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CHAROEN POKPHAND FOODS PLC

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Company Rating: A+

Issue Ratings:
Senior unsecured A+
Hybrid A-

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
31/03/15	A+	Stable
20/06/14	AA-	Negative
19/05/11	AA-	Stable
30/04/10	A+	Positive
22/06/06	A+	Stable
20/05/05	A	Positive
12/07/04	A	Stable
28/05/04	A	-
01/03/01	A+	-

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Rating Rationale

TRIS Rating affirms the company rating and the rating of the existing senior unsecured debentures of Charoen Pokphand Foods PLC (CPF) at "A+". At the same time, TRIS Rating also affirms the rating of CPF's unsecured and subordinated perpetual debentures (hybrid debentures) at "A-".

The ratings of CPF and its existing issues continue to reflect the company's leading position in the Thai agribusiness and food industry, the geographic diversity of its operations, diverse range of products and markets, efforts to create more branded food products, and high degree of financial flexibility. However, these strengths are partially offset by the rising leverage, the inherent cyclicality of CPF's commodity-type products and the cost of grain, the exposure to disease outbreaks, and changes in regulations imposed by importing countries.

CPF is the largest agribusiness and food conglomerate in Thailand. As of 15 March 2017, Charoen Pokphand Group Co., Ltd. (CPG) and its subsidiaries held 44.6% of CPF's shares. CPF is a fully integrated producer of livestock and shrimp products. Fully-integrated operations help CPF's products meet safety and traceability standards, which qualify its products for export to major importing countries, including the countries of the European Union (EU), Asian nations, and the United States (US).

CPF's revenue sources are geographically diverse. Its production bases are located in 16 countries. However, the operations in Thailand, which accounted for 38% of total revenue in 2016, are the major source of revenue. The operations in China contributed 23% of total revenue, followed by the operations in Vietnam (17%). The animal feed, which is a relatively stable source of revenue, is the largest product segment, comprising about 48% of total revenue in 2016. The commodity-like farm products made up 40% of total sales, while revenue from the sales of food products accounted for 12%.

The company is striving to broaden its portfolio of branded products and develop distribution channels for both the domestic market and abroad. During 2016, CPF spent nearly Bt50,000 million in a series of acquisitions in China, the United Kingdom (UK), the United States (US), Sri Lanka, and Poland. The major transaction in 2016 was the acquisition of Bellisio Parent, LLC (Bellisio), a leading producer of single serving frozen entrees in the US and Canada. CPF spent approximately Bt39,103 million in December 2016 to purchase 100% of Bellisio. This acquisition will establish CPF's footprint in North America, the world's largest food market, bring well-known brands into its product portfolio, and add a nationwide distribution network in the US. In 2016, Bellisio posted revenue of US$599 million (approximately Bt21,145 million) and generated earnings before interest, tax, depreciation and amortization (EBITDA) of US$59 million (approximately Bt2,083 million).

In 2016, CPF's operating results improved. The major drivers were the rising swine prices, lower feed costs, improved livestock operations abroad, and the gradual recovery of the shrimp segment after an outbreak of early mortality syndrome (EMS). CPF's revenue grew by 10.2% year-on-year (y-o-y) to Bt464,465 million in 2016, partly due to the consolidation of acquired businesses in 2015. The operating profit margin before depreciation and amortization rose noticeably, climbing to 8.6% in 2016, compared with 5.2% a year earlier. EBITDA surged to Bt50,022 million in 2016, compared with Bt30,060 million in 2015.

Ongoing capital expenditures and several debt-funded acquisitions drove CPF's leverage higher. Total debt surged from Bt195,929 million in 2014 to Bt312,728 million at the end of 2016. During the same period, the debt to capitalization ratio rose to 61.8%, from 54.4% in 2014. The EBITDA interest coverage ratio was fair and cash flow protection remained acceptable despite a rise in leverage. The EBITDA interest coverage ratio was 4.9 times in 2016, compared with 3.8 times in 2014 and 3.5 times in 2015. The ratio of funds from operations (FFO) to total debt was 11.6% in 2016, compared with 11.7% in 2014 and 8.5% in 2015.

Looking forward, CPF's short-term operating performance will suffer due to a recent drop in the prices of swine in Thailand. A drop in the cost of feed will alleviate the impact somewhat. However, CPF will continue to benefit from the gradual recovery of the shrimp segment in Thailand. In addition, cash flow is projected to increase because of several acquisitions. Including the newly acquired companies, CPF's revenue will range between Bt500,000-Bt590,000 million in 2017-2019, according to TRIS Rating's base-case forecast. EBITDA is expected to hover around Bt47,000-Bt56,000 million per annum. However, leverage is expected to remain high. CPF has laid out plans for sizeable capital expenditures of about Bt25,000 million per year, excluding acquisitions. The debt to capitalization ratio is expectedly to be managed to stay below 60% despite CPF's aggressive growth strategy. The EBITDA interest coverage ratio will stay at around 3-4 times, and the FFO to total debt ratio will hover around 10%.

Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that CPF will maintain its leading position in the dynamic agribusiness and food industry. The company's diverse range of operations, products, and markets is expected to provide some insulation from the cyclical nature of commodity-like farm products and from disease epidemics. The rating upside hinges on the company's ability to significantly strengthen its capital structure and demonstrate a material, sustainable improvement in debt serviceability. In contrast, the ratings would likely be downgraded should any debt-funded acquisitions materially deteriorate the balance sheet and weaken cash flow protection.

Charoen Pokphand Foods PLC (CPF)

Company Rating:	A+
Issue Ratings:	
CPF17NA: Bt5,000 million senior unsecured debentures due 2017	A+
CPF178A: Bt2,000 million senior unsecured debentures due 2017	A+
CPF185A: Bt6,000 million senior unsecured debentures due 2018	A+
CPF188A: Bt3,000 million senior unsecured debentures due 2018	A+
CPF198A: Bt6,000 million senior unsecured debentures due 2019	A+
CPF198B: Bt2,500 million senior unsecured debentures due 2019	A+
CPF204A: Bt3,060 million senior unsecured debentures due 2020	A+
CPF205A: Bt6,500 million senior unsecured debentures due 2020	A+
CPF218A: Bt3,000 million senior unsecured debentures due 2021	A+
CPF218B: Bt5,500 million senior unsecured debentures due 2021	A+
CPF228A: Bt4,000 million senior unsecured debentures due 2022	A+
CPF235A: Bt5,500 million senior unsecured debentures due 2023	A+
CPF237A: Bt1,940 million senior unsecured debentures due 2023	A+
CPF244A: Bt3,500 million senior unsecured debentures due 2024	A+
CPF257A: Bt3,000 million senior unsecured debentures due 2025	A+
CPF277A: Bt2,000 million senior unsecured debentures due 2027	A+
CPF314A: Bt2,500 million senior unsecured debentures due 2031	A+
CPF328A: Bt5,000 million senior unsecured debentures due 2032	A+
CPF418A: Bt4,000 million senior unsecured debentures due 2041	A+
CPF41DA: Bt6,000 million senior unsecured debentures due 2041	A+
CPF17PA: Bt15,000 million subordinated capital debentures	A-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Year Ended 31 December				
	2016	2015	2014	2013	20 12
Sales and service revenues	464,465	421,355	426,039	389,251	357,175
Gross interest expense	10,141	8,624	8,241	7,568	6,283
Net income from operations	13,437	960	6,101	(1,475)	3,448
Funds from operations (FFO)	36,198	21,975	22,909	8,027	9,486
Total capital expenditures and investments	73,218	66,341	42,341	38,010	74,510
Total assets	582,179	494,263	416,764	365,003	310,544
Total debt	312,728	258,151	195,929	186,405	146,203
Shareholders' equity	193,706	173,725	163,966	129,573	120,781
Operating income before depreciation and amortization as % of sales	8.60	5.15	5.58	2.59	4.30
Pretax return on permanent capital (%)	7.84	4.69	6.41	2.94	7.25
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.93	3.49	3.84	2.26	3.50
FFO/total debt (%)	11.57	8.51	11.69	4.31	6.49
Total debt/capitalization (%)	61.75	59.77	54.44	58.99	54.76

* *Consolidated financial statements*

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