

# CHAROEN POKPHAND FOODS PLC

No. 50/2013

26 July 2013

**Company Rating:** AA-

**Outlook:** Stable

**New Issue Rating:** AA-

**Rating History:**

Date	Company	Issue (Secured/ Unsecured)
19/05/11	AA-/Sta	-/AA-
30/04/10	A+/Pos	-/A+
22/06/06	A+/Sta	-/A+
20/05/05	A/Pos	-/A
12/07/04	A/Sta	-/A
28/05/04	A	-/A
01/03/01	A+	-/A+

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**Rating Rationale**

TRIS Rating affirms the company and issue ratings of Charoen Pokphand Foods PLC (CPF) at "AA-". At the same time, TRIS Rating assigns the rating of "AA-" to CPF's proposed issue of up to Bt10,000 million in senior debentures. The proceeds from the new debentures will be used to repay CPF's existing debt and for planned capital expenditures. The 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 overseas expansion efforts. The ratings also take into consideration the company's financial flexibility, the inherent volatility of the prices of farm products, and exposure to outbreaks of animal diseases, along with changes in import tariffs imposed by importing countries.

CPF is the largest agribusiness and food conglomerate in Thailand. As of 11 March 2013, Charoen Pokphand Group Co., Ltd. (CPG) and related companies held 45.09% 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. CPF's fully-integrated operations help its products meet safety and traceability standards. This qualifies the products for export to major importing countries, including the countries of the European Union (EU), Asian nations, and the United States (US).

CPF has expanded geographically during the past several years. Currently, its operations cover 12 countries, mainly in Asia. The operations in Thailand accounted for 45% of total revenue in the first quarter of 2013. Operations in China contributed 27% of total revenue, followed by operations in Vietnam (13%). The remaining revenue came from Turkey, Taiwan, India, and other countries, which accounted for 1%-5% each. Animal feed is the largest product segment, contributing about 55% of total revenue in the first quarter of 2013. Sales of commodity-like farm products contributed 32% of the company's total sales in the first quarter of 2013, while revenue from the sale of food products accounted for 13%.

CPF continues to strive to reduce the commodity-like nature of its products and stabilize operating cash flow. The company is enlarging portfolio of own branded products and developing distribution channels for both the domestic and export markets. CPF aims to increase the contribution from food products to 20% of total sales by 2016 and continue expanding its operations into more countries. Revenues from international operations are expected to rise to 63% of total sales by 2016, up from 55% in 2012.

In the first quarter of 2013, CPF was hard hit by an outbreak of early mortality syndrome (EMS) at shrimp farms in Thailand. Based on data collected by Department of Fisheries of Thailand, shrimp production in Thailand tumbled by approximately 25% from the same period of last year in the first quarter of 2013. In other segments, the livestock industry in Thailand was gradually recovering from an over-supply situation. According to the Thai Feed Mill Association, in the first quarter of 2013, the average prices of poultry and swine products increased by 12%-15%, compared with the average prices in 2012. The average price of soybean meal, one of the major components of poultry and swine feed, rose 2% compared

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with the average price in 2012. The recovery in the livestock segment did not offset the drop in sales in the shrimp segment. As a result, CPF's gross margin dropped to 9.0% in the first quarter of 2013, from 13.6% in the same period of last year. CPF's earnings before interest, tax, depreciation, and amortization (EBITDA) declined by 43% to Bt3,627 million in the first quarter of 2013, compared with Bt6,344 million in the first quarter of 2012. Funds from operations (FFO) were negative in the first quarter of 2013. However, CPF realized divestment gains worth Bt2,143 million in the period to support its weak operating performance. Heavy capital expenditures and investments in affiliated companies drove total debt higher in the first quarter of 2013. Total debt was Bt162,117 million as of March 2013, up from Bt146,203 million at the end of 2012. The EBITDA interest coverage ratio dropped to 2.0 times in the first quarter of 2013, compared with 3.6 times in 2012.

Looking forward, CPF's operations are expected to improve quarter by quarter. Domestic meat prices in Thailand continue to recover. According to the Thai Feed Mill Association, the price of poultry during the second quarter of 2013 hovered around Bt45 per kilogram (kg.), an increase of 14.0% from the average price in the first quarter of 2013 and up 27.9% from the average price in 2012. The swine price climbed to Bt64 per kg. during the second quarter of 2013, a 3.6% increase from the average price in the first quarter of 2013. The price of soybean meal has decreased, and the lower cost of feed should be reflected in the second half of 2013. CPF will use up its higher cost inventory by the end of the second quarter of 2013. The recovery in selling prices and falling costs should boost the profitability of the livestock business in Thailand. The EMS outbreak situation is now improving, but it may take some time to encourage shrimp farmers to resume their farming. CPF planned capital expenditures of approximately Bt50,000 million during 2013-2017 including some acquisitions. Without concrete deleveraging plan, this budget could weaken the company's balance sheet. However, CPF has a clear policy to improve its capital structure and lower its debt to capitalization ratio to less than 50% in the medium term.

#### Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that CPF will be able to maintain its leading position in the dynamic agribusiness and food industry. The company is expected to maintain its financial discipline and sufficient liquidity. CPF has sufficient financial flexibility from its investments and valuable assets. Its flexibility provides a cushion for the company to weather the down-cycle in the shrimp industry.

### Charoen Pokphand Foods PLC (CPF)

<b>Company Rating:</b>	AA-
<b>Issue Ratings:</b>	
CPF138A: Bt3,000 million senior debentures due 2013	AA-
CPF13NA: Bt2,200 million senior debentures due 2013	AA-
CPF14NA: Bt3,200 million senior debentures due 2014	AA-
CPF14NB: Bt3,000 million senior debentures due 2014	AA-
CPF15NA: Bt3,000 million senior debentures due 2015	AA-
CPF163A: Bt6,060 million senior debentures due 2016	AA-
CPF17NA: Bt5,000 million senior debentures due 2017	AA-
CPF185A: Bt6,000 million senior debentures due 2018	AA-
CPF188A: Bt3,000 million senior debentures due 2018	AA-
CPF198A: Bt6,000 million senior debentures due 2019	AA-
CPF218A: Bt3,000 million senior debentures due 2021	AA-
CPF228A: Bt4,000 million senior debentures due 2022	AA-
CPF328A: Bt5,000 million senior debentures due 2032	AA-
CPF418A: Bt4,000 million senior debentures due 2041	AA-
CPF41DA: Bt6,000 million senior debentures due 2041	AA-
Up to Bt10,000 million senior debentures due within 2021	AA-
<b>Rating Outlook:</b>	Stable

### Financial Statistics and Key Financial Ratios\*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Mar 2013	2012	2011	2010	2009	2008
Sales and service revenues	87,424	357,175	206,099	189,049	165,063	156,238
Gross interest expense	1,818	6,283	2,422	1,773	1,859	2,458
Net income from operations	(738)	3,930	14,476	11,592	9,546	2,756
Funds from operations (FFO)	(942)	9,486	17,480	17,455	13,936	7,104
Total capital expenditures	4,636	20,182	10,288	6,460	4,218	5,258
Total assets	325,136	310,544	160,506	126,092	115,698	107,510
Total debt	162,117	146,203	69,449	46,649	42,797	47,482
Shareholders' equity	119,045	120,781	67,077	60,944	54,979	45,551
Operating income before depreciation and amortization as % of sales	2.10	4.30	9.43	8.89	9.45	4.96
Pretax return on permanent capital (%)	0.61 **	7.49	16.32	15.63	14.83	6.09
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	1.99	3.58	10.18	11.76	10.10	4.11
FFO/total debt (%)	(0.58) **	6.49	25.17	37.42	32.56	14.96
Total debt/capitalization (%)	57.66	54.76	50.87	43.36	43.77	51.04

\* Consolidated financial statements

\*\* Non-annualized

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