilities to boost competitiveness both domestically and internationally. The Company plans to create new goods in 2-3 product categories every year on average, by incorporating current technology to assist the manufacturing process in order to reduce time and boost efficiency, as well as to demonstrate long-term social and environmental responsibility.

2.1 Business Structure

The company core business is producing and distributing ready-to-drink green tea, herbal drinks, green tea with chewy coconut cubes, and fruit juices and jellies. The company also established a joint venture with the Indonesian-incorporated PT Atri Pasifik ("AP") to invest in "PT ICHITAN Indonesia", which is set up in Indonesia to manufacture and market the "ICHITAN" beverage brand in Indonesia. The joint venture received investments from Ichitan and AP in an equal split (50 percent of the shares issued and all.)

The Company formed Ichitan Power Co., Ltd. as a subsidiary company to handle distribution for all beverage sales in both domestic and international markets. A 100% ownership stake in the company is held.



Figure 2.3: Ichitan Group Structure (Ichitan Group Investor Relation, 2023)

2.2 Products or Services Characteristics

Currently, the company produces in 9 product lines categories in the form of bottles and a UHT box packaging. The specifics are as follows:

PRODUCTS	
	<p>1. Ichitan Green Tea - a ready to drink green tea that concentrates on raw material quality especially green tea leaves; there are ten flavors available, including: Original flavor, Honey Lemon mixed flavor, Rice Japan flavor, Lychee flavor, Kyoho Grape flavor, Berry Lemon flavor, Watermelon flavor, Dekapon flavor, Pineapple- Chile salt flavor and Tamarind-Chile salt flavor.</p>
	<p>2. Yen Yen by Ichitan – a Herbal drinks that currently has 4 flavors, including: Jab Lueang, Honey mixed, Chrysanthemum, Cool Jab Liang and Roselle with Jujube</p>

PRODUCTS	
	<p>3. Ichitan Oolong Tea – a ready-to-drink Oolong drinks come in 2 flavors, Lemon flavor and Strawberry flavor.</p>
	<p>4. Shizuoka Green Tea – a ready to Drink Green Tea that was sponsored by the Shizuoka Prefectural Tea Exporters Association, Japan. There are five flavors to choose: No sugar, Roasted tea (Less sweet), Tencha with matcha honey flavor, less sweet, Gyokuro (No sugar)</p>
	<p>5. Ichitan Vitamin Water – a vitamin water drink which consists of 3 products, including: Ph Plus 8.5 mixed vitamin B complex, Ph Plus 8.5 mixed vitamin D and Ginkgo and VitaminC + E (C200)</p>
	<p>6. Ichitan Vitt CC – a Vitamin C 200% drink which has 2 flavors, including: Lemon flavor and Orange flavor</p>
	<p>7. Ichitan Oliang – a ready to drink Ice black coffee</p>

PRODUCTS	
	<p>8. Kaempferia Herbal drink in a lemon flavor</p>
	<p>9. Terpene flavored green tea drink in 2 flavors, including: Chamomile flavor and Lemon flavor</p>

Table 2.1: Products of Ichitan

In 2021, ICHI provided 12 different package sizes, as shown in the table.

Pakaging	Box 300 ml.	Bottle 215 ml.	Bottle 275-280 ml.	Bottle 280 ml.	Bottle 315 ml.	Bottle 350 ml.	Bottle 350 ml.	Bottle 400 ml.	Bottle 420 ml.	Bottle 440 ml.	Bottle 550 ml.	Bottle 500-600 ml.
Price (THB)	10	18	10	15	10	10	15	15	20	30	20	25
Green Tea Drink	X		X				X		X	X		X
Herbal Drink		X			X			X				
Oolong drinks									X			
Vitamin water drink						X					X	
Vitamin C200 (C + E) drink				X								
Iced Coffee black drink			X									

Table 2.2: Products of Ichitan in different package

2.3 Revenue Structure

Revenue Structure	Year 2021		Year 2020		Year 2019	
	MB	%	MB	%	MB	%
Tea Beverage	4,974.30	94.7%	4,827.30	94.7%	5,264.50	98.7%
Non Tea Beverage	276.50	5.3%	272.00	5.3%	69.70	1.3%
Total Revenue	5,250.80	100.0%	5,099.30	100.0%	5,334.20	100.0%
Market share*	30.50%		30.50%		31.40%	
Number of flavors	30 flavors		27 flavors		21 flavors	

* Source: Nielsen Retail Index, December, 2021 data

Table 2.3: Revenue Structure

According to ICHI's annual report 2021, the company experienced an increase in sales from 5,099.30 million baht in 2020 to 5,250.80 million baht in 2021. The revenues can be divided into two categories: tea beverage and non-tea beverage. The main revenue of the company came from tea beverage which accounted for 4,974.30 million baht, or approximately 94.7% of total sales, whereas non-tea beverage accounted for just 5.3% of total sales, or approximately 276.50 million baht. Furthermore, according to the Nielsen Retail Index, the corporation controlled 30.50% of the Thai domestic beverage industry.

Distribution (%)	Year 2021	Year 2020	Year 2019
Domestic	87.10%	78.90%	72.30%
International	12.90%	21.10%	27.70%
Total Revenue	100.00%	100.00%	100.00%

Table 2.4: Distribution Structure

In the aspect of distribution, the company sold products domestically around 87.10% of sales and export to foreign countries 12.90%. For the domestic sales, it can be divided into 3 distribution channels, DKSH (Thailand) Co., Ltd., I Am Green Tea Co., Ltd., and Boonrawd Asia Co., Ltd.,

- DKSH (Thailand) Co., Ltd. - the main distributor for the company, accounting for 73.8% of total sales in 2021. DKSH's focus is on Modern Trade, Wholesaler, and Traditional Trade, and the company has established long-term contracts with the distributor. The company also closely monitors the distributor's access to retailer track records to control distribution and trade discounts.

- I Am Green Tea Co., Ltd., - represented 8.9% of total sales in 2021 and specializes in selling through dealer networks, restaurants, traditional trade, cash vans, and other channels that are difficult for other distributors to access.

- Boonrawd Asia Co., Ltd., - accounted for 4.4% of total sales in 2021, with a focus on the distributor network, traditional trade, and shops under the Boonrawd Asia Co., Ltd. network.

2.4 Marketing and Business Strategy

According to Ichitan's Annual report in 2021, the followings are the 5 core corporate strategies:

1. To grow with all group of stakeholders

The company places a strong priority on product research and development and concentrates on providing existing consumers and new generations with high-quality, healthy beverages that are produced using ecologically responsible methods both domestically and abroad. When the product is well-known and the brand is recognized, the company will achieve steady operational results, particularly in Asian countries, and will function with strong governance.

2. To promote the value of the brand

The company is well-prepared to provide customers with products that effectively showcase the brand's worth, such as "Ichitan Green Tea" that delivers a unique tea-drinking experience, and "Hot, Hot, Spicy, Fighting With Yen Yen from Ichitan" that provides a refreshing beverage with 12 cooling herbs to relieve heat. This

will allow customers to acknowledge the brand's value in various aspects, including product quality, packaging design, and several marketing strategies.

3. To emphasize on product development for better quality of life

All of our goods are designed to promote physical and mental wellness through the careful selection of raw materials, meticulous production, and safety packaging. Most products have evolved to reduce sweetness levels in order to meet Ministry of Public Health's "Logo healthier choices" criteria while still maintaining ICHITAN's innovative natural flavors, display component, and nutritional value label on the box.

4. Targeting new products that build a steady flow of healthy

The company aims to develop a product group that is good for health, starting with the vitamin water group, such as Ph Plus 8.5 mixed with vitamin B complex and Vitamin C plus E (C200: C + E), in order to satisfy the needs of the new consumer group that is concerned about health and the circumstances that require everyone to be more aware of the consumption of health-conscious products.

5. To create mutual experience with consumer

In order to properly distribute marketing campaigns to each client group, the company has planned to capture and construct a database of each individual consumer in order to gain a thorough understanding of their wants and behavior. And it will foster mutually beneficial experiences and brand recognition among the target customer, resulting in a long-lasting connection between the brand and the consumer.

In addition, there are some competitive Strategies / Targeting / Distribution and distribution channels as follows,

1. A strong brand strategy management

The company uses the 360-degree marketing strategy to position the "Ichitan" brand to be a quality and specialized brand in Ready-to-Drink Tea business.

2. Product Strategy

The Company has strictly controlled quality at every stage of the production chain, from product research and development, quality raw material selection, meticulous production process, and using cutting-edge technology to

preserve good quality in beverages, in order to strengthen positioning of the brand as product quality. Additionally, the company's research and development team is made up of industry professionals with in-depth knowledge of customer requirements and expectations, enabling them to create new products that appeal to consumers in Thailand and other Asian nations, particularly those who are concerned with their health. The company has created products like the herbal beverage "Yen Yen Gold by Ichitan" and the 0% sugar RTD Green Tea in order to satisfy consumer demand. The company has placed a focus on the packaging's design and sizing details, which must be constructed of safe materials, as well as convenience and identification, including contemporary label design. Since the year 2019, the company has made it a policy to be transparent when disclosing ingredient information to customers by clearly labeling the nutrition and calorie content on the package.

3. Effective Inventory and Cost Management

As production volume increases, the fixed costs, such as depreciation of machinery and equipment that contributed to the production cost per unit would decrease. In order to lower production costs, the company has also implemented a cutting-edge technology known as the cold aseptic filling system. The advantages of the technique include (1) using lighter materials, (2) extending continuous production up to 120 hours before each cleaning session, which makes production, and (3) automation features that help reduce personnel costs. Additionally, to increase productivity and reduce labor expenses, the company has created an automated storage and retrievable system for inventory management. These elements help to improve cost control, efficiency, and the ability to promptly satisfy consumer requests.

4. Distribution and Channel Management Strategy

The company has managed the finished goods distribution process from the manufacturing site to distributors and retailers in order to supply product to customers promptly and prevent product shortage. Additionally, the business established a specialized team to monitor sales volume results, assess sales performance, and track inventory turnover in each department in order to estimate the appropriate sales volumes and inventory going forward.

5. Marketing and Sales Strategy

Forecasting consumer demand: The company made beverage demand predictions based on historical and statistical data as well as seasonal elements like weather, special occasions, holidays, the competitive climate, and the state of the economy. The company has tried to guarantee forecast accuracy and keep deviations to a maximum of 10%. Forecasts that are grounded will help manufacturing and marketing efforts run more smoothly.

Planning for marketing and promotions: Because summer season consumption is higher than other periods of the year due to seasonal demand fluctuations in the beverage industry, the company has a strategy to promote the market both Above the line: ATL (marketing medium to reach a wider audience) and Below the line: BTL (marketing targeted specifically audience) during the summer. In addition, during months with low consumption rates, the company provides trade discounts to distributors. The firm has also implemented an aggressive marketing plan to increase market share, with a focus on PR communications to promote the ICHITAN brand as a name for high-quality industrial equipment. There are four major sorts of sales promotions the company uses to highlight the position of its products: targeted sales promotions to retailers, targeted sales promotions to distributors, national campaigns, and internet sales promotions. The sales estimate serves as the foundation for our annual budget allocations for these operations.

Fixed pricing and discounts: Because RTD beverages are a seasonal product, the company must continuously and routinely assess and modify its trade discount policy to meet consumer demand. However, due to the tremendous competition in the beverage business, the selling price won't vary much.

6. Sustainability strategy by conducting business with good corporate governance

With a focus on sustainable development in all business processes, from the supply chain system up to the value chain process to cover economic, social, and environmental aspects, including with under the corporate governance code principles and promote anti-corruption along with raising awareness, the Company places a high value on being a high-caliber organization in order to inspire confidence in society, the community, and all stakeholders.

7. The efficiency of production Strategy

The company also places a strong emphasis on the efficiency of its production capacity; an additional strategy for business expansion is the Original Equipment Manufacturer (OEM) initiative.

2.5 Corporate Governance

According to the company's annual report in 2021, the company has set up the corporate governance committee to ensure that all employees, including executives are complying with the rules and regulations of the SEC, the company's articles of association, SET, public company Act, and other related laws.

There are 5 sections in the company's corporate governance policy.

Section 1 Right of Shareholders

This section includes the value and rights of all shareholders, including minorities, large shareholders, small investors, institutional investors, domestic investors, and overseas investors, with the goal of fostering and assisting the exercise of such rights by the shareholders. Additionally, the Company has established policies and standards for several issues that encourage and make it easier for shareholders to exercise their rights.

Section 2 Equitable Treatment of Shareholders

The company offers all shareholders, including major, minor, and overseas shareholders, equal opportunity, to shareholders. For example, In the Opportunity Day/Analyst Meeting/Group Meeting, etc., all shareholders, including big shareholders, minor shareholders, institutional investors, general investors, overseas investors, and analysts, are permitted to offer ideas, comments, or inquiries directly to the executives and in connected transactions, the Company has conducted itself fairly in accordance with the going rate, the law, and standard business practices. (Fair and impartial) with the Audit Committee's blessing.

Section 3 Roles toward Stakeholders

The company has a policy to treat stakeholders fairly and legally while taking into account the rights of both internal and external stakeholders of the company. This includes paying attention to respect for human rights, fair labor practices that are accountable to consumers, and adherence to conducting business honestly. Along with protecting the environment, being open and anti-corruption in all

forms, and contributing to the growth of the neighborhood or society. The Board of Directors does not discriminate when dealing with stakeholders and has clear policies and operational procedures in place. As per the Company's established procedures, an independent audit committee reviews and considers material for the Company. The Corporate Governance Committee and the Board of Directors have drafted detailed rules governing stakeholder rights and benefits. The business has set up a route for interested parties to submit comments or proposals that will help the business.

Section 4 Information Disclosure and Transparency

Stakeholder rights and benefits are governed by specific rules that have been written by the Corporate Governance Committee and the Board of Directors. The company has put up a method for interested parties to send suggestions or comments that will be helpful to the company. For example, disclose information in both Thai and English in accordance with the established standards and the law, and lays a strong emphasis on the rule that directors, executives, and workers are prohibited from using their positions to pursue personal gain.

Section 5 Responsibilities of the Board of Directors

In order to maximize the company's benefit, the Board of Directors is crucial in deciding on excellent corporate governance, an anti-corruption strategy, a sustainable development policy, and business ethics. The Board of Directors is made up of individuals with knowledge, aptitudes, talents, and experiences in a variety of fields of work who are well-known nationwide and are aware of their tasks and obligations. Together with the Executive Committee and senior executives, it is crucial in developing the Company's policies in establishing the vision, mission, risk management, action plans, and annual budgets.

Major Shareholder Structure

Rank No.	Major Shareholders	No. of share (share)	Proportion of share (%)
1	Mr. Tan Passakornnatee	360,639,600.00	27.74
2	Miss Klainatee Passakornnatee	60,000,000.00	4.62
3	Mr. Passakorn Passakornnatee	60,000,000.00	4.62
4	Mrs. Eng Passakornnatee	60,000,000.00	4.62
5	Mr. Jaruworn Sukpanthaworn	58,707,700.00	4.52
6	Mr.Thiti Jiranonkan	35,000,000.00	2.69
7	Thai NVDR Company Limited	27,369,192.00	2.11
8	DBS BANK LTD. FOR CLIENT AC SG0900121752	25,580,000.00	1.97
9	MRS.CHEN, MEI-FANG	24,842,000.00	1.91
10	Miss Supanee Sukpanthaworn	16,127,900.00	1.24

Figure 2.4: Ichitan's major shareholders (Ichitan IR website 2023)

According to the shareholder structure of the company, it can clearly be seen that the company is majority owned by the original founder and his family. The top 4 shareholders are Mr. Tan and another 3 members of Passakornnatee family. According to the information from SET, the total shareholders is 22,347. The number

of minor shareholders is 23,859, and the % free float held by minor shareholders is 52.5%.

CHAPTER III

MACROECONOMICS, INDUSTRY, AND COMPETITION ANALYSIS

3.1 Macro-Economic Analysis

3.1.1 Thailand's GDP Year 2022

Thailand's GDP in 2022 is expected to be approximately 15.7 trillion Thai Baht, representing a 3.3% increase over the previous year, 3.7% in 2023, and 3.9% in 2024, according to the Bank of Thailand. Tourism, and private consumption which is directly related to ICHI's business have driven the growth.

Tourism sector

It cannot be denied that ICHI sells beverage not only for Thais but also to tourists. In 2022, tourism which contributes 12% to Thailand's GDP, has recovered since domestic pandemic limits have been lifted, and almost every nation has eliminated travel-related restrictions. It is expected that in 2023, Thailand will have 22 million foreign visitors while 31.5 million tourists are projected in 2024.

Foreign Tourist Arrivals Forecast					
	2022		2023		2024
	Sep 22	Nov 22	Sep 22	Nov 22	Nov 22
Million persons	9.5	10.5 ↑	21.0	22.0 ↑	31.5
% compared to 2019 figures	23.9%	26.2%	52.5%	55.0%	79.0%

Table 3.1: Foreign Tourist Arrivals Forecast

Private consumption

Private consumption is directly related to ICHI's sales. According to Krungsri Research, it was expected that Domestic consumption will increase 5.2% due to a recovery in economic activities, especially in tourism related services. In addition, it is anticipated to grow in 2023 around 3.4%, as a result of a continued recovery in labor income, higher household purchasing power, and declining inflation which due to the economic recovery, particularly in the services sector, as well as more widespread improvements in employment and labor income.

Exports

The export industry remained a significant component of the economy in 2022, due to the easing of the Covid-19 epidemic and the consequent increase in demand. It was predicted to expand by 8.2% in 2022 before being cut down to 7.2%. This is mainly because of a slowdown in global economic, an increase in restrictions of India and Indonesia on Thai's exports of sugar and palm oil and structural issues, such as the continuous decline in hard disk drive shipments as a result of the technical transition to solid state drives.

The value of exports is expected to slow in 2023 and 2024, with growth rates of 1.0% in 2023 and only 2.1% in 2024, due to lower export quantity, particularly for goods that are sensitive to the economic outlook of trading partners, such as automobiles, textiles, electronic appliances, and industrial goods. However, exports of items such as agricultural and industrial products are likely to increase further.

Merchandise exports forecast			
Growth (%YoY)	Export value	Export price	Export quantity
2022	7.4 (8.2)	3.9 (3.7)	3.4 (4.3)
2023	1.0 (1.1)	0.0 (0.1)	1.0 (1.0)
2024	2.6	0.5	2.1

Table 3.2: Merchandise Export Forecast

It is important to note that COVID-19 pandemic had a substantial impact on Thailand's economy in 2020 and 2021, with the country's GDP falling by 6.1% in 2020. The Thai economy showed indications of recovery in 2022, and further growth is expected in 2023 and 2024.

3.1.2 Thailand's inflation and interest rate

The inflation and interest rate play important roles in the economy. Inflation is a measure of the rate at which prices for goods and services are rising. It can impact the purchasing power of money and the overall cost of living for individuals. High levels of inflation can also reduce the confidence of consumers and businesses in an economy, leading to a decrease in spending and investment. Interest rates are the cost of borrowing money. It affects borrowing and investment decisions. Higher interest rates can make borrowing more expensive, reducing spending and investment, while lower interest rates can encourage borrowing and spending, leading to economic growth.

Inflation Rate

The inflation rate in Thailand has been relatively stable in recent years, with some fluctuations.



Figure 3.1: Inflation rate in Thailand

Thailand's inflation rate ranged between 0.0% and 2.0% from 2016 to 2019, before COVID-19 epidemic. However, inflation fell dramatically in 2020 due to a drop in oil prices, although the price of some essential goods such as tissues and rice rose significantly. Following that, in 2021, the inflation rate hit a peak of roughly 4% as a result of a supply chain disruption and high demand for goods, as well as an increase in global commodity prices.

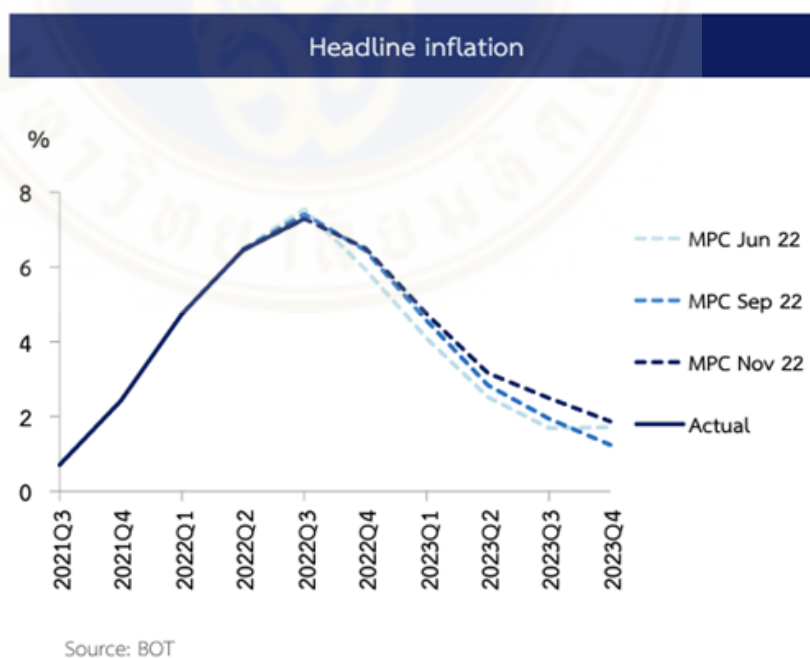


Figure 3.2: Headline Inflation

According to the Bank of Thailand, inflation is expected to fall from around 8% in the third quarter of 2022 to 6.3% on average in 2022 due to a drop in global energy and commodity prices, as reflected by the proportion of goods and services with continuous price increases that fell throughout the fourth quarter of 2022. Furthermore, the BOT projected that inflation will be 3.0% in 2023 and 2.1% in 2024.

Monetary policy rate



Figure 3.3: Monetary policy rate

Before COVID-19 epidemic, Thailand policy rate was around 1.5%-1.75%, however, in 2020 to a first half of 2022, the policy rate significantly dropped to 0.5% since it is important to stimulate the economy and decrease cost of fund for business during the shutdown policy.

In the second half of 2022, the Bank of Thailand has raised policy interest rate from a record low of 0.50% to 1.25% by end-2022. This is encouraged by the economic expansion and a rapid rise in supply-side inflation, which has been especially severe in commodities markets as a result of the conflict in Ukraine.

By the end of the first quarter of 2023, the policy interest rate will gradually rise to 1.75%, where it will remain for the majority of the year, according to Krungsri Research. It will take time for the tourist industry in Thailand to recover to its pre-pandemic level as the country's economy is still in the early phases of its

post-pandemic recovery. The global challenges could become more severe in 2023 as developed economies are predicted to slow down.

3.2 Industry Analysis

The sales of ready-to-drink tea accounted for an average of 94.7% of the company's total revenue while vitamin water has 3.9% of total revenue. Therefore, ready-to-drink tea beverages market will be focused on in the industry analysis.

In 2021, the market for ready to drink tea beverages had a rise in value of 11,213 million baht, or 3.96% due to a lockdown to prevent COVID-19 policy in Thailand which make people to stay at home. Ichitan had a 24.4% market share of the domestic beverage industry in 2021, Yen Yen had a 6.9% market share, Main Competitor had a 48.5% market share, and Others had a 20.2% market share, particularly in the contemporary trade market.

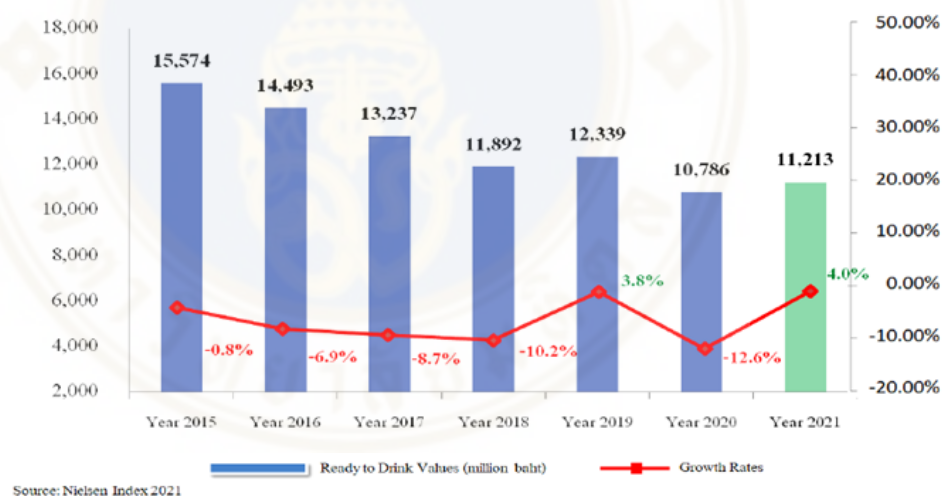


Figure 3.4: Market of RTD tea

Beverage consumption trends have changed, with consumers showing more interest in healthy drinks that are low in sugar, have no sugar, or are sweetened naturally. This trend presents a market opportunity for companies, and the Ichitan Group has capitalized on it by using their research and development department's expertise to create new products that cater to health-conscious consumers. As a result,

the ready-to-drink tea market is expected to keep growing, with the Ichitan Group's new products being well received by consumers.

ICHI's performance of first 9 months of 2022

	2020	2021	9M2021	9M2022
Sales Growth	-4.48%	2.80%	1.59%	19.89%
COGS Growth	-5.74%	3.11%	2.47%	22.99%
Net Profit Growth	26.53%	6.06%	-4.03%	8.36%

Table 3.3: ICHI Performance 9M 2022

For the first nine months of 2022, the Company achieved sales revenue of 4,723.0 million baht, an increase of 783.6 million baht or 19.9% year on year. This because a relaxation in COVID-19 pandemic policy. In addition, a growth in sales of the company is higher than an increase in number of tourism and private consumption which is around 3.3% and 5.2% respectively. The company also reported that Thailand ready-to-drink tea market continues to grow and it adjusted sales promotion plan to increase the distribution coverage.

In the aspect of cost, the company's cost of sales for the nine months of 2022 and 2021 were respectively 3,894.2 million baht and 3,166.2 million Baht, accounting for 82.5% and 80.4% of sales revenue. Cost of sales increased around 22.99% YOY which highly relate to a growth in sales which is around 19.89%.

For net profit, the company's net profit for the nine months of 2022 was 448.7 million baht, or 9.5% net profit margin, increasing from the same period in the prior year's net profit of 414.1 million baht, or 10.5%. As a result, net profit increase by 34.6 million baht, or 8.4%.

3.3 Competition Analysis

The non-alcoholic beverage market in Thailand is highly competitive, with a wide range of players offering a variety of products to meet the demands of

consumers. Many companies compete based on product quality, taste, convenience, packaging, price, and brand reputation. They also invest in marketing and advertising campaigns to promote their products and build brand awareness among consumers. Companies operating in this market are likely to focus on new product differentiation in order to gain a competitive advantage and capture a larger share of the market.

In this report, we have listed Ichitan's 5 competitors as follow.



Figure 3.5: Oishi Group Logo

1. Oishi Group: Oishi Group's primary business is in the food and beverage industry. where it specializes in the production and distribution of a wide range of products, including snacks, confectionery, bottled water, and ready-to-drink teas and coffees. Oishi group whose owns Oishi Green Tea brand is the most direct competitor to Ichitan. It is undeniably that the product of Oishi Green Tea and Ichitan Green Tea are quite identical with similar target consumers, selling price, and packaging. As mentioned earlier, Oishi was founded by the same person Mr. Tan. Oishi currently has 4 main product lines which are Oishi Beverage, Oishi restaurants, Oishi packaged food, and Oishi Sauce. The beverage was accounted for 57.4% of total revenue and another 42.6% came from food. Their ready-to-drink tea has the market shares at 48% of the market. Oishi Group announced 9,896-million-baht revenue and hired more than 6,000 employees.

Oishi's beverage business covers all gender and all age of people as their target consumers to drink on any occasion. The main Oishi Green tea brand's target is the new generations, for example, students, teens, and working aged people who has modern lifestyle and be health conscious. One of the strong points for Oishi is the fact that Thai beverage PCL owns 79.66% of shares. This means that Oishi has a big distribution and logistic system that can utilize with the Thai Beverage PCL. For Oishi's beverage, they distribute products both domestic and international. 80% of the distribution was by Thai beverage PCL and Sermsuk PCL. This gives the competitive advantage for Oishi to have efficient distributions and to be covering more distribution

channels such as their own restaurants and the network of Thai Beverage and Sermasuk.



Figure 3.6: Sappe Logo

2. Sappe: Sappe is another famous beverage company in Thailand. They have introduced many functional drinks that focuses on being innovative and offers product that serve the health-conscious trend. The company has 12 product brands in 5 product lines. The product lines or categories are fruit juice/juice drink; accounted for 62.2% of sales, functional drinks; 15.7% of sales, Functional powder; 7% of sales, Healthier snack; 5.6% of sales, and All coco; 9.4% of sales. Their top 3 brands are “Mogu Mogu” “Beauti drink” and “All Coco” The company distributes to 98 countries worldwide. The sales are mostly coming from export which accounted for 65% of total revenue. Although Sappe does not offer RTD green tea, their products can be a substitute for Ichitan which gives very low switching cost to consumers, especially when people are being more health conscious. In 2021, Sappe announced 3,712.77-million-baht revenue and around 600 employees.

The target consumers of Sappe are varied and cover all target groups, specifically to the product. For example, Sappe Beauti drink is targeting health and beauty conscious women, all coco is targeting health-conscious people, and Mogu Mogu is targeting all people who prefers good taste and refreshing. The distribution channels of Sappe domestically are hypermarkets, supermarkets, and convenience stores. They also distribute products through traditional trade, out of home (gym, food courts, sport courses, home delivery), E-commerce, and brand activation and selling (flea markets, factories, vaccination centers, restaurants, pharmacy, and agent).



Figure 3.7: Haadthip

Logo

3. Haadthip: Haadthip is a beverage manufacturer who got a franchise license from Coca-Cola Company (U.S.A) to produces sparkling and non-carbonated beverages under the brand of “Coca-Cola” “Fanta” “Sprite” “Minute maid” “Namthip” “fuze tea” and other brands under Coca-Cola while also got the right to distribute the products in the 14 provinces at southern part of Thailand. Beverages under Coca Cola brand is already well-known in global level.

The type of products produced by Haadthip can be an alternative to Ichitan, serving refreshment for customers. Apart from non-alcoholic beverage business, Haadthip also owns food and beverage business, and real estate business. In 2019, the total revenue of Haadthip was 6,544,55 million baht where 92.2% was from sparkling beverages and 4.95% came from non-carbonated products. The company hires 2,153 employees. The company targets a broad range of consumers, with a focus on health-conscious individuals who are looking for high-quality drinking water that is safe and reliable. The distribution channels are through direct sales, in direct sales, and modern trades.



Figure 3.8: Osotspa Logo

4. Osotspa: Osotspa is one of the main manufacturers of functional drinks. Their product portfolio consists of beverages, such as M-150, C-vitt, Calpis Lacto and much more. Other products in portfolio are personal care, healthcare and confectionery and OEM. The revenue of Osotspa in 2021 was 26,762 million baht and 85% of revenue came from beverages including energy drinks and functional drinks. The company also hires 5,190 employees. Similar to Sappe, Osotspa offers many functional drinks that can be a substitute of Ichitan. Osotspa's energy drinks and functional drinks are marketed towards health-conscious individuals who are looking for a quick energy boost and a range of functional benefits, such as improved mental focus, increased endurance, and improved overall health. The distribution channel of Osotspa are direct sales, indirect sales, and e-commerce. The company's products are available in supermarkets, convenience stores, and other retail outlets across Thailand, making them easily accessible to a broad range of consumers.



Figure 3.9: Malee Logo

5. Malee: Malee is a well-known brand of fruit and vegetable juice, as well as other beverage products, that operates in Thailand and other countries in Southeast Asia. Malee is a manufacturer of canned fruits and UHT and pasteurized fruit juice under brand "Malee" The company offers 2 types of business. One is contract manufacturing business (CMG)

for fruit juice, vegetable juice, coffee, tea, milk, energy drink, cereal drink, and coconut water. Another one is their branded business which are Malee fruit juice, Malee veggie juice, Malee canned fruit, Malee coco, Farm Chokchai UHT milk, non-dairy milk v-corn, and food service. For malee, their type of beverage can be a good substitute of Ichitan to those who are health-conscious. Malee offers a range of fruit and vegetable juices that are free from artificial flavors, colors, and preservatives, making them a popular choice among consumers who prioritize healthy and natural ingredients. In 2021, Malee gained 3,459 million baht revenue, 65% of revenue came from branded business and 62% of revenue also came from domestic distribution. Malee also hires 1,308 employees.

Malee's products are marketed towards health-conscious individuals who are looking for healthy, natural, and high-quality beverage options. Malee also targets children and families, offering a range of kid-friendly fruit juice products that are both healthy and delicious. The company also offers a range of family-size juice products that are suitable for sharing and are ideal for family gatherings and events. The distribution channel of Malee are direct sales, indirect sales, e-commerce, and export.

Five-forces analysis for the ready-to-drink (RTD) green tea market in Thailand

1. Threat of New Entrants: The RTD green tea market in Thailand is relatively competitive, with a few dominant players such as Ichitan, Oishi, and ITOEN. However, it is relatively easy to find factory that offers OEM service, and the product (Tea) is easy to make at home as well. As a result, new players can enter the market easily which means it has the low barrier to entry for new companies in Thailand. Therefore, the threat of new entrants is moderate.

2. Bargaining Power of Suppliers: The main raw materials for RTD green tea include tea leaves, sugar, and water. In Thailand, these materials are easily available, and many suppliers compete to sell them. As a result, suppliers have low bargaining power in the market.

3. Bargaining Power of Buyers: The RTD green tea market in Thailand is highly competitive, with many brands and products available to consumers. This gives buyers a high level of bargaining power, as the switching cost is very low, they can

easily switch to other brands or other type of RTD drink. Therefore, the bargaining power of buyers is high.

4. Threat of Substitutes: There are many substitutes for RTD green tea in Thailand, such as other types of tea, coffee, and other packaged beverages. These substitutes can be found easily in various retail stores, and they provide similar benefits to RTD green tea. Therefore, the threat of substitutes is high.

5. Competitive Rivalry: The RTD green tea market in Thailand is highly competitive, with dominant players, as mentioned above such as Ichitan, and Oishi competing for market share. Additionally, there are many smaller players that cater to specific niches or regional markets. This high level of competition creates price pressure and forces companies to invest heavily in marketing and innovation to stay ahead. Therefore, the competitive rivalry is high.

Overall, the RTD green tea market in Thailand is highly competitive, with moderate threats of new entrants and supplier bargaining power, high buyer bargaining power and threats of substitutes, and highly competitive rivalry. Companies in this market need to focus on building strong brands, developing innovative products and flavors, and investing in marketing to maintain their market share and competitive edge. Additionally, companies need to focus on building strong relationships with suppliers to ensure a steady supply of raw materials and control costs.

CHAPTER IV

FINANCIAL ANALYSIS

4.1 Growth Analysis

The main competitor of ICHI is Oishi, which 50% of revenue is generated from ready to drink tea while the remainder is contributed from Japanese Restaurant business. We note that the financial year of ICHI closes on 31 December while Oishi's closes on 30 September of a year. Therefore, there is a small-time difference when comparing the financial performance of both companies.

4.1.1 Revenue

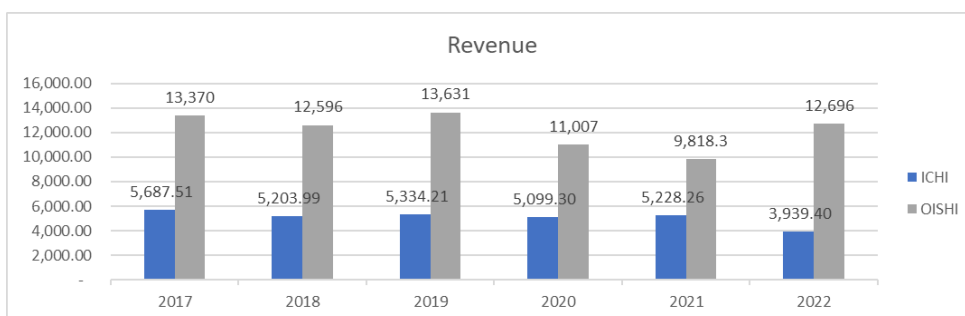


Figure 4.1: Revenue of Ichitan and Oishi between 2017-2022

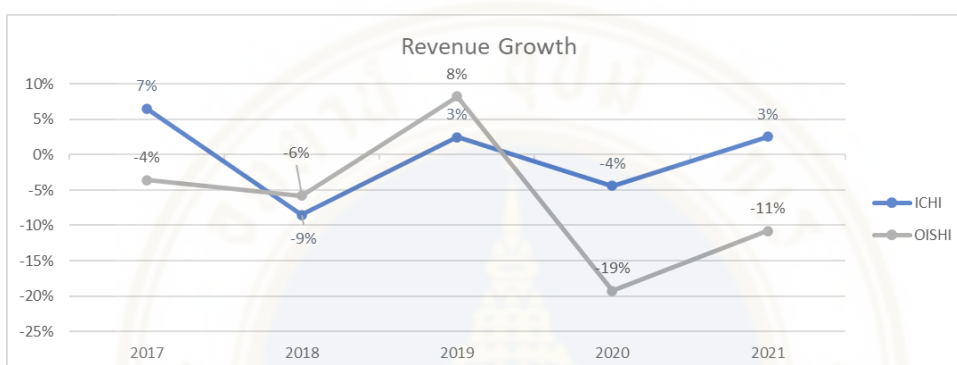


Figure 4.2: Revenue Growth of Ichitan and Oishi during 2017-2021

ICHI's revenue has remained relatively stable over the years, with a growth rate of 7% in 2017, followed by a decline in 2018 due to intense price competition, low economic growth, and an adjusted selling price because of the excise tax among green tea in the end of year. This decrease in sales synced with 10.2% decline in ready to drink tea market of Thailand. However, in 2019, the revenue increased slightly to 5,334.21 million Baht because the company improved its marketing strategy in the domestic market, while sales from foreign countries decreased due to being affected by the economic slowdown of the trading partner countries. During the COVID-19 pandemic which between year 2020 to 2021, the company had insignificant effect from the pandemic. The revenue in 2020 went down only 4% to 5,099 million Baht before rising by 3% to 5,228 in 2021. In addition, for the first 9 months of 2022, the company reported that the revenue was around 3,393 million Baht.

In contrast, OISHI's revenue can be broken down into Japanese Restaurant business which contribute 50% to total revenue while the less of the revenue is ready

to drink tea. The revenue of Oishi has been declining over the years, with a growth rate of -4% in 2017 followed by -6% to 12,596 million Baht in 2018. In addition, in 2019, the sales rose by 8% to 13,361 million baht as a result of the introduction of new beverages and the launch of Oishi Delivery. However, Oishi which 50% revenue is contributed by Japanese Restaurant was affected significantly from COVID-19 pandemic. The revenue had dropped around 19% in 2020 and 11% to 9,818 in 2021. Then, in 2022, a relaxation in COVID-19 prevent policies such as social distancing policy allows the company to rise its sales by 29% to 12,696 million Baht.

4.1.2 Gross Profit Margin

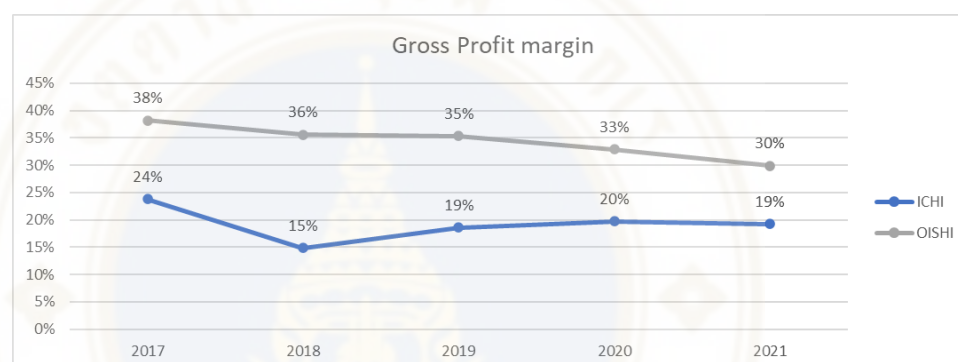


Figure 4.3: Gross Profit Margin of Ichitan and Oishi during 2017-2021

Overall, it can be seen that OISHI has higher gross profit margin than ICHI over the period. This might be because OISHI has restaurant business which has higher gross profit margin. However, ICHI's gross profit margin has been relatively consistent. It stayed in the 19-24% range except in 2018 which dropped to 15% due to an increase in sugar's tax and the price competition with competitors in many channels, however the Company has managed the cost of production with more efficiency.

4.1.3 Operating Margin

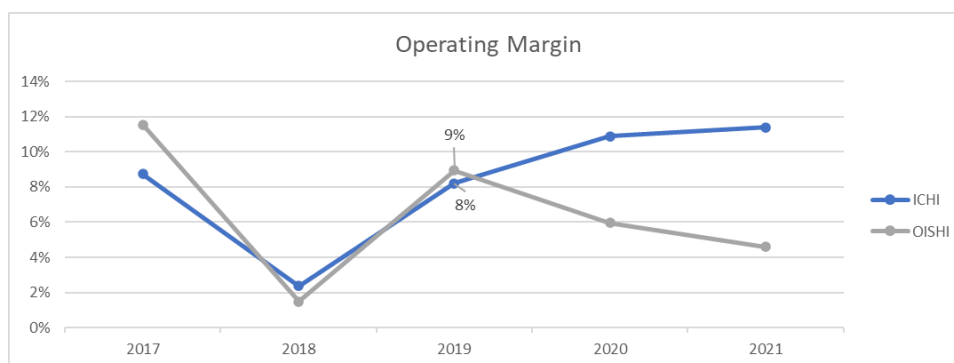


Figure 4.4: Operating Margin of Ichitan and Oishi during 2017-2021

For EBIT margin, Both ICHI and OISHI had a significantly drop in year 2018 due to a considerate decrease in gross profit margin. However, during 2019-2021, ICHI had managed the selling and administration cost more effectively. As a result, EBIT margin of ICHI gone up to 9% in 2019 before rising to 11% in 2020 and 2021. Comparing with OISHI, although OISHI can increase its operating profit in 2019, the company had a larger impact form the COVID-19 pandemic on its restaurants, resulting in a drop in EBIT margin for 2020 and 2021.

*Note: in 2018, Oishi had claimed refund from fire 867 million Baht, as a result the company has operating margin lower than net profit margin.

4.1.4 Net Profit Margin

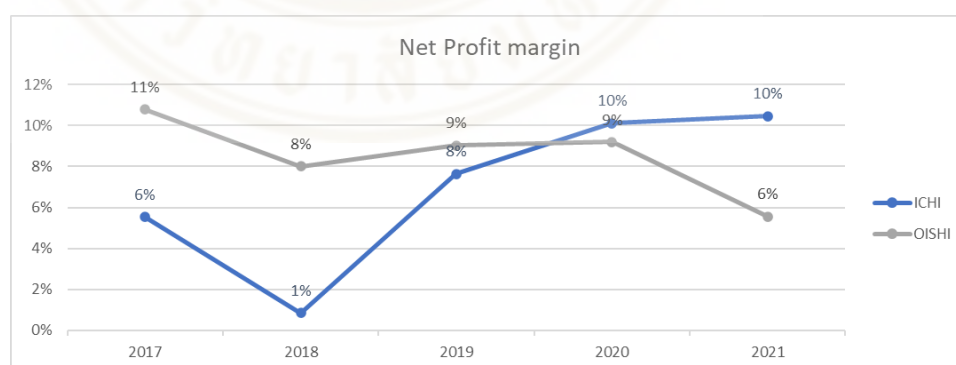


Figure 4.5: Net Profit Margin of Ichitan and Oishi in 2017-2021

In the aspect of net profit margin, the net profit margin of ICHI went down considerably to 1% in 2018 due to high competition in the ready-to-drink green tea market in Thailand. However, after 2018, the company could increase sales and also had a better cost control, as a result, the net profit margin increased to 10% in 2021.

While the net profit margin of OISHI was different, it declined moderately in 2018 to 8% and rose slightly to 9% in 2019 and 2020 before dropping to 6% in 2021.

4.1.5 EPS

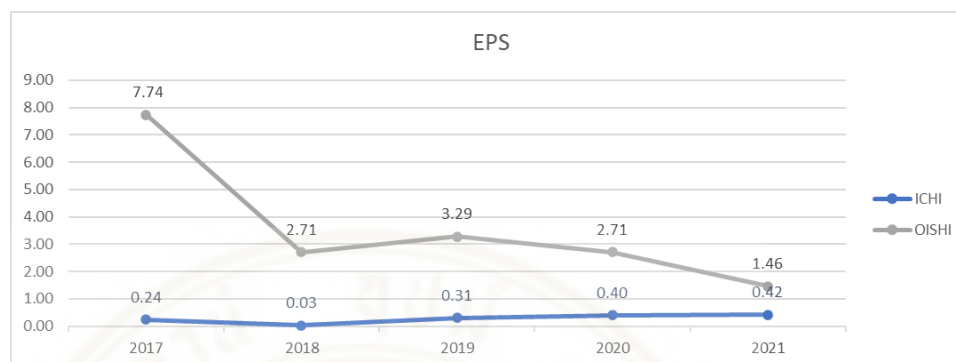


Figure 4.6: EPS of Ichitan and Oishi in 2017-2021

For earning per share, ICHI's EPS has shown a positive trend, increasing from \$0.03 in 2018 to \$0.42 in 2021. In contrast, OISHI's EPS has shown a negative trend, declining from \$7.74 in 2017 to \$1.46 in 2021. This shows that ICHI can improve their financial performance over the period.

4.1.6 Free Cashflow

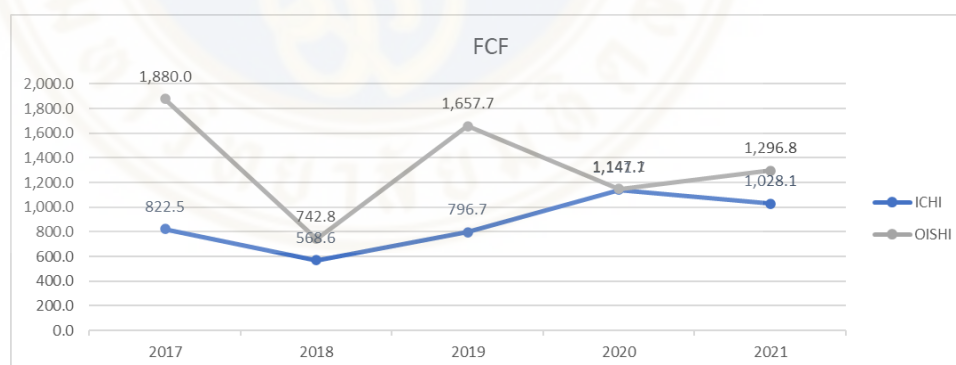


Figure 4.7: FCF of Ichitan and Oishi in 2017-2021

Both companies have experienced fluctuations in FCF over the years. However, ICHI's FCF has generally increased over time, with a significant increase from \$568.6 million in 2018 to \$1,141.7 million in 2020, before declining slightly to \$1,028.1 million in 2021 due to an increase in cash invested in equity investment units. For OISHI, its FCF has fluctuated over the years, with a significant increase

from \$742.8 million in 2018 to \$1,657.7 million in 2019, followed by a decline in 2020 and a slight increase to \$1,296.8 million in 2021.

4.1.7 DuPont Analysis (of ROE)

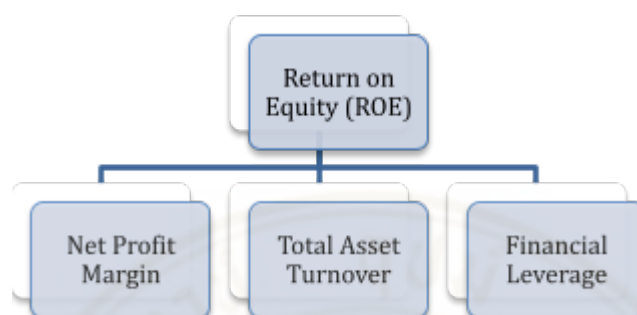


Figure 4.8: Dupont (ROE)

Based on the financial statements provided in the Ichitan Annual report 2021, The DuPont Analysis of Ichitan can be as follows:

- **Net Profit Margin:** Ichitan's net profit margin can be calculated by dividing its net profit by its revenue. In 2021, Ichitan had a net profit of 546.77 million baht and total revenue of 5,250.77 million baht, resulting in a net profit margin of 10.41%.
- **Asset Turnover:** Asset turnover is calculated by dividing revenue by total assets. In 2021, Ichitan had total revenue of 5,250.77 million baht and total assets of 7,106.27 million baht, resulting in an asset turnover ratio of 0.74.
- **Financial Leverage:** Financial leverage measures the extent to which a company uses debt to finance its operations. It can be calculated by dividing total assets by total equity. In 2021, Ichitan had total assets of 7,106.27 million baht and total equity of 6,190.97 million baht, resulting in a financial leverage ratio of 1.15.

By multiplying the net profit margin, asset turnover, and financial leverage ratios together, we can calculate Ichitan's return on equity (ROE) for the year 2021 as follows.

$$\text{ROE} = \text{Net Profit Margin} \times \text{Asset Turnover} \times \text{Financial Leverage}$$

$$= 10.41\% \times 0.74 \times 1.15 = 8.8\%$$

This indicates that for every 1 baht of equity invested in Ichitan, the company generated a return of 8.8% in 2021. The analysis suggests that Ichitan's profitability was driven by its relatively high net profit margin and asset turnover, offset by its moderate use of financial leverage.

For Oishi, in 2021, the company announced total revenue of 9,896-million-baht, net profit of 545 million baht. The net profit margin is 5.5%. Its total assets equal to 9,109.14 million baht and total equity equals to 7,131.9 million baht. As a result, the total asset turnover is 1.08 and financial leverage is 1.28. Using the same DuPont ROE formula, the analysis can be as follows.

$$\begin{aligned} \text{ROE} &= \text{Net Profit Margin} \times \text{Asset Turnover} \times \text{Financial Leverage} \\ &= 5.5\% \times 1.08 \times 1.28 = 7.6\% \end{aligned}$$

Comparing Ichitan and Oishi's performance in 2021, Ichitan has higher ROE at 8.8% compared to Oishi's 7.6%.

- Revenue: Oishi has a higher revenue of 9,896 MB compared to Ichitan's 5,250.77 MB, suggesting that Oishi is a larger company in terms of sales.
- Net profit: Ichitan's net profit of 546.77 MB is slightly higher than Oishi's net profit of 545 MB, indicating that Ichitan is able to generate more profits despite having a smaller revenue.
- Net profit margin: Ichitan has a higher net profit margin of 10.41% compared to Oishi's 5.5%. This suggests that Ichitan is more efficient in managing its costs and generating profits relative to its revenue.
- Total assets: Oishi has higher total assets of 9,109.14 MB compared to Ichitan's 7,106.27 MB, suggesting that Oishi has a larger asset base.
- Asset turnover: Oishi has a higher asset turnover of 1.08 compared to Ichitan's 0.74, indicating that Oishi is better at utilizing its assets to generate revenue.
- Leverage: Oishi has a higher leverage of 1.28 compared to Ichitan's 1.15, indicating that Oishi relies more on debt financing than Ichitan.

Overall, both Ichitan and Oishi are profitable companies, but there are some differences in their financial performance as we see from the DuPont ROE analysis. Ichitan has a higher net profit margin and is slightly more profitable than Oishi, while Oishi has a larger revenue, asset base, and asset turnover. Additionally, Oishi has a higher leverage, which may indicate a greater degree of financial risk. Below is the historical information of both company's ROE.

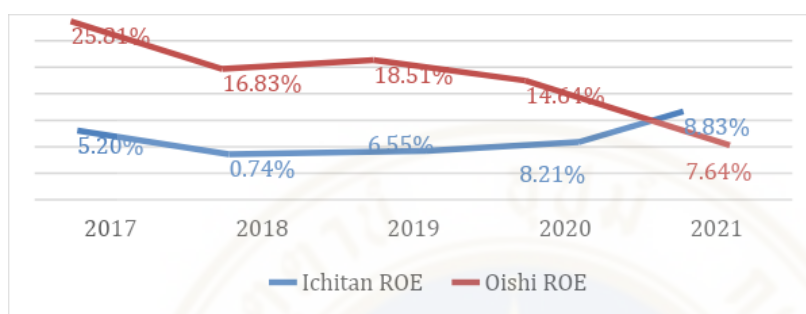


Figure 4.9: ROE

4.2 Valuation – Discounted Cashflow Model

The discounted cash flow (DCF) method is a widely used valuation technique for estimating the intrinsic value of a company. In this report, we will use the DCF method to estimate the fair price of ICHI. By estimating ICHI's future cash flows and discounting them back to their present value, we will provide a comprehensive and detailed analysis of ICHI's valuation.

To estimate ICHI's future cash flows, we will make assumptions about its revenue growth rates, gross profit margins, capital expenditures, and cash flows from operations. We will then focus on an appropriate discount rate which calculate from WACC of ICHI.

4.2.1 Sales Forecast

To predict ICHI's sales, we split the sales assumptions into two parts: Yr2022 and Yr2023-2026. To estimate the sales for Yr2022, it is reasonable to project the sales of the nine-month period, which was approximately 4,723.02 million baht, to an annualized figure. Based on this assumption, we estimated that the sales for 2022 would be around 6,297.36 million baht.

$$\text{Sales 2022} = \text{Sales9M2022} * \frac{12\text{Months}}{9\text{Months}} = 4,723.02 * \frac{12}{9} = 6,297.36$$

For Yr2023 – 2026, we focused on relation of Growth of ICHI's sales and growth of ready to drink coffee and tea industry in Thailand. Our findings revealed that the average sales growth of ICHI in relation to the industry growth over a three-year period was 30.4%. This implies that if the industry experiences a 100% growth rate, the sales of ICHI are expected to increase by 30.4%.

Sales	2019	2020	2021
Total Sales	5,334.21	5,099.30	5,228.26
<i>Sales Growth</i>	2.5%	-4.4%	2.5%
Industry-RTD Coffee & Tea USD (Billion of USD)	0.95	0.78	0.83
<i>Industry Growth</i>	9.2%	-17.9%	6.4%
Sales Growth/Industry Growth	27.2%	24.6%	39.5%
2019-2021 Average			30.4%

Table 4.1: Relation of Sales of ICHI and RTD coffee and tea in 2019-2021

Based on the information from Statista, the value of the ready-to-drink coffee and tea industry in Thailand is projected to increase continuously from 0.99 billion USD in 2023 to 1.34 billion USD in 2026. By using these figures, we can calculate the growth rate of the industry and estimate the growth rate of ICHI's sales, which will ultimately lead to the sales of ICHI.

Sales	2022F	2023F	2024F	2025F	2026F
Total Sales	6,297.36	6,536.85	6,754.75	6,957.39	7,181.64
<i>Sales Growth</i>	20.4%	3.8%	3.3%	3.0%	3.2%
Industry-RTD Coffee & Tea USD (Billion of USD)	0.88	0.99	1.1	1.21	1.34
<i>Industry Growth</i>	6.0%	12.5%	11.1%	10.0%	10.7%

Table 4.2:Relation of Sales of ICHI and RTD coffee and tea in Thailand 2022-2026

4.2.2 FCFF Projection

To provide FCFF projection, the assumptions are mainly based on ICHI's historical performance. The assumptions for GPM, SG&A, financial cost, tax rate, working capital, capex and depreciation, and dividend payout ratio are listed below.

- **GPM:** For 2022, we assume that the company will have GPM at 17.55%, according to performance 9M2022 while for 2023-2026, we forecast that the GPM will equal to 18.85% regarding to the average of GPM in 2020-2022



Figure 4.10: Gross Profit Margin

- **SG&A:** For 2022-2026, we assume that SG&A/Sales of ICHI will equal to 7.01% according to SG&A/Sales from 9M2022.

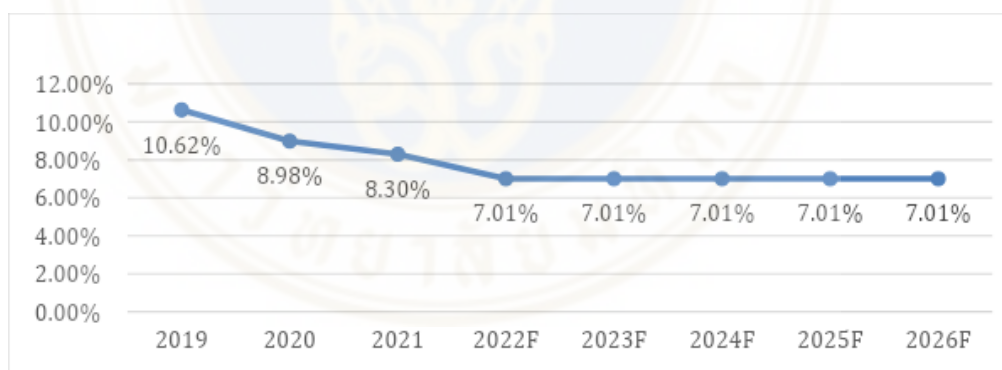


Figure 4.11: SG&S/Sales

- **Interest Rate:** at 3.18% according to note in financial statement which indicated that the interest rate is around BIBOR6M+1.25% and BIBOR6M is at 1.93%, according to Bank of Thailand
- **Tax Rate:** Currently corporate tax rate is 20%
- **Working Capital:** AR Days On Hands, INV Days On Hands and AP Days On Hands are 58, 50 and 27.44 according to 2019-2021 average

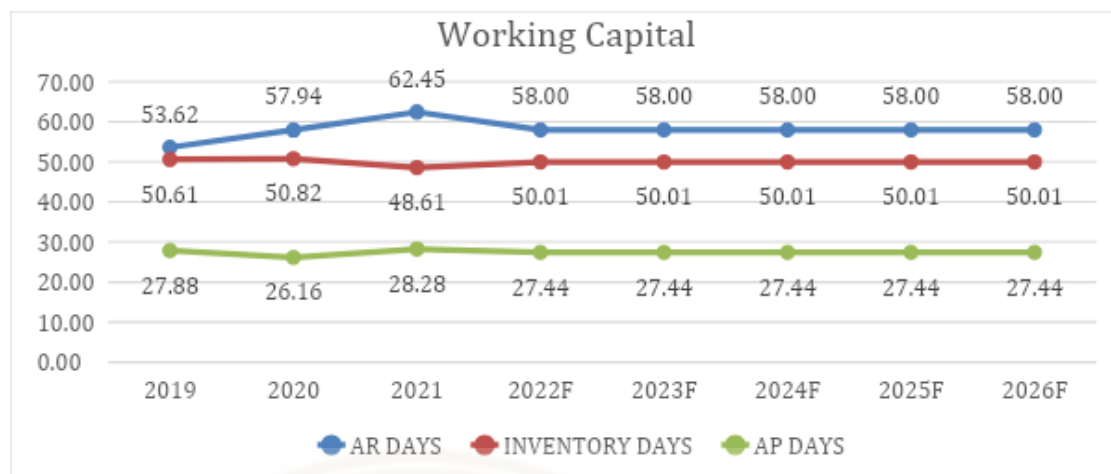


Figure 4.12: Working Capital

WORKING CAPITAL	2022F	2023F	2024F	2025F	2026F
A/C RECEIVABLES	1,001	1,039	1,073	1,106	1,141
INVENTORY	711	727	751	774	799
A/C PAYABLES	390	399	412	424	438
WORKING CAPITAL	1,322	1,367	1,412	1,455	1,502
WORKING CAPITAL CHANGE	(310)	(45)	(46)	(42)	(47)

Table 4.3: Working Capital

- **Capex:** since in 2021 the company utilized capacity only 50%, we assumed that the company will not expand its capacity in 2022-2025 and it will reinvest in capex 50 million baht per year. However, for 2026 we assume that the company will invest in capex in that same amount with depreciation which is around 595 million baht in order to make sure that the company will not run over its capacity.

- **Depreciation:** 595.6 million baht per year according to YR2021

- **Dividend payout Ratio:** according to annual report of ICH, the company has policy to pay dividend 100% of net profit

Free Cashflow to Firm

PERIOD				0	1	2	3	4
	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
EBIT	397.80	583.89	643.30	663.84	773.85	799.65	823.64	850.19
Tax	(79.56)	(116.78)	(128.66)	(132.77)	(154.77)	(159.93)	(164.73)	(170.04)
EBIT AFTER TAX	318.24	467.11	514.64	531.07	619.08	639.72	658.91	680.15
Depreciation	569.60	574.26	592.47	595.60	595.60	595.60	595.60	595.60
Working Capital Chage	(46.41)	(38.96)	(62.93)	(310.40)	(45.03)	(45.56)	(42.37)	(46.89)
CAPEX	43.07	98.61	39.53	50.00	50.00	50.00	50.00	595.00
FCFF	798.36	903.80	1,004.65	766.27	1,119.65	1,139.76	1,162.14	633.86

Table 4.4: Free cashflow to Firm

According to the assumptions above, Overall, the provided information indicates that the company has been generating positive net income and cash flows from its operations. EBIT of ICHI will increase from 643.30 million baht in 2021 to 850.19 million baht in 2026 due to an increase in sales. However, FCFF of 2022 will drop significantly to 766.27 million baht since a significant rise in sales directly increase working capital need of the company. After that, FCFF of the company will increase to approximate 1,119.65 – 1,162.14 million baht during 2023 to 2025. In 2026, FCFF will decrease to 633.86 million baht due to the assumption that the company's capex will remain at the same level as depreciation, which is aimed at ensuring that the company does not produce over its capacity.

4.2.3 Terminal Growth Rate of FCFF

The terminal growth rate is a rate at which a business is projected to continue growing in perpetuity after the projection period. It is often calculated as a long-term growth rate that shows the company's capacity to provide sustainable growth over the long term. The terminal growth rate is an important factor in assessing the terminal value of a company. It is utilized in a discounted cash flow analysis to determine its total value at the conclusion of the projected period.

For ICHI, we consider its growth rate at 2.96% which was computed by a forecast of growth in ready to drink tea and coffee in Thailand in 2027 which is around 8.96% multiplied by 30.4% which is the relation of the growth in sales of ICHI and the industry Growth.

4.2.4 WACC

Weighted Average Cost of Capital, often known as WACC, is a financial information used to determine the minimum rate of return on investments that a company must provide in order to satisfy both creditors and investors. WACC weighs the costs of the company's debt and equity according to how much of each component exists in the capital structure. It is frequently applied as a discount rate to determine the present value of future cash flows for a business or to assess the viability of new investments. A greater WACC signals higher projected returns for investors and more risk connected with the company's investments.

The formula for WACC is:

$$WACC = \left(\frac{E}{D+E} \times Ke\right) + \left(\left(\frac{D}{D+E} \times Kd\right) \times (1 - T)\right)$$

where:

E = market value of the company's equity

D = market value of the company's debt or net debt

Ke = cost of equity

Kd = cost of debt

T = Tax rate which is equal to 20%

4.2.4.1 Capital structure (= weights of debt and equity)

To calculate weights of debt and equity, we usually focus on the market value of equity and debt. For the market value of equity, the formula is.

$$\text{Market Value of equity} = \text{Share price} * \text{no. of share} = 12.90 * 1,300.00 = 16,770.00$$

For debt, we used net debt which is interest bearing debt – cash. However, in 2022, it is expected that the company will have interest bearing debt at 77.2 million baht while it will have cash at 220.48 million baht. This shows that the company is net cash company. Therefore, weight of debt is equal to 0% while weight of equity is 100%

Weight of debt and equity		
Share price as of 10 Mar 2023(THB)		12.90
No. of share (Million share)		1,300.00
Market value of Equity (Million baht)		16,770.00
Net Debt (Million baht)		(143.28)
Weight of Debt		0.00%
Weight of Equity		100.00%

Table 4.5: Weight of Debt and Equity

4.2.4.2 Cost of equity estimate

The projected rate of return that investors need to invest in a company is known as the cost of equity, and it is often estimated using the Capital Asset Pricing Model (CAPM). The formula for calculating the cost of equity using CAPM is:

$$\text{Cost of Equity} = R_f + \beta \times (\text{MRP})$$

where:

R_f = risk-free rate of return, usually the yield on a government bond

β = beta coefficient, a measure of the stock's volatility relative to the market

MRP = market risk premium = $R_m - R_f$

In this case, for risk free rate or R_f , we use 10 year government bond yield which is equal to 2.50%, according to thai BMA, as a risk free rate.

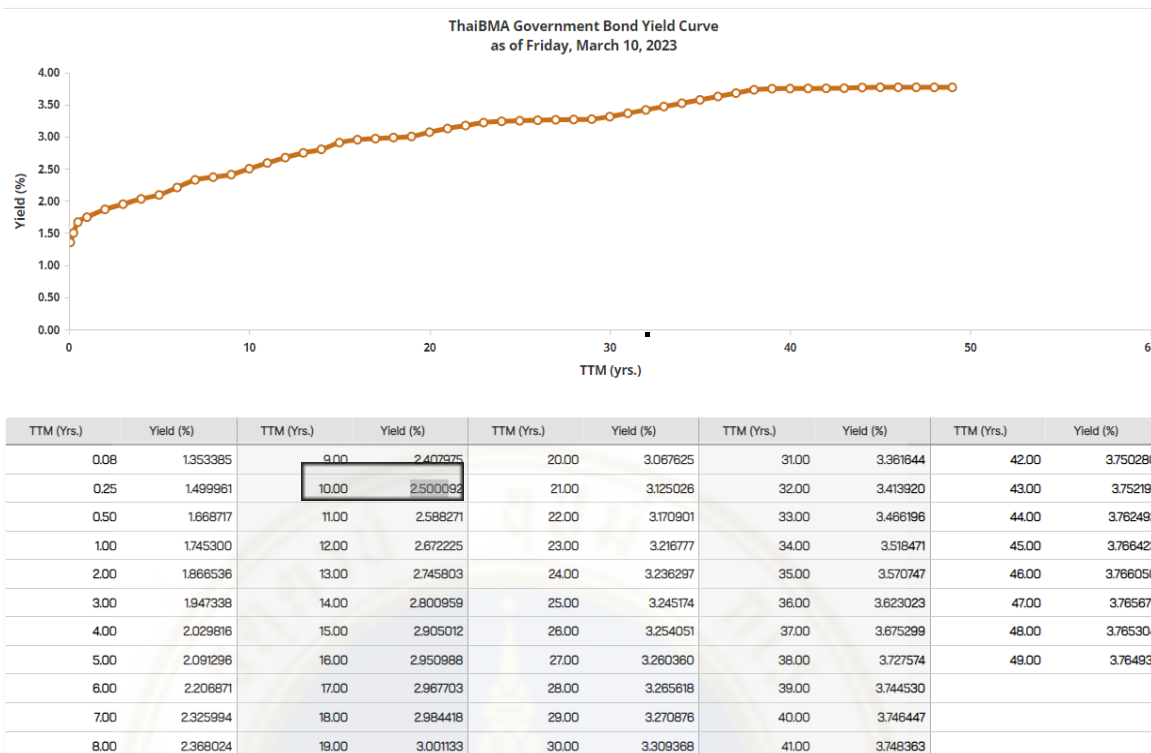


Figure 4.13: Thai Government Bond Yield

While for Beta of ICHI we use 1.32 and 5.05% for market risk premium according to Refinitiv.

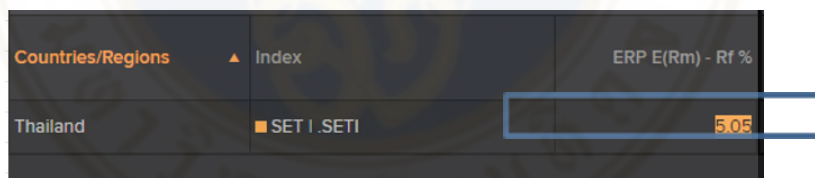


Figure 4.14: Market Risk Premium



Figure 4.15: ICHI's Beta

and we can calculate Cost of equity at 9.17%

WACC		
Cost of equity		
Rf- 10 yrs Gov. bond yield		2.50%
Equity risk premium		5.05%
Beta		1.32
Ke		9.17%

Table 4.6: Cost of equity

4.2.4.3 Cost of debt

According to note of financial statement 2021, the company reported that the interest for long term loan is BIBOR6M + 1.25% and currently BIBOR6M is 1.93% therefore, the cost of debt of ICHI is around 1.25%+1.93% = 3.18%

อัตราดอกเบี้ยอ้างอิงระยะสั้นตลาดกรุงเทพ (BIBOR)*
วันที่ 13 มีนาคม 2566

11.00 a.m.

Tenor	Last (13/03/2566)	Change	Previous (10/03/2566)
O/N	1.50000	0.00000	1.50000
1 Week	1.53041	+0.00019	1.53022
1 Month	1.59077	+0.00206	1.58871
2 Month	1.69722	+0.00196	1.69526
3 Month	1.76978	+0.00167	1.76811
6 Month	1.93967	+0.00305	1.93662
1 Year	2.09860	+0.00095	2.09765

Figure 4.16: BIBOR

4.2.4.4 WACC estimate

Form the above information, we can calculate WACC by using the formula for WACC which is:

$$WACC = \left(\frac{E}{D+E} \times Ke\right) + \left(\left(\frac{D}{D+E} \times Kd\right) \times (1 - T)\right)$$

Since the company is net cash company with 100% weight of equity, WACC is equal to cost of equity which is 9.17%. The calculation is shown below.

WACC		
Cost of equity		
Rf - 10 yrs Gov. bond yield		2.50%
Equity risk premium		5.05%
Beta		1.32
Ke		9.17%
Cost of debt		
Cost of debt before tax		3.2%
Tax Rate		20%
Cost of Debt after tax		2.5%
Weight of debt and equity		
Share price as of 10 Mar 2023(THB)		12.90
No. of share (Million share)		1,300.00
Market value of Equity (Million baht)		16,770.00
Net Debt (Million baht)		(143.28)
Weight of Debt		0.00%
Weight of Equity		100.00%
WACC		9.17%

Table 4.7: WACC

4.2.5 DCF Valuation Result

4.2.5.1 Discounted cash flow valuation

PERIOD	2019	2020	2021	0	1	2	3	4	TV
EBIT	397.80	583.89	643.30	663.84	773.85	799.65	823.64	850.19	
Tax	(79.56)	(116.78)	(128.66)	(132.77)	(154.77)	(159.93)	(164.73)	(170.04)	
EBIT AFTER TAX	318.24	467.11	514.64	531.07	619.08	639.72	658.91	680.15	
Depreciation	569.60	574.26	592.47	595.60	595.60	595.60	595.60	595.60	
Working Capital Chage	(46.41)	(38.96)	(62.93)	(310.40)	(45.03)	(45.56)	(42.37)	(46.89)	
CAPEX	43.07	98.61	39.53	50.00	50.00	50.00	50.00	595.00	
FCFF	798.36	903.80	1,004.65	766.27	1,119.65	1,139.76	1,162.14	633.86	
DISCOUNTED CASHFLOW				766.27	1,025.64	956.39	893.30	446.32	10,051.07
PV of Firm				14,138.99					
WACC		9.17%							
TERMINAL GROWTH		2.69%							
			2022						
PV of Firm			14,138.99						
Net Debt			(143.28)						
PV of equity			14,282.27						
No. of share			1,300.00						
EST. SHARE VALUE			10.99						

Table 4.8: DCF Valuation

To calculate the estimated price of ICHI by using discounted cashflow model with WACC 7% and terminal growth rate 2.96%, the present value of firm is around 14,138.99 million baht. Then we add net cash (minus net debt which is negative), and the present value of equity is around 14,282.27 million baht. Lastly, to figure out share value, it is essential to divide present value of equity by the number of ICHI shares. The estimate share value of ICHI is at 10.99 THB.

4.2.5.2 Sensitivity analysis

When conducting a discounted cash flow (DCF) valuation, it is important to understand that the resulting valuation is highly sensitive to the assumptions made about key variables such as the weighted average cost of capital (WACC), the perpetual growth rate, and the next five years' forecasted free cash flows (FCFF). This means that small changes in these assumptions can have a significant impact on the resulting valuation. Therefore, it is important to conduct a sensitivity analysis to understand how changes in these assumptions can affect the valuation results. By performing a sensitivity analysis, we can better understand the range of possible valuations and the key drivers of the valuation. This can help us to make more informed investment decisions and mitigate potential risks associated with the valuation.

4.2.5.2.1 Sensitivity-WACC

Deviation Base Price	WACC	Price (THB) 10.99
50%	13.75%	7.56
40%	12.83%	8.01
30%	11.92%	8.54
20%	11.00%	9.19
10%	10.08%	9.98
5%	9.62%	10.45
0%	9.17%	10.99
-5%	8.71%	11.60
-10%	8.25%	12.31
-20%	7.33%	14.14
-30%	6.42%	16.84
-40%	5.50%	21.28
-50%	4.58%	29.96

Table 4.9: Sensitivity-WACC

The table shows the results of a sensitivity analysis that illustrates the impact of varying the weighted average cost of capital (WACC) on a company's share price. The WACC is a calculation that reflects the cost of a company's capital, including equity and debt, and is used in discounted cash flow (DCF) valuations to determine the present value of future cash flows.

The table shows the base price of the company's share as 10.99 THB, and the deviations range from -50% to +50%. The results indicate that changes in WACC have a significant impact on the share price, with larger deviations resulting in greater changes. For instance, decreasing the WACC from 50% to 4.58% leads to a substantial increase in share price from 7.56 THB to 29.96 THB, whereas increasing the WACC from 0% to 50% leads to a decrease in share price from 10.99 THB to 7.56 THB.

4.2.5.2.2 Sensitivity-Growth Rate

Deviation Base Price	Terminal Growth	Price (THB)
		10.99
50%	4.04%	13.14
40%	3.77%	12.62
30%	3.50%	12.16
20%	3.23%	11.73
10%	2.96%	11.34
5%	2.82%	11.16
0%	2.69%	10.99
-5%	2.56%	10.82
-10%	2.42%	10.66
-20%	2.15%	10.36
-30%	1.88%	10.08
-40%	1.61%	9.82
-50%	1.35%	9.57

Table 4.10: Sensitivity-Growth Rate

The table shows the impact of varying the terminal growth rate on the share price of a company. The base price is given as 10.99 THB, and the terminal growth rate is varied from -50% to +50%. The results are presented in the "Price" column, which shows the corresponding share price for each terminal growth rate deviation.

As we move from negative to positive deviations in terminal growth rate, the share price increases, reflecting the expectation that the company's future cash flows will grow at a higher rate. For instance, when the terminal growth rate is increased by 50%, the share price increases to 13.14 THB, which is 19% higher than

the base price. Similarly, when the terminal growth rate is decreased by 50%, the share price decreases to 9.57 THB, which is 13% lower than the base price.

4.2.5.2.3 Sensitivity-WACC and Growth Rate

Base Price	10.99	Terminal Growth												
		1.35%	1.61%	1.88%	2.15%	2.42%	2.56%	2.69%	2.82%	2.96%	3.23%	3.50%	3.77%	4.04%
WACC	13.75%	7.02	7.12	7.22	7.33	7.44	7.50	7.56	7.62	7.69	7.82	7.96	8.10	8.25
	12.83%	7.38	7.49	7.61	7.74	7.87	7.94	8.01	8.08	8.16	8.32	8.48	8.66	8.84
	11.92%	7.79	7.93	8.07	8.22	8.38	8.46	8.54	8.63	8.72	8.91	9.11	9.33	9.55
	11.00%	8.28	8.44	8.61	8.79	8.98	9.08	9.19	9.30	9.41	9.64	9.89	10.16	10.45
	10.08%	8.86	9.06	9.27	9.49	9.73	9.85	9.98	10.12	10.25	10.55	10.87	11.22	11.60
	9.62%	9.20	9.42	9.65	9.90	10.16	10.30	10.45	10.60	10.76	11.10	11.47	11.87	12.31
	9.17%	9.57	9.82	10.08	10.36	10.66	10.82	10.99	11.16	11.34	11.73	12.16	12.62	13.14
	8.71%	9.99	10.26	10.56	10.88	11.22	11.41	11.60	11.80	12.01	12.46	12.96	13.52	14.13
	8.25%	10.46	10.77	11.11	11.47	11.87	12.09	12.31	12.55	12.79	13.33	13.92	14.59	15.34
	7.33%	11.61	12.02	12.47	12.97	13.52	13.82	14.14	14.47	14.83	15.62	16.51	17.54	18.74
	6.42%	13.15	13.72	14.36	15.09	15.90	16.36	16.84	17.36	17.93	19.19	20.69	22.50	24.71
	5.50%	15.35	16.21	17.19	18.34	19.68	20.44	21.28	22.20	23.22	25.62	28.66	32.64	38.09
	4.58%	18.77	20.20	21.91	24.00	26.61	28.18	29.96	32.02	34.43	40.66	49.98	65.44	96.08

Table 4.11: Sensitivity-WACC and Growth Rate

The sensitivity table shows the impact of different terminal growth rates and WACC (weighted average cost of capital) on the stock price of a security. The table shows different terminal growth rates ranging from 1.35% to 4.04% and different WACC rates ranging from 4.58% to 13.75%. The base price is \$10.99, which is the stock price assuming a terminal growth rate of 2.69% and a WACC of 9.17%.

The table also shows that higher terminal growth rates and lower WACC rates generally lead to higher ICHI price. Conversely, lower terminal growth rates and higher WACC rates generally lead to lower ICHI price estimates.

4.2.5.2.4 Implied WACC

Stock Price	Perpetual Growth	Implied WACC	Implied Cost of Equity
12.90	2.69%	7.92%	7.92%
12.90	0%	5.17%	5.17%

Table 4.12: Implied WACC

With a perpetual growth rate of 2.69% and the stock price of ICHI on March 10th, 2023, which was 12.9 THB, we have determined that the implied WACC of ICHI is approximately 7.92% lower than the calculated WACC of 9.17%, by around 13.7% percent relatively. Since ICHI has a weight of equity of 100%, the implied WACC is equivalent to the implied cost of equity. In addition, If the company had no perpetual growth, the implied WACC would decrease to 5.17%.

4.3 Valuation Recommendation

EPS	2023F	2024F
Average	0.58	0.63
High	0.60	0.67
Low	0.56	0.61
Median	0.57	0.63
Forecasted EPS	0.41	0.47

Table 4.13: EPS

The table above shows the average, high, low and median EPS which was projected by analyst from the 6 different brokers and also provides my forecasted EPS. The forecasted EPS is 0.41 THB and 0.47 THB for Yr 2023 and 2024 which is lower than the lowest EPS of analyst. This is because of the conservative assumption about sales growth. The analyst believe that the company's seals will reach approximately 7,000 THB sales due to the management announce that its new product called Tansansu will be a successful product. While I believe that the fashion drink product will not increase the company's sales as they expect.

My analysis suggests that ICHI's target price should be 10.99 baht per share, which is lower than the current market price of 12.90 baht per share as of 10 March 2023, by about 14.83%. Based on this assessment, I recommend to HOLD ICHI shares.

CHAPTER V INVESTMENT RISKS

5.1 Risks of Shareholding Structure and Over-Reliance on Key Figures

The shareholding structure of the company, wherein the Passakornnatee family holds a significant majority of 540.86 million shares or 41.6%., presents a potential risk to minority shareholders as it may limit their ability to counterbalance the decisions made by the controlling shareholders. However, the company has established a robust management structure, comprising of knowledgeable personnel, and has instituted an independent audit committee to ensure transparency, accountability, and protection of the interests of minority shareholders.

Another concern pertains to the potential over-reliance on Mr. Tan Passakornnatee, an important figure in the Green Tea industry, and the perception that the company's performance is closely linked to his reputation. To mitigate this risk, the company has decentralized management power and delegated responsibilities to executives with relevant knowledge, experience, and abilities. Moreover, an executive committee has been appointed to manage the company's operations sustainably and ensure that the business is not unduly influenced by the personal brand of any single individual.

5.2 Risk of competition and new product development

Thailand's beverage industry faces intense competition, which can impact revenue and sales for companies with lower market share. Customers' needs change over time, and launching new products that meet the changing of needs is essential for the company to maintain and increase its market share. To mitigate this risk, the company prioritizes product quality innovation, brand building, and differentiation in taste, quality, and packaging. Effective budget management for marketing activities and advertising is also implemented. To manage the risks of new product development, the company has established a working group to screen and revisit new ideas, survey consumer behavior and needs, and prioritize testing of production quality, packaging design, taste testing, and yield analysis. Regular product development under effective budget management is done, and existing products are

adjusted to meet consumers' needs in the healthy trend market while new products are launched in line with current popularity.

5.3 Risks from Demographic Changes and Consumer Behavior on Health - Conscious

Thailand's demographic structure is shifting towards an aging society, which will affect the economy, including the manufacturing sector. Consumers are becoming more health-conscious, and this trend has affected both consumption and production. To reach these consumer groups, the company has developed several products that cater to health-conscious and elderly people. In 2022, the company adjusted the formula to reduce sugar and introduced new flavors such as honey lemon and 0 calorie catechins, which still retain the refreshing taste of Ichitan's beverages.

5.4 Risk of Regulation

Due to the implementation of the beverage excise tax on the cost and amount of sugar, ready-to-drink tea has been classified as a beverage product with excise tax. As a result, the production cost of ready-to-drink tea has been affected, and business operators have had to adjust their selling prices accordingly. This has contributed to the decline of the ready-to-drink tea market over the past year. However, the Company has proactively anticipated potential tax risks by devising distribution plans and packaging strategies that align with the selling price, in order to maintain an appropriate selling price for specific distribution channels. Additionally, the Company has conducted R&D for new healthy products, with the aim of producing healthy products that meet market and customer demand while effectively managing manufacturing costs and other expenses. These strategic plans have helped to mitigate the impact of tax risks to some extent.



CHAPTER VI CONCLUSIONS

6.1 Investment recommendation

ICHI is a successful company in the ready-to-drink green tea market in Thailand, holding the second rank in the industry. One of the most important key success factors of the company is its deep understanding of customers' needs. ICHI not only provides high-quality products but also implements effective marketing strategies in the market.

The company also boasts a strong financial status, being able to continuously generate profits even during the COVID-19 pandemic in 2020-2021. Moreover, ICHI has a favorable financial structure with very low interest-bearing debt, and the capacity utilization rate was only 50% in 2021. This implies that for the sales of the company to increase 100% from 5,228 million Baht in 2021 to approximately 10,000 million Baht, it will require additional funds to reinvest in its CAPEX. However, based on the assumption in Chapter IV's valuation, the target price of ICHI is approximately 10.99 baht per share, while the current price is 12.90 baht per share as of 10 March 2023, indicating a negative deviation of about 14.83%. Based on this assessment, I recommend holding ICHI shares.

6.2 Triggers for re-assessment

The discounted cash flow (DCF) approach is used in Chapter IV of the valuation process to determine a company's stock price. The Weighted Average Cost of Capital (WACC) and the Terminal Growth Rate are two significant parameters that are taken into consideration by the DCF technique.

The weighted average cost of capital, or WACC, is affected by changes in the ratio of debt to equity, changes in interest rates, and changes in the company's beta. A greater WACC causes the Free Cash Flow to Firm (FCFF) discount rate, which in turn causes the FCFF present value and, eventually, the share price, to decrease.

Another crucial element is the terminal growth rate, or the rate at which a firm expands after the specific projected period. Based on projections for the growth of ready-to-drink tea and coffee in Thailand in 2027, the Terminal Growth Rate in this

case is calculated as 2.96%. The terminal value and the company's total worth will be directly impacted by any adjustments to the industry's growth estimate.

Therefore, to accurately evaluate a company's share price, it is crucial to stay up-to-date with its financial performance, as well as industry news and trends. This information can help investors make informed decisions about the potential risks and opportunities associated with the company's stock.

6.3 Limitations

The discounted cash flow (DCF) method can be a useful tool for valuing companies in the ready-to-drink green tea market. However, there are some limitations to its use that investors should be aware of. One of the main limitations is the difficulty in accurately forecasting future cash flows for the market, as it can be influenced by a range of factors such as shifts in consumer behavior or changes in the competitive landscape.

Another limitation of the DCF method is that it requires a long-term perspective, which may not be suitable for investors who are looking for short-term gains. The DCF method is based on projections of future cash flows over a long period, which can be subject to significant uncertainty and volatility. Additionally, the DCF method relies on the accuracy of assumptions made about discount rates, which can be influenced by market conditions, interest rates, and other macroeconomic factors. Changes in these assumptions can significantly impact the results of the DCF analysis, and investors should be cautious when interpreting the results.

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