

CPF (THAILAND) PLC

No. 33/2017

4 April 2017

Company Rating: A+

Issue Rating:

Senior unsecured A+

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
04/11/15	A+	Stable

Rating Rationale

TRIS Rating affirms the company rating and the rating of the senior unsecured debentures of CPF (Thailand) PLC (CPFTH) at "A+". The ratings continue to reflect CPFTH's status as a "core" subsidiary of Charoen Pokphand Foods PLC (CPF; "A+/Stable"), the largest agribusiness and food conglomerate in Thailand. The ratings take into consideration the high degree of operational integration CPFTH has with CPF and the support it receives from CPF.

Founded in February 2012, CPFTH is a 99.98%-owned subsidiary of CPF. CPFTH was established through the amalgamation of 10 subsidiaries of CPF, engaging in the livestock business in Thailand. The company is a fully integrated producer of livestock products, covering animal feed, breeder stock, live animals, fresh meat, and food products. CPFTH is the market leader in the livestock business in Thailand, with a market share of about one-third in the animal feed market. CPFTH's combined market share in the poultry and swine industries accounts for about one-fourth of the production of poultry and swine in Thailand. CPFTH's business is divided into three segments: feed, farm, and food. In 2016, the farm segment was the largest, accounting for 50% of total revenues, followed by animal feed (25%), and food products (25%). About 84% of CPFTH's products are sold in Thailand. CPFTH's distribution channels at the end of 2016 included 4,876 kiosks of "Five-Star chicken", 412 "CP Fresh Mart" shops, and about 16 stores under the "CP Kitchen" and "CP Food World" brands. About 16% of CPFTH's products were exported indirectly through CP Merchandising Co., Ltd., another subsidiary of CPF.

CPFTH is considered a core subsidiary of CPF as it is responsible for the CPF's livestock business in Thailand. In 2016, the company contributed about 31% of CPF's total revenues and about 22% of CPF's earnings before interest, taxes, depreciation, and amortization (EBITDA). CPFTH's business direction is completely under the control of CPF's management.

After recovering from a cyclical downturn in the livestock industry in 2015, CPFTH reported a better operating performance in 2016. The improvement was driven by the rises in the price of swine, strong demand for chicken exports, coupled with a drop in feed cost. Total revenues were Bt142,190 million, a 4.6% increase from the 2015 level. The operating margin before depreciation and amortization was 7% in 2016, rising from 3.8% in 2015. EBITDA was Bt11,178 million in 2016, doubling from Bt6,220 million in the previous year.

Despite the rise in profit, CPFTH's leverage increased significantly. Total debt surged from Bt33,626 million at the end of 2015 to Bt61,979 million as of December 2016. Leverage rose because CPFTH issued new debentures and bills of exchange (B/E) and then lent the proceeds, worth approximately Bt20,000 million, to a related company. However, despite the sharp rise in debt, CPFTH's total debt to capitalization ratio remained at manageable level. Thanks to an equity increase, amounting to Bt10,511 million from CPF during mid-2016, CPFTH's total debt to capitalization ratio was 62.3% in 2016, compared with 62.5% in 2015. Cash flow protection was sufficient. The ratio of funds from operations (FFO) to total debt was 18.7% in 2016, down slightly from 20.5% in 2015.

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Looking forward, CPFTH's operating performance will come under pressure from a recent drop in the domestic prices of swine. However, the drops in the cost of feed will partially alleviate the impact. Moreover, the exports of chicken continue to increase as a result of avian flu epidemics spreading in several countries (i.e., Europe, the United States (US), China, and South Korea). Under TRIS Rating's base case forecast, the company's revenue will hover in a range of Bt140,000-Bt160,000 million during 2017-2019. EBITDA will range from Bt10,000-Bt12,000 million per year. CPFTH plans to spend approximately Bt10,000 million per annum in capital expenditures. Given the forecast levels of EBITDA and capital expenditures, the debt to capitalization ratio is expected to stay at around 60% during 2017-2019. The EBITDA interest coverage ratio will stay at around 4-5 times, and the FFO to total debt will hover at around 15%-20%.

Rating Outlook

The "stable" outlook is based on the expectation that CPFTH will remain a core subsidiary of CPF, responsible for the whole chain of livestock operations of the CPF Group in Thailand. The ratings of CPFTH will align with CPF's credit profile. Any change in CPF's credit rating will affect CPFTH's ratings accordingly.

CPF (Thailand) PLC (CPFTH)

Company Rating:	A+
Issue Ratings:	
CPFTH207A: Bt5,000 million senior unsecured debentures due 2020	A+
CPFTH211A: Bt7,450 million senior unsecured debentures due 2021	A+
CPFTH231A: Bt2,150 million senior unsecured debentures due 2023	A+
CPFTH237A: Bt3,300 million senior unsecured debentures due 2023	A+
CPFTH261A: Bt3,350 million senior unsecured debentures due 2026	A+
CPFTH267A: Bt1,400 million senior unsecured debentures due 2026	A+
CPFTH281A: Bt3,050 million senior unsecured debentures due 2028	A+
CPFTH287A: Bt1,100 million senior unsecured debentures due 2028	A+
CPFTH317A: Bt2,200 million senior unsecured debentures due 2031	A+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*
CPF (Thailand) PLC (CPFTH)

Unit: Bt million

	----- Year Ended 31 December -----			
	2016	2015	2014	2013 **
Sales and service revenues	142,190	135,975	140,833	125,255
Gross interest expense	1,233	1,588	1,361	1,789
Net income from operations	5,665	1,762	6,602	2,916
Funds from operations (FFO)	11,578	6,881	11,786	5,385
Total capital expenditures	8,330	5,992	4,817	4,065
Total assets	118,587	79,656	75,328	71,992
Total debt	61,979	33,626	26,619	31,280
Shareholders' equity	37,572	20,165	21,415	21,796
Operating income before depreciation and amortization as % of sales	7.04	3.83	7.62	5.21
Pretax return on permanent capital (%)	10.68	7.08	19.24	9.65
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	10.02	3.92	8.54	4.15
FFO/total debt (%)	18.68	20.46	44.28	17.22
Total debt/capitalization (%)	62.26	62.51	55.42	58.93

* Consolidated financial statements

** Separated financial statements

Financial Statistics and Key Financial Ratios*
Charoen Pokphand Foods PLC (CPF)

Unit: Bt million

	----- Year Ended 31 December-----				
	2016	2015	2014	2013	2012
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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