August 25, 2004

Oishi Group (OISHI)

New : BUY
Previous: -

IPO Price: Bt19
Target Price: Bt24

Tasty offering at Bt19/sh.

Oishi Group PCL. (OISHI) is set to make its trading debut on the SET today. The company is well-known for its famous Sushi buffet restaurants in Bangkok. Currently, the company has more than 80 restaurant outlets, bakery shops, and catering services.

OISHI began selling green tea last October. In less than a year, OISHI now has a 38% market share behind the veteran Unif. The company also plans to launch its new green tea-flavored "Japanese Rice" to further boost sales later this year.

The proceeds of the IPO will be used to finance the increase in production capacity of its green tea drink plant to 22.95 million PET bottles/month and 12.32 million UHT boxes/month. With this expanded capacity, we expect OISHI to double its rate of production of green tea by the end of this year, allowing the company to further expand its market share.

We believe OISHI will be able to achieve Bt4,157mn in total revenue this year, with Bt1,134mn coming from its restaurant businesses and Bt2,833mn from its green tea business. Gross margins should decline from 43.4% to 41.8% this year, due the expansion of green tea production, as well as an aggressive marketing strategy from an introduction of its new green tea flavor expected next month . Earnings are expected to jump to Bt312mn.

Part of the proceeds from the IPO will be used to repay short term debt, therefore gearing should turn positive or net cash by the end of this year. We are projecting cash flow per share of Bt4.14 this year.

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We are initiating coverage on OISHI with a **BUY** recommendation and a target price of Bt24/share. At an IPO price of Bt19/share, the stock is on attractive prospective PERs of 11.42x for 2004 and 9.40x for 2005 and offers a potential 26% upside to our DCF fair value estimate.

Figure 1: Earnings summary

	2002	2003	2004F	2005F	2006F
Sales (Btmn)	714	1,319	4,157	5,233	5,967
EBITDA (Btmn)	59	146	806	951	992
Norm profit (Btmn)	19	20	312	379	399
Net profit (Btmn)	19	20	312	379	399
EPS (Bt)	6.98	6.57	1.66	2.02	2.13
PER (x)	2.72	2.89	11.42	9.40	8.93
EV/EBITDA (x)	3.54	3.41	3.89	2.74	2.09
Operating cash flow (Btmn)	76.12	76.31	774.59	610.52	592.20
CF/share (Bt)	15.14	50.40	4.14	3.26	3.16
BV/share (Bt)	105.04	111.21	4.24	6.27	8.39
Price/BV (x)	0.18	0.17	4.48	3.03	2.26
DPS (Bt)	N.A.	-	-	-	-
Dividend yield (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Gearing (x)	0.53	1.32	net cash	net cash	net cash
ROE (%)	13.3%	6.3%	55.3%	38.5%	29.0%
ROA (%)	2.9%	1.7%	15.7%	14.1%	11.9%

Source: Company reports and Kelive research estimates.
**Based on IPO price of Bt19/share*

Business overview

OISHI is famous for its Sushi buffet restaurants around the Bangkok area. The company was established bv Khun Tan Passakornnatee, CEO and President of the Oishi Group, who launched the first Oishi restaurant branch in Soi Thonglor in September 1999. Well-known for food quality and diversified menu of Japanese, European and seafood dishes, the company has rapidly gained popularity.

Currently, OISHI operates more than 80 restaurant outlets, including 4 Oishi buffet, 3 Oishi express, and 8 Shabushi restaurants. Other a la carte restaurants include 22 Sushibars, 17 Ramen, 2 OK Suki and BBQ, 6 Log Home restaurants. OISHI also operates bakery shops named, "In and Out Café," which opened first in May 2000. The bakery has quickly earned popularity and the In and Out Café now has 23 branches.

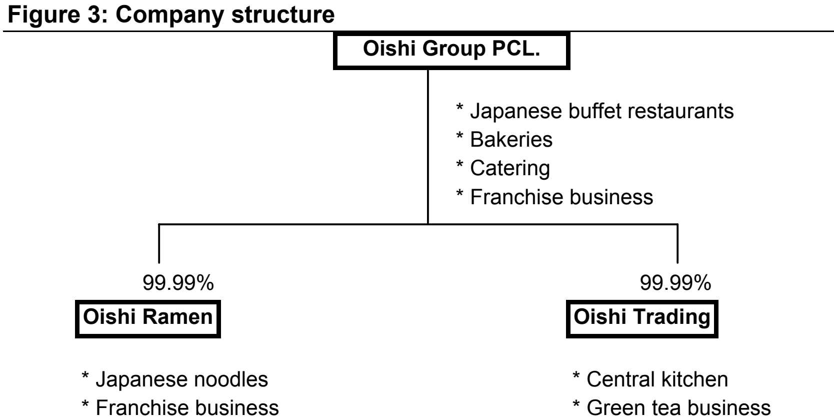
Last October, OISHI started distributing its famous green tea drinks in the Thai market. As of June 2004, OISHI now has three green tea flavors and a 38% market share.

Figure 2: Current restaurants and products

Buffet:	**Outlets**	**Green tea:**	
Oishi Buffet	4	**Bottles and UHT**	
Oishi Express	3	Flavours: Original, Lemon, Slim (no sugar) and	
Shabushi	8	Rice	
A La Carte:		**Current production capacity:**	
Oishi Sushibar	22	Bottles	15.3mn bottles/month
Oishi Ramen	17	UHT	12.3mn UHT/month
OK Suki & BBQ	2		
Log Home			
Grill'N More	1		
Teppanyaki	1		
BBQ & Shabu Shabu	1		
Mori Japanese	1		
Four Seasons	1		
Log Cabin	1		
Bakery:			
In & Out the Bakery Café	23		
Catering:			
Oishi Catering			
Oishi Delivery			
TOTAL	85		

Source: OISHI

Figure 3: Company structure



Source: OISHI

IPO begins trading today

OISHI sold 37.5mn shares to the public at Bt19 (par value Bt2) on August 16-17. Thirty percent of the IPO proceeds will be used to further expand green tea production to 22.95mn bottles and 12.32mn UHT boxes. About 60% will be used to reduce short term debt and the remainder will be reserved for working capital. OISHI shares will begin trading on the SET on August 25.

Figure 4: IPO terms

Paid-up capital (before IPO)	:	Bt300mn
Par	:	Bt2
Share offer	:	37.5mn shares
IPO price	:	Bt19/share
Paid-up capital (after IPO)	:	Bt375mn
Proceeds from an IPO	:	Bt712.5mn
Subscription period	:	16-17 Aug
Listing date	:	25-Aug
Lead underwriter	:	Asian Plus Securities PCL.
Objective	:	60% to pay back short term debt
		30% for Green tea expansion
		10% for working capital reserve

Source: OISHI

Figure 5: Shareholders structure

	Pre IPO		Post IPO	
Names:	**No. of shares**	**%**	**No. of shares**	**%**
Passakornnatee group	105.0	70%	105.0	56%
Prueksarittanont group	15.0	10%	15.0	8%
Employees and staff	15.0	10%	16.9	9%
Others	15.0	10%	15.0	8%
IPO		0%	35.6	19%
Total	150.00	100%	187.5	100%

Source: OISHI and Kelive/Research estimates.

Revenue grew 85% last year

OISHI achieve revenue growth of 85% last year to Bt1.3bn, largely due to the increasing number of restaurant branches around Bangkok. Revenue from food jumped 52% to Bt1,008mn, while revenue from bakeries rose 194% to Bt129mn. Since the company has just started distributing green tea last October, part of the revenue growth is based on green tea revenue of Bt163mn. In July, one production line was added and the proceeds from the IPO offering will allow further expansion of production to three bottling lines by October, enabling OISHI to boost bottling output to 22.95mn PET bottles/month. Meanwhile, the UHT box production line was increased from two to four in June and the green tea output has been boosted to 12.32mn UHT boxes/month from June.

Earnings should improve as the expansion of production should further boost revenue this year and next. In 2Q04, revenue jumped 22% to Bt740mn from Bt605mn in 1Q04. Gross margins slid to 39% from 42% due to higher marketing costs. As a result, OISHI's 2Q04 normalised profit grew 8% qoq to Bt95mn.

Figure 6: OISHI earnings performance from 2002 to 1Q04 and 2Q04

	2003	2002	YOY	2Q04	1Q04	QOQ
Sales	1,319	714	85%	740	605	22%
COGS	735	408	80%	455	350	30%
Gross profit	583	306	91%	286	254	12%
Gross margin	44%	43%		39%	42%	
SG&A	522	272	92%	177	152	17%
Operating margin	5%	5%		15%	17%	
Interest expenses	16	6	194%	7	6	17%
Normalised profit	20	19	2%	95	88	8%
Net profit	20	19	2%	95	88	8%
EPS	6.57	6.98	-6%	0.64	1.47	-57%

Source: Company reports/Kelive research estimates.

Using the "Spider marketing approach," OISHI is able to control food quality through its central kitchen. Located in Navanakorn Industrial Estate, the central kitchen enables OISHI to control costs while benefiting sales distribution.

Figure 7: Production capacity of the food business

	Full Capacity (kg./day)	Production capacity (%)
Central kitchen	8,000	50%
Bakery kitchen	1,450	50%

Source: OISHI

Restaurant business

The company plans to add about 10 new branches each year to further capitalise on its popular name. OISHI's major rivals Fuji and Zen Japanese restaurants, hotel restaurants and other local Japanese restaurants.

Margins on the food business will be squeezed by rising rents from its current 85 restaurant branches. To counter this, OISHI has a new policy for restaurant expansion of acquiring smaller spaces, helping to reduce average rental costs which helps reduce overall rents.

Green tea business

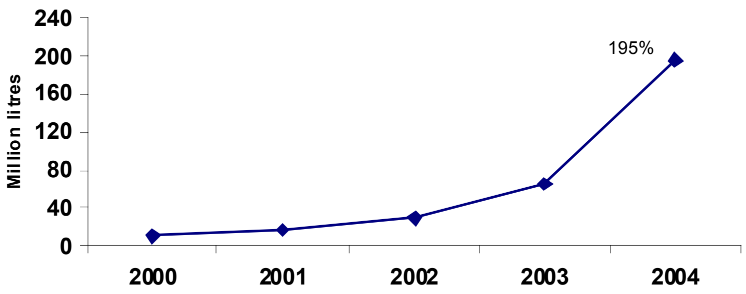
OISHI green tea business is expected to grow 16 fold this year. Green tea, which is widely seen as a health drink, has rapidly gained popularity with Thai consumers. OISHI began selling green tea just last October, but as of August 2004, the company now accounts for 38% of the market. Currently, Unif is the major green tea producer in Thailand with a 48% market share. Other major and minor producers include Sencha, Tipco, Pokka, and Lipton.

Figure 8: Market share for green tea business in Thailand

	2003	May-Jun '04
Major green tea producers	59%	47%
Minor green tea producers	34%	15%
Oishi	7%	38%
Total	100%	100%

Source: AC Nielson (Thailand) Co., Ltd. And Tetra Pak (Thai) Ltd.

Figure 9: Growth of the green tea market in Thailand



Source: AC Nielson (Thailand) Co., Ltd.

OISHI has capacity to produce 7.65mn bottles/month. Production should increase as OISHI would use the proceeds from the IPO used to further expand green tea production to 22-23mn bottles/month. Meanwhile, UHT production is capable of producing 12.32mn UHT boxes per month.

Figure 10: OISHI Green tea production

	Bottles	UHT
No. of machines	2	4
No. of machines after an IPO	3	4
Production capacity	15.30mn PET bottles	12.32mn UHT boxes
Production capacity after an IPO	22.95mn PET bottles	12.32mn UHT boxes
Capacity utilization	75%	80%

Source: OISHI

The major cost for green tea is packaging, which accounts for 56% of the total cost. Last year, OISHI imported PET bottles at a high cost. This year, OISHI set up a packaging production line at the plant, which should significantly reduce costs.

The OISHI distribution channel has been very successful through a logistics deal with Diethelm Trading to the super/hyper markets that include Tesco Lotus, Big C, and Carrefour.

We believe there is room for open trade marketing for green tea, including pharmacies, drug stores, hotels, and other local convenience stores. Currently, the open trade market holds just 18% of OISHI green tea. With the plant expansion, the company plans to aggressively market products through its own distribution department and lessen Diethelm involvement.

Forecast and valuation

OISHI's green tea sales will be the major With the expansion of its green tea product line, we are forecasting OISHI's green tea revenue to jump 16 fold to Bt2,833mn, boosting total revenues it Bt4,098mn. Assuming that gross margins contract to 43.9% this year, we are forecasting OISHI 2004 earnings of Bt311mn (EPS Bt1.66).

Based on our DCF model and a discount rate of 10%, we believe that OISHI shares are worth Bt24 apiece. At this level, the stock would be trading on a prospective PERs of 14.5x and 11.9x for 2004 and 2005, respectively.We believe this rating is justified given the company's very strong growth prospects, strong financial position and developing brand name in both the restaurant and green tea markets.

We are not forecasting OISHI to pay dividends at this point since the company has not provided guidance on a dividend payout policy. We assume that the company will primarily use its cash flow to finance expansion projects.

Figure 11: Income statement

	2002	2003	2004F	2005F	2006F
Sales	707	1,300	4,098	5,159	5,882
Other income	7	19	59	75	85
Total revenues	714	1,319	4,157	5,233	5,967
Cost of goods sold	384	651	2,297	2,947	3,432
Depreciation and amortisation	24	85	87	81	81
SG&A and others expenses	272	522	1,055	1,336	1,544
EBITDA	59	146	806	951	916
Interest expenses	6	16	4	1	2
Net profit before extra items	19	20	312	379	399
Net profit	19	20	312	379	399
EPS growth	0%	-6%	-75%	22%	5%
PER	2.72	2.89	11.42	9.40	8.93
EV / EBITDA	3.54	3.41	3.89	2.74	2.09
BV / Shr	105.04	111.21	4.24	6.27	8.39
P / BV	0.18	0.17	4.48	3.03	2.26
P / Sale	0.07	0.04	0.87	0.69	0.61
Debt / Equity	0.67	1.45	0.03	0.03	0.04
No. Share	2.76	3.00	187.50	187.50	187.50

Source: OISHI and Kelive/Research estimates.

Figure 12: Balance sheet

	2002	2003	2004F	2005F	2006F
ASSETS					
Cash & Deposits	35	40	451	998	1,547
Accounts receivable	22	81	266	335	382
Inventories	27	89	332	408	494
Other current assets	16	39	39	39	39
Total current assets	104	251	1,089	1,779	2,462
Property, Plant and Equipment	404	806	768	772	755
Other assets	47	40	43	42	42
Total Assets	**657**	**1,188**	**1,992**	**2,684**	**3,351**
LIABILITIES					
OD + Current portion of L-T debt	44	143	347	442	513
Account payable + Trust Receipt	72	90	332	408	494
Other current liabilities	9	27	27	27	27
Total current liabilities	198	537	1,180	1,481	1,737
Long term debts	169	315	14	26	37
Other liabilities	-	3	3	3	3
Total liabilities	**367**	**854**	**1,196**	**1,509**	**1,777**
SHAREHOLDERS' EQUITIES					
Shares + Warrants	276	300	375	375	375
Premium on shares	-	-	75	75	75
Retained earnings + Revaluation	14	34	346	725	1,123
Total shareholders' equity	**290**	**334**	**796**	**1,175**	**1,573**
Total liabilities and equity	**657**	**1,188**	**1,992**	**2,684**	**3,351**

Source: OISHI and Kelive/Research estimates.

Figure 13: Statement of cash flow

	2002	2003	2004F	2005F	2006F
Net profit	19	20	312	379	399
+ Depreciation & Amortization	24	85	87	81	76
+ Decrease in working capital	115	56	376	151	117
+ Others	(82)	(84)	-	-	-
Operating cashflows	**76**	**76**	**775**	**611**	**592**
Purchase of fixed assets	(522)	(480)	(49)	(84)	(60)
Investment in affiliated	(8)	1	3	-	-
Other investing activities	22	5	-	-	-
Investing cashflows	**(507)**	**(474)**	**(47)**	**(84)**	**(60)**
Equity Increase	276	24	150	-	-
Other debt financing	145	378	(415)	(544)	(551)
Internal financing cash flows	**421**	**402**	**(265)**	**(544)**	**(551)**
External financing	9	(4)	(463)	18	18
Borrowing from banks	**9**	**(4)**	**(463)**	**18**	**18**
Last year outstanding debt	**-**	**194**	**484**	**21**	**39**
This year outstanding debt	**9**	**189**	**21**	**39**	**58**

Source: OISHI and Kelive/Research estimates.

Figure 14: Financial ratios

	2002	2003	2004F	2005F	2006F
Gross margin	42.34%	43.43%	41.84%	41.31%	40.36%
Tax rate	20.16%	56.35%	56.35%	56.35%	56.35%
Fixed costs / Total costs	43.52%	48.23%	33.20%	32.46%	32.07%
Collection period (days)	5.67	14.50	15.48	21.29	22.27
Inventory turnover (days)	12.93	32.44	33.43	45.85	47.96
Fixed asset turnover (days)	3.50	2.15	5.21	6.70	7.71
Payable period (days)	34.30	45.40	33.55	45.85	47.96
Debts to assets	2.81%	20.53%	1.34%	1.68%	1.91%
Times-interest-earned	6.18	3.75	170.70	638.88	398.35
Current ratio	52.32%	46.78%	92.29%	120.14%	141.70%
Quick ratio	30.54%	23.11%	60.85%	89.99%	111.06%
Debt equity ratio	0.67	1.45	0.03	0.03	0.04
Net debt equity ratio	0.53	1.32	net cash	net cash	net cash

Source: OISHI and Kelive/Research estimates.

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