

CHAROEN POKPHAND FOODS PLC

No. 44/2015

10 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 rating and the existing issue 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 Bt6,940 million in senior unsecured debentures. The proceeds from the new debentures will be used for planned capital expenditures. The "A+" ratings continue to reflect the company's leading position in the Thai agribusiness and food industry, its diverse range of products and markets, its efforts to create more branded food products, and its financial flexibility. The inherent volatility of the prices for farm products, the exposure to disease outbreaks, the global economic slowdowns, as well as changes in regulations imposed by importing countries remain rating concerns.

CPF is the largest agribusiness and food conglomerate in Thailand. As of 6 May 2015, Charoen Pokphand Group Co., Ltd. (CPG) and related companies held 46.78% 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 is geographically diverse. The operations in Thailand accounted for 41% of total revenue in 2014. China operations contributed 27% of total revenue, followed by 15% from operations in Vietnam. The remaining revenue came from Turkey, Taiwan, India, 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 53% of total revenue in 2014. Sales of commodity-like farm products contributed 35% of the company's total sales in 2014 while revenue from the sales of food products accounted for 12%.

The company is striving to enlarge its portfolio of branded products and develop distribution channels for the domestic market and overseas markets. As of 31 March 2015, CPF's distribution channels in Thailand included 5,340 kiosks of Five-Star chicken, 200 Chester's restaurants, 593 CP Fresh Mart shops, and about 16 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, is building two food processing plants in China, one in Qinghuangdao and one in Qingdao.

In the first quarter of 2015, CPF's operations weakened mainly due to the falling prices of livestock in Thailand. The livestock unit in Thailand reported a lower gross margin in the first quarter of 2015. The gross margin was 10.8%, compared with 16.4% in the first quarter of 2014. The shrimp business in Thailand, one of the company's major profit contributors, recovered modestly from an outbreak of Early Mortality Syndrome (EMS). However, the Thai shrimp operations posted a loss for the ninth consecutive quarter. For overseas operation, China operations, which accounted for 25% of total revenues in the first quarter of 2015, reported a relatively flat gross profit given the economic slowdown in China. However, favorable livestock prices in Vietnam lifted the gross margin of CPF's overseas operations to 15.4% in the first quarter of 2015, from 13.8% in the first

CreditUpdate reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

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quarter of 2014. CPF's total operating margin before depreciation and amortization softened to 4.5% in the first quarter of 2015, from 5.8% in the first quarter of 2014 because of lackluster performances in the livestock and aquaculture units in Thailand. CPF's earnings before interest, tax, depreciation, and amortization (EBITDA) was Bt6,268 million in the first quarter of 2015, a 19.7% decline over the same period of the prior year.

CPF's leverage remains moderately high. The total debt to capitalization ratio was 54.7% as of March 2015. Total debt continued to rise, climbing to Bt199,288 million at the end of March 2015 from Bt186,405 million in 2013 and Bt195,929 million in 2014. Debt rose because of ongoing capital expenditures and acquisitions. The drop in EBITDA and the rise in leverage caused the EBITDA interest coverage ratio to decline to 3.1 times in the first quarter of 2015, compared with 3.7 times in the first quarter of 2014. The funds from operations (FFO) to total debt ratio was 9.4% (annualized from the trailing 12 months) in the first quarter of 2015, close to the ratio of 9.3% achieved in 2014. CPF's liquidity and financial flexibility remain strong. As of 31 March 2015, CPF had Bt30,907 million in cash on hand and short-term securities. The company owns 32.87% interest in CP All PLC (CPALL), the leading convenience store operator in Thailand. The market value of CPALL based on CPF's interest, was approximately Bt135 billion, as of 25 June 2015.

Looking forward, CPF plans sizeable capital expenditures of about Bt28,000 million for 2015, excluding acquisitions. CPF announced it would buy an additional 75% stake in C.P. Cambodia Co., Ltd. (CPC). The total consideration for the transaction is Bt2,850 million. The transaction was completed in May 2015. Based on an estimate of Bt30,000-Bt35,000 million in EBITDA, the debt to capitalization is expected to remain high. Cash flow protection is projected to remain in low level for 2015 but is expected to recover as the aquaculture segment in Thailand recovers and as earnings in overseas operations improved.

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 disease epidemics. The rating upside will rely on the company's ability to keep its debt to capitalization ratio below 50%, and demonstrate significant sustainable improvement in debt serviceability. 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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