

CHAROEN POKPHAND FOODS PLC

No. 26/2016

31 March 2016

Company Rating:	A+
Issue Ratings:	
Senior unsecured	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+	-

Contacts:

Nauwarut Temwattanangkul
nauwarut@trisrating.com

Jutatip Chitphromphan
jutatip@trisrating.com

Rungrat Suntornpagasit
rungrat@trisrating.com

Wiyada Pratoomsuwan, CFA
wiyada@trisrating.com

WWW.TRISRATING.COM

Rating Rationale

TRIS Rating affirms the company and current senior unsecured debenture ratings of Charoen Pokphand Foods PLC (CPF) at “A+”. At the same time, TRIS Rating assigns the rating of “A+” to CPF’s proposed issue of up to Bt9,060 million in senior unsecured debentures. The proceeds from the new debentures will be used to repay CPF’s existing debts and for planned capital expenditures. The ratings continue to reflect the company’s leading position in the Thai agribusiness and food industry, its diverse geographic operations, diverse range of products and markets, its attempts to create more branded food products, and its financial flexibility. However, the strengths are partially offset by the inherent cyclicity 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 2016, Charoen Pokphand Group Co., Ltd. (CPG) and its subsidiaries held 45.4% of CPF’s shares. CPF’s business is divided into two major categories, livestock and aquaculture. Each of these categories comprises feed, farm, and food 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. The operations in Thailand accounted for 40% of total revenue in 2015. China operations contributed 25% of total revenue, followed by 16% from operations in Vietnam. The remaining revenue came from Taiwan, Turkey, India, Cambodia and other countries, which accounted for 1%-4% each. Animal feed, which is a relatively stable source of revenue, is the largest product segment, contributing about 52% of total revenue in 2015. Sales of commodity-like farm products contributed 36% of the company’s total sales in 2015, 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. As of 31 December 2015, CPF’s distribution channel included 5,010 kiosks of Five-Star chicken in Thailand, 426 CP Fresh Mart shops, 198 Chester’s restaurants, and about 13 stores under the CP Fresh Mart Plus, CP Kitchen, and CP Food World brands. CPF, through its subsidiary, C.P. Pokphand Co., Ltd.(CPP), operates in China and Vietnam. CPP is building two food processing plants in China, one in Qinghuangdao and one in Qingdao.

CPF’s operating results in 2015 weakened from a year earlier. The weaker performance mainly came from a plunge in livestock prices in Thailand. The price of poultry in Thailand fell by 16% year-on-year (y-o-y) due to an ongoing oversupply situation. The swine prices tumbled by 13% y-o-y from a high level in 2014. The drop in livestock prices cut the operating profit of CPF’s livestock operations in Thailand by more than half compared with the previous year. However, CPF’s earnings partly held up as the livestock operations abroad remained strong, especially the feed and swine segments in Vietnam. The aquaculture segment in Thailand reported lower loss on the back of a gradual

recovery of the early mortality syndrome (EMS) for shrimp farming. As a result, CPF's operating margin before depreciation and amortization modestly fell, sliding from 5.6% in 2014 to 5.2% in 2015. Earnings before interest, tax, depreciation, and amortization (EBITDA) was Bt30,060 million in 2015, a 4.9% dip from Bt31,625 million in 2014.

Ongoing capital expenditures drove leverage significantly higher. CPF's total debt surged from Bt195,929 million in 2014 to Bt258,151 million at the end of 2015. During the same period, the debt to capitalization ratio rose to 59.8%, from 54.4% in 2014. CPF's cash flow protection weakened as leverage rose. The EBITDA interest coverage ratio was 3.5 times in 2015, compared with 3.8 times in 2014. The fund from operation (FFO) to total debt ratio was 8.5% in 2015, down from 11.7% in 2014. However, CPF's liquidity and financial flexibility remain strong. At the end of 2015, CPF had Bt44,234 million in cash on hand and short-term securities. The company owns 34.5% interest in CP All PLC (CPALL), the leading convenience store operator in Thailand. The market capitalization of CPALL was approximately Bt395 billion as of 29 March 2016.

Looking forward, CPF's performance is expected to improve in 2016 as swine prices rebound, feed costs decline, and the EMS outbreak gradually recovers. The import restrictions on poultry parent stock, implemented following the avian influenza outbreak in major exporting countries, may lift the price of poultry in late 2016. The robust demand for chicken exports, especially from Japan, plus a partnership with ITOCHU Corporation, one of the leading trading companies in Japan, should strengthen CPF's export revenue. Moreover, CPF will benefit from its recent acquisition in Russia. The acquisition will raise revenue and improve CPF's margin. In December 2015, CPF through its subsidiaries, spent approximately Bt20,000 million to acquire an 80% stake in each of two companies: CJSC Poultry Production Severnaya and CJSC Poultry Parent Stock Production Woyskovitsy (together called S&W). S&W is an integrated poultry company in Russia. S&W posted revenue of RUB12,014 million (equivalent to Bt7,252 million) in 2013 and RUB16,935 million (equivalent to Bt10,222 million) in 2014. During the same period, S&W generated an EBITDA margin of 17% in 2013 and 38% in 2014. Including the newly acquired companies, CPF's revenue is expected to grow to a range of Bt460,000-Bt520,000 million per year during 2016-2018 under TRIS Rating's base-case forecast. EBITDA is expected to hover around Bt38,000-Bt48,000 million per annum. However, CPF's leverage is expected to remain high. To pursue its growth strategy, CPF has laid out plans for sizeable capital expenditures of about Bt25,000-Bt30,000 million per year, excluding acquisitions. The debt to capitalization ratio is expected to hover around 60% in 2016-2018. The EBITDA interest coverage ratio will stay at around 4 times, and the FFO to total debt ratio will range between 10%-15%.

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 disease epidemics. The rating upside will rely on the company's ability to keep the debt to capitalization ratio below 50%, and demonstrate a significant, sustainable improvement in debt serviceability. In contrast, the ratings would likely be downgraded should any debt-funded acquisition materially deteriorate the balance sheet and further 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+
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+
CPF257A: Bt3,000 million senior unsecured debentures due 2025	A+

CPF277A: Bt2,000 million senior unsecured debentures due 2027	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+
Up to Bt9,060 million senior unsecured debentures due within 2031	A+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Year Ended 31 December				
	2015	2014	2013	2012	2011
Sales and service revenues	421,355	426,039	389,251	357,175	206,099
Gross interest expense	8,624	8,241	7,568	6,283	2,422
Net income from operations	960	6,101	(1,475)	3,448	14,503
Funds from operations (FFO)	21,975	22,909	8,027	9,486	17,480
Total capital expenditures	25,550	25,727	23,252	20,182	10,288
Total assets	494,263	416,764	365,003	310,544	160,506
Total debt	258,151	195,929	186,405	146,203	69,449
Shareholders' equity	173,725	163,966	129,573	120,781	67,077
Operating income before depreciation and amortization as % of sales	5.15	5.58	2.59	4.30	9.43
Pretax return on permanent capital (%)	4.69	6.41	2.94	7.25	16.34
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.49	3.84	2.26	3.50	10.19
FFO/total debt (%)	8.51	11.69	4.31	6.49	25.17
Total debt/capitalization (%)	59.77	54.44	58.99	54.76	50.87

* Consolidated financial statements

TRIS Rating Co., Ltd.

Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

© Copyright 2016, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at <http://www.trisrating.com/en/rating-information/rating-criteria.html>.