

CHAROEN POKPHAND FOODS PLC

No. 49/2015

29 July 2015

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+	-

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Rating Rationale

TRIS Rating affirms the company and the senior unsecured debenture ratings of Charoen Pokphand Foods PLC (CPF) at “A+”. The confirmation follows CPF’s announcement that it would acquire an integrated poultry business in Russia. TRIS Rating views that the acquisition of the integrated poultry producer is aligned with CPF’s long-term strategy to expand its footprint in the countries with high potential growths in the protein consumption. CPF’s financial profile will not be adversely affected by the acquisition because the enterprise value of the acquired companies is about 5.7% of CPF’s total assets. Most of the acquisition will be funded from CPF’s cash on hand. In addition, the newly acquired companies are profit generating business with good margins.

On 24 July 2015, CPF announced that CPF, via its wholly-owned subsidiary, CPF Netherlands B.V., entered into a share purchase agreement with Agro-Invest Brinky B.V. to acquire Agro-Invest Brinky’s integrated poultry business in Russia. Under the terms of the agreement, CPF will acquire a newly established Russian company which will own an 80% stake in each of two companies: CJSC Poultry Production Severnaya and CJSC Poultry Parent Stock Production Woyskovitsy (together called S&W). CPF will complete the transaction before the end of 2015 and will acquire the remaining 20% of S&W by the end of August 2018. The enterprise value of S&W is US\$680 million (equivalent to Bt23,766 million @Bt34.95/US\$) or 5.7% of CPF’s total assets as of March 2015. Most of the acquisition will be financed with existing cash balance, augmented by some borrowing. As of 31 March 2015, CPF had Bt30,907 million in cash on hand and short-term securities. The acquisition will be subject to certain requirements, including anti-trust approval from the Russian Competition Authority.

S&W is an integrated poultry producer in Russia. It is one of the top five poultry producers in Russia with a market share of 5% in terms of poultry sales. S&W breeds poultry, produces feed, as well as hatching, raising and processing poultry. For 2014 operation, S&W sold about 200,000 tonnes of whole chickens and chicken parts in Russia. S&W recorded revenues of RUB16,935 million (equivalent to Bt10,222 million @RUB1.6567/Bt) in 2014, up from RUB11,434 million in 2012. Earnings before interest, tax, depreciation, and amortization (EBITDA) was RUB6,500 million (equivalent to Bt3,923 million) in 2014, rising from RUB2,953 million in 2012. EBITDA margin ranged from 17%-38% during 2012-2014, notably higher than CPF’s margin, which was below 8% over the same period. The investment in S&W will add poultry business into CPF’s existing swine operations in Russia. Once the acquisition is complete, the contribution from the Russian operation will increase to 2.8% of CPF’s total revenues, from 0.5% in 2014. S&W will increase revenues to CPF by approximately 2% and EBITDA by 12%, based on the 2014 operation.

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 CPF some insulation from the cyclical nature of commodity-like farm products and

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disease epidemics. The rating upside will rely on the company's ability to keep its debt to capitalization ratio below 50%, and demonstrate a significant, sustainable improvement in its ability to service debt obligations. In contrast, the rating downside would likely should any debt-funded acquisition materially deteriorate the balance sheet and weaken cash flow protection.

Charoen Pokphand Foods PLC (CPF)

Company Rating:	A+
Issue Ratings:	
CPF15NA: Bt3,000 million senior unsecured debentures due 2015	A+
CPF163A: Bt6,060 million senior unsecured debentures due 2016	A+
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+
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 Bt6,940 million senior unsecured debentures due within 2027	A+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Mar 2015	2014	2013	2012	2011	2010
Sales and service revenues	96,224	426,039	389,251	357,175	206,099	189,049
Gross interest expense	1,998	8,241	7,568	6,283	2,422	1,773
Net income from operations	61	5,914	(1,458)	3,930	14,476	11,592
Funds from operations (FFO)	2,523	18,269	8,027	9,486	17,480	17,455
Total capital expenditures	5,716	25,727	23,252	20,182	10,288	6,460
Total assets	418,544	416,764	365,003	310,544	160,506	126,092
Total debt	199,288	195,929	186,405	146,203	69,449	46,649
Shareholders' equity	164,956	163,966	129,573	120,781	67,077	60,944
Operating income before depreciation and amortization as % of sales	4.53	5.58	2.59	4.30	9.43	8.89
Pretax return on permanent capital (%)	5.73 **	6.35	2.94	7.49	16.32	15.63
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.14	3.81	2.26	3.58	10.18	11.76
FFO/total debt (%)	9.39 **	9.32	4.31	6.49	25.17	37.42
Total debt/capitalization (%)	54.71	54.44	58.99	54.76	50.87	43.36

* Consolidated financial statements

** Annualized with trailing 12 months

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