

CHAROEN POKPHAND FOODS PLC

No. 46/2014

20 June 2014

Company Rating:	AA-
Issue Rating:	
Senior unsecured	AA-
Outlook:	Negative

Company Rating History:

Date	Rating	Outlook/Alert
19/05/11	AA-	Sta
30/04/10	A+	Pos
22/06/06	A+	Sta
20/05/05	A	Pos
12/07/04	A	Sta
28/05/04	A	-
01/03/01	A+	-

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Rating Rationale

TRIS Rating affirms the company and current senior unsecured debenture ratings of Charoen Pokphand Foods PLC (CPF) at "AA-". At the same time, TRIS Rating revises CPF's outlook to "negative" from "stable". The "negative" outlook reflects CPF's increasing financial leverage and deteriorating cash flow protection following the acquisition of C.P. Pokphand Co., Ltd. (CPP) and a slow recovery from the early mortality syndrome (EMS) shrimp disease outbreak in Thailand. The "AA-" ratings continue to reflect the company's leading position in the Thai agribusiness and food industry, diverse range of products and markets, strategic shift towards branded food products, and financial flexibility. The inherent volatility of the prices for farm products, exposure to disease outbreaks, and changes in regulations imposed by importing countries remain rating concerns.

CPF is the largest agribusiness and food conglomerate in Thailand. As of 9 May 2014, Charoen Pokphand Group Co., Ltd. (CPG) and related companies held 43.71% of CPF's shares. The company'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 the 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. Based on geography, the operations in Thailand accounted for 42% of total revenue in 2013. China operations contributed 29% of total revenue, followed by operations in Vietnam (14%). The remaining revenue came from Turkey, Taiwan, India, and other countries, which accounted for 1%-5% each. Animal feed, which is a relatively stable source of revenue, is the largest product segment, contributing about 56% of total revenue in 2013. Sales of commodity-like farm products contributed 32% of the company's total sales. Revenue from the sales of food products accounted for 12% in 2013.

The company is striving to enlarge its portfolio of branded products and develop distribution channels for both the domestic and overseas markets. As of 31 March 2014, CPF's distribution channels included 5,088 kiosks of Five-Star chicken, 188 Chester's Grill restaurants, 628 CP Fresh Mart shops and about 12 stores under the CP Fresh Mart Plus, CP Kitchen, and CP Food World brands. CPF, through its subsidiary, CPP, is building two food processing plants in China, one in Qinghuangdao and one in Qingdao.

In 2013, CPF's operation in Thailand was hard hit by an EMS outbreak in farmed shrimp in Thailand. The EMS outbreak cut in half the supply of farmed shrimp in Thailand in 2013. CPF's poultry and swine businesses in Thailand recovered from oversupply situations in the second half of 2013. However, the severe loss from the shrimp business was more than offset the improvement in the livestock segment. CPF's operating margin before depreciation and amortization contracted to 2.6% in 2013, from 4.3% in 2012. CPF's operating profit in 2013 slid to Bt1,525 million, an 81% drop from 2012. Equity income from associated companies remained strong and partly alleviated the decline in CPF's earnings. CPF's earnings before interest, tax, depreciation, and amortization (EBITDA) declined by only 24% to Bt17,124 million in 2013, compared with Bt22,493 million in 2012. CPF has realized divestment gains worth Bt8,219 million and reported a net profit of Bt7,065 million in 2013.

In the first quarter of 2014, CPF's operations improved noticeably. The EMS outbreak persisted in Thailand. However, performances of the livestock segment in Thailand were robust due to strong farm prices, strong demand for chicken exports and lower cost of feed. The improved farm prices in CPF's overseas operations, including Turkey, Vietnam, and India, also helped increase CPF's profit. CPF's

operating margin before depreciation and amortization climbed to 5.8% in the first three months of 2014, from 2.1% in the same period of 2013. CPF's operating profit jumped to Bt3,204 million in the first quarter of 2014, compared with a loss of Bt122 million in the first quarter of 2013. EBITDA rose by 115% over the same period of the prior year, to Bt7,806 million in the first quarter of 2014.

Despite improved operation in the first quarter of 2014, ongoing capital expenditures and expansions drove CPF's leverage significantly higher. The debt to capitalization ratio rose to 60.2% as of March 2014, from 54.8% in 2012 and 50.9% in 2011. CPF's total debt jumped from Bt69,449 million in 2011 to Bt197,648 million as of March 2014. This was due mainly to the debt-funded acquisition of CPP in the beginning of 2012. CPF experienced an oversupply situation of livestock products in Thailand in 2012 and EMS outbreak in 2013. An increase in CPF's total debt far outpaced an increase in its EBITDA, resulting in deteriorating cash flow cushion. However, CPF's liquidity and flexibility are considered good. As of March 2014, CPF's had cash on hand and short-term securities valued at Bt20 billion. The company has 32.25% interest in CP All PLC (CPALL), the leading convenient store operator in Thailand. The market capitalization of CPALL was approximately Bt430 billion, as of 20 June 2014.

Looking forward, the slow recovery from the EMS plague may cause CPF's aquaculture business in Thailand to remain weak. However, CPF's earnings in the short term will be bolstered by the current manageable level of grain costs and strong farm prices for livestock in Thailand, Turkey, and Vietnam. CPF has capital expenditure plan about Bt20,000 million for 2014. Based on an estimate of Bt30,000-Bt35,000 million in EBITDA, the amount of debt maturing each year ranges between Bt12-Bt14 billion in 2014-2016, the debt to capitalization is expected to remain high. Cash flow protection is projected to remain in low range over the next one or two years. CPF has plans to lower its debt to capitalization ratio to less than 50% in the medium term, but the execution depends largely on market conditions.

Recently, Carrefour, a worldwide supermarket chain, announced to stop purchasing shrimp products from CPF. The halt was in response to a recent report published by a British newspaper alleging that CPF buys fishmeal from vessels employing slave labor. The suspended order from Carrefour will have a limited impact on CPF. CPF's export to Carrefour accounted only about 0.03% of CPF's total revenues and CPF's total shrimp export to the US and EU were worth Bt5,416 million in 2013, or 1.4% of total sales. However, this allegation is a challenge for the Thai seafood industry, including CPF. Thailand has been on the Tier 2 list of the US human trafficking blacklist for four consecutive years. The US Department of State is scheduled to release its Trafficking in Persons report soon. The allegation may put more risk of Thailand being downgraded to the Tier 3 list, which might bring sanctions from customers in the US for seafood products from Thailand.

Rating Outlook

The "negative" outlook reflects CPF's deteriorating balance sheet during the period of longer-than-expected recovery in the aquaculture unit in Thailand, which is one of the company's major profit contributor. The outlook could be revised back to "stable" should the company demonstrate an ability to return its capital structure and cash flow protection to its normal level. However, the ratings could be downgraded if CPF requires more time to restore its financial strengths.

Charoen Pokphand Foods PLC (CPF)

Company Rating:	AA-
Issue Ratings:	
CPF14NA: Bt3,200 million senior unsecured debentures due 2014	AA-
CPF14NB: Bt3,000 million senior unsecured debentures due 2014	AA-
CPF155A: Bt1,000 million senior unsecured debentures due 2015	AA-
CPF155B: Bt1,000 million senior unsecured debentures due 2015	AA-
CPF15NA: Bt3,000 million senior unsecured debentures due 2015	AA-
CPF163A: Bt6,060 million senior unsecured debentures due 2016	AA-
CPF17NA: Bt5,000 million senior unsecured debentures due 2017	AA-
CPF178A: Bt2,000 million senior unsecured debentures due 2017	AA-
CPF185A: Bt6,000 million senior unsecured debentures due 2018	AA-
CPF188A: Bt3,000 million senior unsecured debentures due 2018	AA-
CPF198A: Bt6,000 million senior unsecured debentures due 2019	AA-
CPF198B: Bt2,500 million senior unsecured debentures due 2019	AA-
CPF218A: Bt3,000 million senior unsecured debentures due 2021	AA-
CPF218B: Bt5,500 million senior unsecured debentures due 2021	AA-
CPF228A: Bt4,000 million senior unsecured debentures due 2022	AA-
CPF328A: Bt5,000 million senior unsecured debentures due 2032	AA-
CPF418A: Bt4,000 million senior unsecured debentures due 2041	AA-
CPF41DA: Bt6,000 million senior unsecured debentures due 2041	AA-
Rating Outlook:	Negative

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Mar 2014	2013	2012	2011	2010	2009
Sales and service revenues	98,122	389,251	357,175	206,099	189,049	165,063
Gross interest expense	2,098	7,568	6,283	2,422	1,773	1,859
Net income from operations	1,881	(1,458)	3,930	14,476	11,592	9,546
Funds from operations (FFO)	2,069	6,022	9,486	17,480	17,455	13,936
Total capital expenditures	5,423	23,252	20,182	10,288	6,460	4,218
Total assets	379,241	365,003	310,544	160,506	126,092	115,698
Total debt	197,648	186,405	146,203	69,449	46,649	42,797
Shareholders' equity	130,531	129,573	120,781	67,077	60,944	54,979
Operating income before depreciation and amortization as % of sales	5.78	2.59	4.30	9.43	8.89	9.45
Pretax return on permanent capital (%)	1.66 **	2.94	7.49	16.32	15.63	14.83
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.72	2.26	3.58	10.18	11.76	10.10
FFO/total debt (%)	1.05 **	3.23	6.49	25.17	37.42	32.56
Total debt/capitalization (%)	60.23	58.99	54.76	50.87	43.36	43.77

* Consolidated financial statements

** Non-annualized

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