

CHAROEN POKPHAND FOODS PLC

No. 29/2013

26 April 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+

Rating Rationale

TRIS Rating affirms the company and current senior debenture 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 Bt6,000 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 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 farm products, exposure to disease outbreaks, and 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. Fully-integrated operations help its 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).

After the successful acquisition of C.P. Pokphand Co., Ltd. (CPP) in the first quarter of 2012, CPF's revenue became more geographically diverse. Based on geography, the operations in Thailand accounted for 45% of total revenue in 2012, down from 75% in 2011. China operations contributed 28% of total revenue, followed by operations in Vietnam (12%). 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 now the largest product segment, contributing about 56% of total revenue in 2012. Sales of commodity-like farm products contributed 32% of the company's total sales, down from 43% in 2011. Revenue from the sale of food products accounted for 12%, down from 19% in 2011.

CPF continues to strive to reduce the commodity-like nature of its products and stabilize operating cash flow. The company is enhancing its 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 many countries. Revenues from international operations are expected to rise to 63% of total sales by 2016, up from 55% in 2012.

In 2012, the livestock industry in Thailand hit a cyclical low. According to Thai Feed Mill Association, the average prices of poultry and swine products fell by 15%-20% compared with the average prices in 2011. The soybean meal, one of major feed costs, also rose noticeably by more than 30% in 2012. In addition, there was an early mortality syndrome (EMS) outbreak in farmed shrimp in Thailand. These factors cut CPF's gross margin to 11.6% in 2012, from 16.3% in 2011. CPF's operating profit in 2012 fell to Bt7,983 million, a 46% drop from 2011, despite a 73.3% year-one year (y-o-y) rise in sales after the consolidation with CPP. However, equity income from associated companies remained strong. CPF's earnings before interest, tax, depreciation, and amortization (EBITDA) declined by only 9% to Bt22,493 million in 2012, compared with Bt24,655 million in 2011.

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In addition, CPF has realized divestment gains worth Bt6,009 million in 2012 and recorded a gain on changes in fair value of investments in associated companies worth Bt8,673 million in the same year. Consequently, net profit remained healthy at Bt18,790 million in 2012, compared with Bt16,117 million in 2011. Cash flow protection weakened in 2012 because of rising leverage and weaker operation. The sizeable acquisition of CPP drove total debt higher in 2012. Total debt was Bt146,203 million as of December 2012, up from Bt69,449 million at the end of 2011. The EBITDA interest coverage ratio dropped to 3.6 times in 2012, compared with 10.2 times in 2011.

The Thai baht has remained strong against other currencies. However, it is expected to have a limited impact on CPF. CPF's operations are more diversified and protected by natural hedges. In 2012, CPF's exports accounted for 8.6% of total revenue in 2012, while its imported raw materials accounted for 7.9% of its total cost or about 7.0% of total revenue, leaving exposure of less than 2% of total revenue. CPF's geographically diverse sources of revenue partly alleviated the impact from the recent bird flu outbreak in China. Operations in China made up 28% of CPF's total revenue in 2012. China operation is centered mainly on the feed business, especially swine feed. Poultry feed accounted for 33% of CPF's total revenue in China. As a result, only 9% of CPF's consolidated revenue may be negatively affected from lower sales of poultry feed, given weaker chicken consumption in China as a result of the bird flu outbreak. Looking forward, despite the weak operation in the shrimp operations in Thailand and the poultry feed business in China, CPF's operations are expected to improve. Domestic meat prices in Thailand are recovering. The price of poultry during the first three months of 2013 hovered around Bt40 per kilogram (kg.), an increase of 12.6% from the average price in 2012. The swine price climbed to Bt62 per kg. during the first three months of 2013, a 15.0% increase from the average price in 2012. This should boost the profitability of the livestock business in Thailand.

CPF plans heavy capital expenditures of about Bt50,000 million during 2013-2015. Without concrete deleveraging plan, this budget could weaken its 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's diverse range of products and markets is expected to insulate the company from the cyclical nature of commodity-like farm products and disease epidemics.

Charoen Pokphand Foods PLC (CPF)

Company Rating:	AA-
Issue Ratings:	
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-
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 Bt6,000 million senior debentures due within 2018	AA-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Year Ended 31 December					
	20 12	2011	2010	2009	2008	2007
Sales and service revenues	357,175	206,099	189,049	165,063	156,238	134,809
Gross interest expense	6,283	2,422	1,773	1,859	2,458	2,347
Net income from operations	3,930	14,476	11,592	9,546	2,756	1,007
Funds from operations (FFO)	9,486	17,480	17,455	13,936	7,104	4,978
Total capital expenditures	20,182	10,288	6,460	4,218	5,258	6,500
Total assets	310,544	160,506	126,092	115,698	107,510	102,546
Total debt	146,203	69,449	46,649	42,797	47,482	44,278
Shareholder equity	120,781	67,077	60,944	54,979	45,551	44,215
Operating income before depreciation and amortization as % of sales	4.30	9.43	8.89	9.45	4.96	3.84
Pretax return on permanent capital (%)	7.49	16.32	15.63	14.83	6.09	4.15
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.58	10.18	11.76	10.10	4.11	3.30
FFO/total debt (%)	6.49	25.17	37.42	32.56	14.96	11.24
Total debt/capitalization (%)	54.76	50.87	43.36	43.77	51.04	50.04

* Consolidated financial statements

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