

CHAROEN POKPHAND FOODS PLC

Announcement no. 897

18 July 2012

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 current 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 Bt15,000 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 inherent volatility of farm products, exposure to disease outbreaks, rising grain costs, and changes in tariff imposed by importing countries.

CPF is the largest agribusiness and food conglomerate in Thailand. As of May 2012, Charoen Pokphand Group Co., Ltd. (CPG) and related companies held 49.93% 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).

On 8 March 2012, CPF and its subsidiary completed the acquisition of 76.13% of issued shares of C.P. Pokphand Co., Ltd. (CPP) for a total consideration of US\$2,174 million. CPP is listed on the Stock Exchange of Hong Kong. It is a leading animal feed producer in China and owns fully integrated operations of livestock and aquaculture in Vietnam. After the acquisition, the revenue base of CPF became more diversified geographically. For the first quarter of 2012, revenue from overseas operations accounted for one half of total revenue, up from one fourth in the past years. Its Thailand operations contributed 51% of total revenue, down from 75% in 2011. Animal feed is now the largest product segment, contributing about 52% of total revenue in the first quarter of 2012. Sales of commodity-like farm products contributed 35% of the company’s total sales, down from 43% in 2011. Revenue from sale of food products accounted for 13%, down from 19% in 2011. CPF is still striving to reduce the commodity-like nature of its products and stabilize operating cash flow by creating its own branded and value-added products and by 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 further expand its operations into many countries. Revenues from overseas operations are planned to rise to 63% of total sales by 2016 from 49% in the first quarter of 2012.

For the first three months of 2012, CPF’s sales was Bt73,480 million, a 60.6% rise from the same period of last year. This was mainly due to the consolidation of the operations in China and Vietnam after the CPP acquisition. However, since the severe flooding in Thailand during the last quarter of 2011, the domestic consumption of livestock products has remained low. In addition, the livestock market encountered the oversupply situation. As a result, prices of most livestock products, especially chicken, fell noticeably. CPF’s gross margin in the first quarter of 2012 shrank to 13.6% from 16.1% in the first quarter of 2011. Net profit, excluding gains due to the revaluation and sale of investments and foreign exchange, was moderate at Bt2,412 million, down by 17.8% from the first quarter

of 2011. However, earnings before interest, tax, depreciation, and amortization (EBITDA) grew by 23.1% year-on-year (y-o-y) to Bt6,344 million, thanks to the growing revenue base after acquisition. The EBITDA interest coverage ratio was acceptable at 5.0 times in the first quarter of 2012. The livestock prices have begun to recover since the second quarter of 2012. The action of EU to remove bans on imported frozen chicken products from Thailand since July 2012 will alleviate the current oversupply of poultry domestically. Prices for chicken and chicken products are expected to gradually recover, which should improve profitability of the company despite increasing pressure from rising corn and soybean prices. In 2012, CPF plans to have capital expenditures of about Bt16,000 million. This budget, including its overseas expansion, should keep the debt to capitalization ratio of CPF hovering around 50%, close to the level as of March 2012.

The EU has recently announced the new criteria for granting generalized system of preferences (GSP) for shrimp products. Thailand will be disqualified under these new GSP criteria. Under current GSP, Thai frozen shrimp faces 4.2% import tax while processed shrimp is levied at 7.0%. The tariff will be upward revised to 12% for frozen shrimp and 20% for processed shrimp from 1 January 2014 onwards. The end of current EU GSP privileges is expected to have limited direct impact on CPF's business since only 2% of CPF's total revenue comes from shrimp exports to the EU in 2011. CPF also plans to relocate production of some products from Thailand plants to other countries which are eligible for GSP privileges. However, the ending GSP privileges on Thai shrimp export may have a negative impact on shrimp farming and shrimp feed demand over the next few years.

Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that CPF will be able to maintain its leading position in the dynamic worldwide 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. TRIS Rating also expects the company to maintain the debt to capitalization ratio of approximately 50% while pursuing its growth strategy.

Charoen Pokphand Foods PLC (CPF)

Company Rating: AA-

Issue Ratings:

CPF120A: Bt2,500 million senior debentures due 2012	AA-
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-
CPF17NA: Bt5,000 million senior debentures due 2017	AA-
CPF188A: Bt3,000 million senior debentures due 2018	AA-
CPF218A: Bt3,000 million senior debentures due 2021	AA-
CPF418A: Bt4,000 million senior debentures due 2041	AA-
CPF41DA: Bt6,000 million senior debentures due 2041	AA-
CPF163A: Bt6,060 million senior debentures due 2016	AA-
Up to Bt15,000 million senior debentures due within 2032	AA-

Rating Outlook: Stable

KEY RATING CONSIDERATIONS

Strengths/Opportunities

- Leading position in Thailand's agribusiness and food industry
- Diverse range of products and markets
- Full vertical integration
- Focus on value-added products and overseas expansion

Weaknesses/Threats

- Inherent volatility of commodity prices
- Exposure to outbreaks of diseases
- Exposure to climate change and global warming
- Changes in regulations imposed by importing countries
- Rising grain costs

CORPORATE OVERVIEW

Founded in 1978, CPF is Thailand's largest agribusiness and food conglomerate. As of May 2012, CPG and related companies held 49.93% of CPF's shares. The company's business is divided into two categories, livestock and aquaculture, with three types of products: feed, farm, and food.

CPF has a market share of more than 50% in the shrimp feed market and approximately 40% share in the animal feed market in Thailand. Its fully-integrated operations help its products meet international standards, qualifying the company to export to the EU, Japan, and the US.

CPF started to invest overseas in 2002. CPF's revenue base and operations have expanded and now cover 12 countries. In the first quarter of 2012, overseas operations accounted for nearly half of total sales, compared with 25% of total sales in 2011. The dramatic rise came about because CPF acquired companies in China and Vietnam. The domestic sales and export sales from its Thailand operations were 42% and 9%, respectively, in the first quarter of 2012. Revenue from feed products contributed more than half, or about 52%, of total sales in the first quarter of 2012, thanks to the post-acquisition consolidation of feed operations in China and Vietnam. Contributions from farm products accounted for 35% of total sales in 2011, while food products accounted for 13%.

Within 2016, CPF aims to increase the contribution from its overseas operations to 63% of total sales. Domestic and export sales will account for 30% and 7%, respectively. In terms of its product segments, CPF will drive the contribution from the food segment to 20% of total sales while the feed and the farm segments will account for 50% and 30% of total sales. Once, CPF achieves its planned revenue structure, the change in the product mix will reduce the commodity price risk of its farm products.

Table 1: CPF's Revenue Breakdown

Unit: Bt million

Revenue	2008	2009	2010	2011	Jan-Mar 2012
Feed	57,040	60,973	74,107	79,160	38,264
Farm	68,672	71,658	80,522	87,827	25,456
Food	30,526	32,432	34,420	39,112	9,760
Total revenue	156,238	165,063	189,049	206,099	73,480
Proportion (%)					
Feed	37	37	39	38	52
Farm	43	43	43	43	35
Food	20	20	18	19	13
Total	100	100	100	100	100

Source: CPF

RECENT DEVELOPMENTS

Further expansion into China and Vietnam

On 8 March 2012, CPF and its subsidiary completed the purchase of 76.13% of issued shares of CPP from Orient Success International Ltd., Worth Access Trading Ltd., and CPI Holding Co., Ltd., which are related companies of Charoen Pokphand Group Co., Ltd. CPP is a leading animal feed producer in China and owns fully-integrated livestock and aquaculture operations in Vietnam. The investment costs US\$2,174 million (Bt66,307 million) in total. About 30% of the consideration was paid in form of CPF newly issued shares, while the remaining was paid by internal cash and bank loans.

Acquired Chester's Food Co., Ltd.

On 11 July 2012, CPF announced that it will purchase 99.99% of the outstanding shares of Chester's Food Co., Ltd. (Chester) from Charoen Pokphand International Co., Ltd., which is a related company in the Charoen Pokphand Group Co., Ltd. Chester operates more than 160 quick service restaurants in Thailand. The transaction will cost Bt450 million. The acquisition is expected to be completed in the third quarter of 2012. As of December 2011, Chester's assets totaled Bt280 million. The liabilities stood at Bt193 million and the shareholders' equity was Bt87 million. During 2011, it generated revenue of Bt827 million and net profit of Bt35 million.

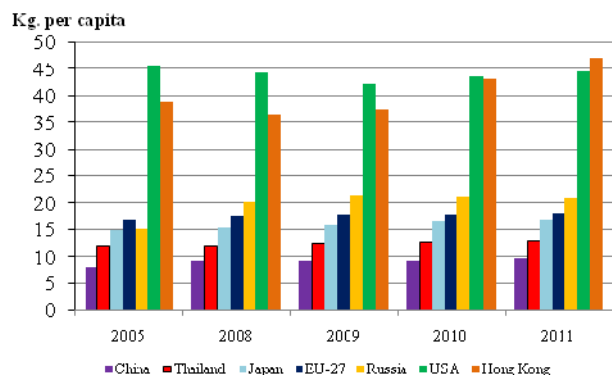
INDUSTRY ANALYSIS

Chicken Products:

Chicken products are a major source of meat protein. The relatively low cost of chicken meat makes it one of the most affordable foods. According to the United States Department of Agriculture (USDA), in 2011, Thais consumed an average of 128 kilograms (kg.) of chicken per person, up from 12.5 kg. per head per year in 2010. In other nations, for example, China, Japan, Hong Kong, plus the EU and the US, per capita consumption of chicken increased in 2011.

According to the USDA, since 2006, demand for chicken worldwide has grown by about 4% per year. In 2011, worldwide demand for chicken stood at about 80.0 million tonnes. Driven by rising consumption, demand for chicken worldwide was expected to top 81.3 million tonnes in 2012. The US, China, and Brazil consumed about a half, or 35-36 million tonnes, of the amount of chicken consumed worldwide.

Chart 1: Broiler Consumption Per Capita



Source: United States Department of Agriculture (USDA)

Chicken imports, that are the sum of the amount of chicken products imported by all nations, have also been rising, growing by 6.1% to 8.5 million tonnes in 2011. Imports are expected to reach 8.8 million tonnes in 2012. In recent years, Russia has been the largest chicken importer. However, in 2011, the amount of chicken imported to Russia dropped to only 0.5 million tonnes, a 23.8% drop from 2010. In 2012, Russian imports are expected to increase slightly, as the amount of tariff-rate quotas (TRQs) will increase to 510,000 tonnes. Other nations, such as Saudi Arabia, Iraq, United Arab Emirates (UAE), Mexico, and Hong Kong may also increase the amounts of chicken they import.

More than 60% of Thailand's broiler products are consumed domestically. According to figures from the Office of Agricultural Economics (OAE), Thailand produced 1,020.1 million chickens in 2011, a rise of 5.1% from the amount produced in the previous year. The OAE forecasts that chicken production in 2012 may increase slightly, rising by about 1.8% to 1,038.2 million chickens. The rise will be supported by the lifting of the EU import restriction currently in place on frozen chickens imported from Thailand. The lifting of the import restriction started in the second half of 2012.

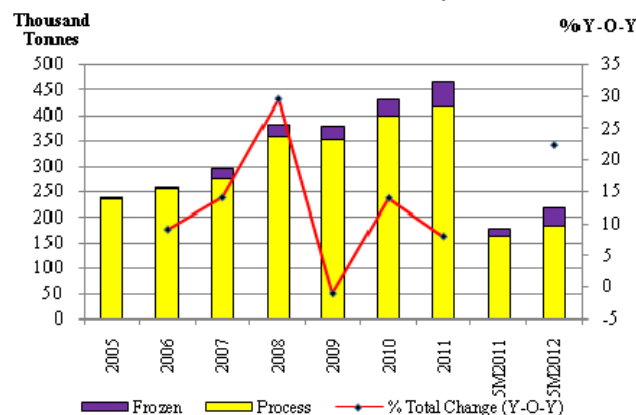
In 2011, Thailand exported 415,585 tonnes of processed chicken meat, equal to about 90% of total chicken exports, according to the Customs Department. The volume of Thai chicken exports in 2011 climbed to 466,830 tonnes, a jump of 8.0% compared with the 2010 exports. The increase in exports was driven by pent-up demand from Japan after the tsunami and strong demand from some European countries, such as the United Kingdom (UK) and Germany. Thailand's chicken exports continued to rise in 2012, climbing by 22.3% y-o-y to 218,308 tonnes in the first five months of 2012.

More than 40% of the total volume of exported chickens was sent to Japan, supported by the Japan-Thailand Economic Partnership Agreement (JTEPA). The

Agreement has been in effect since November 2007. Under the Agreement, in March 2012, the tariff rate for Thai processed chickens imported to Japan was lowered to 3.5% of the import value, compared with a tariff rate of 4% in April 2011. According to JTEPA, the import tariff rate in Japan will continue to fall, dropping to 3% from 1 April 2012 to 31 March 2013.

Thai chicken exporters have been awarded by the EU an annual import quota of 160,033 tonnes of processed chickens. On 3 April 2012, the EU Standing Committee on the Food Chain and Animal Health reached a consensus to reopen the imports of frozen chickens from Thailand, starting on 1 July 2012. The reopening of imports will allow Thai exporters to export a total of 264,245 tonnes of uncooked poultry meat. Of this amount, 92,610 tonnes would be salted meat. Under the frozen chicken quota, the import tariff is 15.4% of the import value, while the out-of-quota rate is 1,300 Euros per tonne.

Chart 2: Thailand's Broiler Exports



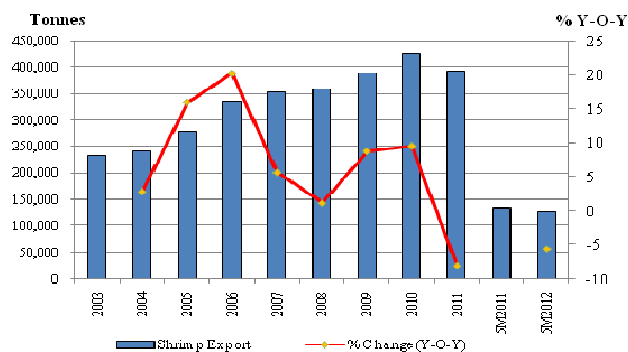
Sources: Office of Agricultural Economics (OAE)

Aquaculture:

Shrimp: Shrimp products are the top export earner among all Thai fishery products. Thailand exports more than three-fourths of the amount of shrimp its farmers produce. About 99% of all shrimp grown in Thailand is Vannamei shrimp.

The major export markets for Thai shrimp in 2011 were the US (45% of total shrimp export volume), followed by Japan (20%) and EU-27 (15%). The 2011 flood hit Thailand's shrimp exports. Shrimp exports dropped by 8.0% to 392,764 tonnes in 2011, and fell again by 5.5% y-o-y to 126,088 tonnes in the first five months of 2012. Thanks to higher shrimp prices in the world market, the value of shrimp exports in 2011 grew by 9.3% to over Bt110.2 billion but dropped slightly by 1.4% y-o-y to Bt35.2 billion in the first five months of 2012.

Chart 3: Thailand's Shrimp Exports



Source: Thai Customs Department

The new preliminary anti-dumping rate for shrimp exports to the US, in effect during 1 February 2010 to 31 January 2011, was announced on 5 May 2012. The rate was 1.48%. This latest rate paid by the Thai exporters is higher than the rate paid by exporters in Vietnam (1.03% of import value), but lower than the rate paid by the Indian exporters (2.51%). Despite the trade barriers, TRIS Rating believes that the Thai shrimp exporters still have a competitive advantage and should be able to maintain their leading position in the US market over the medium term, due to an established market presence and high product quality.

Table 2: Anti-Dumping Rates for Shrimp Exports to the US

Country	2010	2011	2012p
Enforcement period	1 Feb 08-31 Jan 09	1 Feb 09-31 Jan 10	1 Feb 10-31 Jan 11
India	2.67	1.69	2.51
Thailand	2.61	0.73	1.48
Vietnam	4.27	1.03	1.03

p = preliminary

Source: The Office of the Federal Register (OFR)

According to the EU restatement of the GSP issued in July 2012, nations classified as upper-middle income countries will be removed from the list of nations receiving GSP tariff privileges. Thailand is now included on the list of upper-middle income countries, as its current gross domestic product (GDP) per capita reached US\$5,394 in 2011. Currently, the EU is drafting a new GSP regulation. While the drafting process is underway, the EU extended the deadline for the tax privileges for the Thai shrimp exporters to the EU. The tax privileges will expire on 31 December 2013. If Thailand does not get the tax privileges, the import duty on frozen shrimp will rise to 12%, from the current rate of 4.2%, while the rate for processed shrimp

will rise to 20% from the current rate of 7%. Should these higher import duty rates take effect, TRIS Rating expects the new duty rates to have a significant effect on the Thai shrimp exporters.

BUSINESS ANALYSIS

CPF's strong business profile reflects its leading position in Thailand's agribusiness and food industry, its fully-integrated production process, and its market diversification. The move to China and Vietnam was in line with the growth and geographic diversification strategies of CPF. The ongoing efforts to develop distribution channels and promote the CP brand of its packaged food products should help alleviate the commodity price risk of its products over the long term.

▪ **Fully-integrated operations in both chicken and shrimp products**

Except for grandparent breeder stock, CPF's chicken production process is fully and vertically integrated. With its own feed production, animal breeding, in-house and contract farming, and meat processing plants, the company has a competitive advantage because it can control the quality and the costs in all production processes. CPF also has the flexibility to adjust the product mix.

Once it successfully developed its own white shrimp breeder, CPF's shrimp business became fully integrated. The traceability of shrimp products is a major competitive advantage in export markets, just as it is for chicken products.

▪ **Market leader in agricultural products**

CPF is the market leader across its many lines of businesses. In feed segments, the company's production share of the shrimp feed market is greater than 50%, and its market share for animal feed is approximately 40%. In the Thai poultry and swine industry, CPF's market shares are 20%-30% of domestic production. As one of the largest producers, CPF benefits significantly from economies of scale.

▪ **Market diversification**

In the first quarter of 2012, CPF completed its acquisition of a 76.13% of issued shares of CPP, which owns a feed business in China and owns a fully-integrated livestock and aquaculture producer in Vietnam. After the acquisitions, CPF became more geographically diverse. Overseas sales comprised 49% of total sales in the first

quarter of 2012, compared with 25% during 2010 and 2011. The contribution from Thailand operations declined to 51% of total revenue in the first quarter of 2012, from 75% in 2010-2011.

Table 3: CPF's Revenue Breakdown by Market

Unit: %

Market	2008	2009	2010	2011	Jan-Mar 2012
Thailand Operations					
- Domestic sales	68	66	60	61	42
- Export sales	16	15	14	14	9
Overseas Operations	16	19	26	25	49
Total	100	100	100	100	100
Sales (Bt mil.)	156,238	165,063	189,049	206,099	73,480

Source: CPF

Table 4: CPF's Revenue Breakdown by Country

Unit: %

Country	2008	2009	2010	2011	Jan-Mar 2012
Thailand	67.9	64.4	59.8	60.9	42.6
EU	18.5	17.4	16.5	14.5	9.6
Asia	11.4	16.1	21.9	22.7	46.5
USA	1.9	1.8	1.5	1.6	1.1
Others	0.3	0.3	0.3	0.3	0.2
Total	100	100	100	100	100

Source: CPF

In terms of destination, Thailand contributed only 42.6% of total sales in the first three months of 2012, down from 67.9% in 2008. The Asian region has become increasingly important, contributing 46.5% of total sales in the first quarter of 2012, compared with 11.4% in 2008. The EU and the US accounted for only 9.6% and 1.1% of total sales in the first three months of 2012, respectively. A larger spread across many nations will partly offset the cyclical nature of the livestock business. This will be an advantage for CPF, compared with peers in livestock industry.

▪ **Product diversification**

For Thailand operations, the company's product portfolio includes animal feed, poultry, shrimp, swine, and food products. In the first quarter of 2012, animal feed generated the largest revenue of Thailand operations, or about 19% of total sales. The second largest sales contribution came from branded food products (12%), and then by poultry (8%), swine (8%), and shrimp (4%). CPF's Thailand operation risk is mitigated through these product diversifications.

Table 5: CPF's Revenue Breakdown by Product

Unit: %

Product	2008	2009	2010	2011	Jan-Mar 2012
Sales (Bt mil.)	156,238	165,063	189,049	206,099	73,480
Sales growth (y-o-y)	16	6	15	9	61
Thailand Operations	84	81	74	75	51
- Animal feed	29	28	25	26	19
- Poultry	15	13	13	13	8
- Shrimp	7	7	7	6	4
- Swine	11	13	12	12	8
- Branded food products	20	19	17	17	12
- Others	2	1	0	0	0
Overseas Operations	16	19	26	25	49
Total	100	100	100	100	100

Revenue

Thailand Operations					
Feed	34	35	35	34	36
Farm	42	42	42	42	40
Food	24	23	23	24	24
Total	100	100	100	100	100

Source: CPF

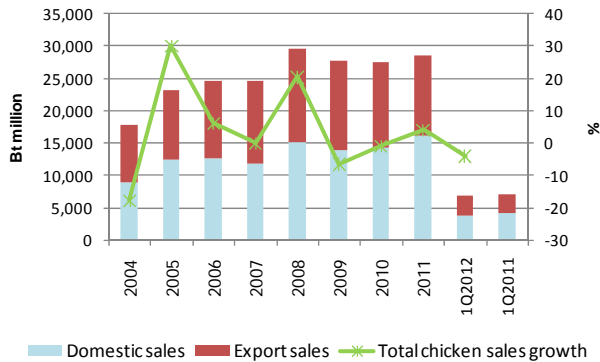
▪ **Industry downturn hit domestic meat operations in the first quarter of 2012**

In 2011, the domestic meat industry in Thailand enjoyed an upturn. Meat prices, both chicken and swine reached records by the middle of 2011. CPF's sales of chicken in the domestic market increased by 12.4% to Bt16,079 million in 2011. According to Thai Feed Mill Association, the average market price of broiler rose by 10.9% compared with 2010. The swine segment also showed satisfactory results. The sales of swine in the domestic market rose by 11.8% in 2011 from the 2010 level, while the average price of swine climbed by 11.4% during the same period.

However, the meat industry entered a down cycle in the first quarter of 2012, as a number of producers expanded their capacity. As a result, oversupplies of broiler and swine overwhelmed the industry. According to Thai Feed Mill Association, the average domestic price of broilers declined by 30.1% compared with the same period of the previous year, to Bt32.8/kg. in the first quarter of 2012. The average price of domestic swine plunged 10.7% compared with the same period of last year to Bt51.0/kg. The drop in the domestic broiler prices pulled down CPF's domestic sales of poultry by 10.8%, compared with the same period of the prior year. The poultry sales were Bt3,677 million in the first quarter of 2012. CPF's revenue from chicken exports decreased by 6.9% to Bt11,610

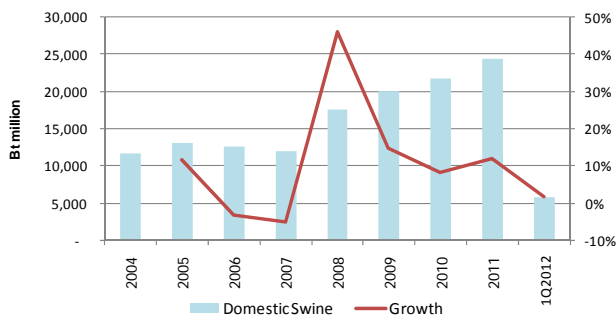
million in 2011 but grew by 3.0% y-o-y in the first quarter of 2012 to Bt2,826 million. CPF's market share of chicken exports declined to 19% in the first quarter of 2012 from more than 20% before 2008. Some producers have substantially increased their poultry production volumes in recent years.

Chart 4: CPF's Chicken Meat Sales (Thailand Operations)



Source: CPF

Chart 5: CPF's Domestic Swine Sales (Thailand Operations)



Source: CPF

For swine products, CPF's market share in the domestic swine market has gradually increased, rising from about 20% in 2005 to 28% in the first quarter of 2012. An increase in swine production kept CPF's total sales of domestic swine relatively flat at Bt5,795 million in the first quarter of 2012 despite the drop in average swine prices. CPF plans to focus more on the swine segment, which is expected to provide higher yields and is less volatile compared with the chicken segment.

▪ **Shrimp exports continued to increase in the first quarter of 2012**

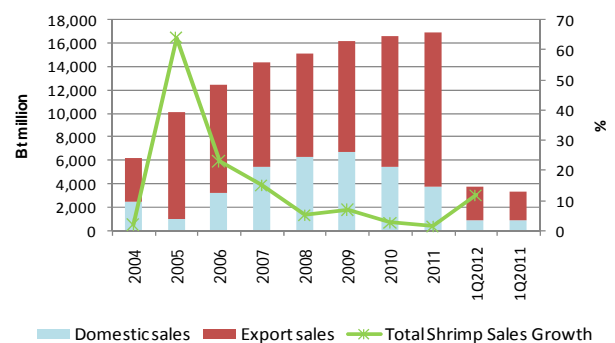
CPF's shrimp export volume was flat at 49,277 tonnes in 2011. This performance was considered satisfactory, compared with a y-o-y drop of 8.0% in overall shrimp export of Thailand in 2011 due to the flooding in the beginning of the year. CPF's export value grew by 16.9% to Bt13,155 million, due to a rise in shrimp prices. The rise in

shrimp prices came mainly from a global supply shortage, as other exporting countries still faced epidemics and the effects of climate change. Despite the robust growth in export sales, CPF's total shrimp sales from its Thailand operations grew by merely 1.6% in 2011, as the domestic sales of shrimp decreased from Bt5,858 million in 2010 to Bt4,204 million in 2011. In the first quarter of 2012, total shrimp sales from its Thailand operations increased by 12.5% y-o-y, underpinned by strong domestic sales and export sales. CPF's shrimp export value continued growing, rising by 13.6% y-o-y to Bt2,839 million, while domestic sales increased by 8.8% y-o-y to Bt991 million.

The US and Asian markets became more important in 2011. Shrimp sold to the US increased to 20% of CPF's total shrimp export sales in the first quarter of 2012, from 11% in 2010. The Asian market accounted for nearly half of CPF's total shrimp export sales in the first quarter of 2012, compared with 40% in 2010. Sales to the EU fell gradually as the economic crisis in the EU cut the demand for shrimp. CPF's sales to the EU market decreased gradually from 43% of CPF's shrimp export in 2010 to 37% in 2011 and 29% in the first quarter of 2012.

For the remainder of 2012, CPF's shrimp export is expected to be under the pressure of the drop in shrimp prices. Productions of competing countries, such as Indonesia, India, and countries in Latin America, are now increasing after shrimp disease epidemic problem is slowly being resolved. The EU released a restatement of the GSP in July 2012. The existing tax privileges for the Thai shrimp exporters to the EU will expire in December 2013. Thai shrimp exporters will be negatively affected from the higher import duty rates if they take effect.

Chart 6: CPF's Shrimp Sales (Thailand Operations)



Source: CPF

However, the end of EU GSP privileges is expected to have a limited direct effect on CPF's business. In 2011, only 2% of CPF's total revenue came from shrimp exports to the EU. CPF plans to relocate production of some products from plants in Thailand to other countries, which are eligible for GSP privileges. However, ending the GSP

privileges for Thai shrimp exports may have a negative impact on shrimp farming and demand for shrimp feed over the next few years.

▪ **Move towards value-added products under the “CP” brand**

Pursuing a long-term strategy of focusing on value-added products, CPF has partially insulated itself from the price fluctuations inherent in commodity-type products. CPF has adopted a one brand policy, using the “CP” brand for all of its packaged products, sold in Thailand or overseas.

Chart 7: CPF’s Sales of Food Products



Source: CPF

CPF’s strategy to focus on processed products is prudent, as it is a response to changing consumer preferences. This strategy also enables the company to avoid competition in the commodity-like markets of frozen and fresh products, and allows the company to charge a premium for its branded products. Disease outbreaks have confirmed the benefits of its rigid farming standards and CPF’s focus on value-added products. The company has also penetrated the US consumer market via processed shrimp products, which are not subject to the US anti-dumping policies.

In the first quarter of 2012, revenue from food products accounted for 13% of total sales. In order to reduce the commodity price risk, CPF aims to increase this contribution to 20% of total sales within 2016.

▪ **Expands its retail distribution network**

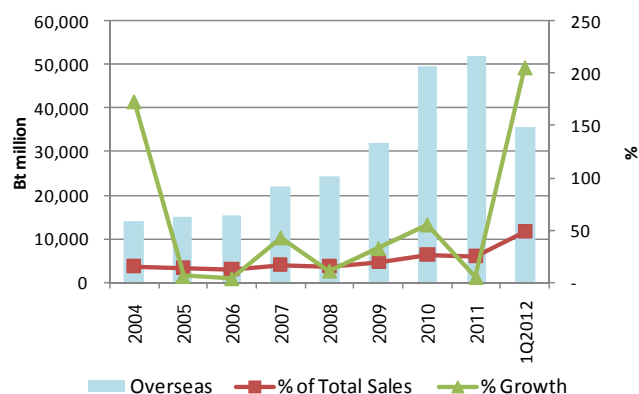
To support its strategy of focusing on branded food products, CPF created a retail distribution channel, CP Fresh Mart. The company had opened a total of 582 of CP Fresh Mart stores by the end of March 2012. In addition, CPF also expanded the number of Five-Star kiosks from 3,671 kiosks in 2010 to 4,746 kiosks at the end of the first quarter of 2012. Five-Star franchises include Five-Star grilled/fried chicken, Five-Star chicken rice, wonton noodle, and ready meals kiosks. Recently, it has launched a

new retail outlet, namely CP Food Market. Currently, CPF has two CP Food Market stores located in the central business district. In July 2012, it announced it would acquire Chester’s Food Co., Ltd., the operator of more than 160 Chester Grill fast food restaurants. The efforts to develop a self-owned distribution network will drive the sales of food products over the long term.

▪ **Still focuses on overseas expansion**

In addition to export markets, CPF plans to expand overseas operations in order to pursue growth opportunities and partially mitigate revenue and margin volatility. CPF has set a target to increase the contribution of revenue from its overseas operations to about 63% in 2016, from 25% in 2011. To achieve this target, CPF acquired 76.13% of issued shares of CPP at the beginning of 2012. CPP is the dominant feed producer in China and Vietnam, and is listed on the Hong Kong Stock Exchange. In China, CPP, under its recognized brand “Chia Tai”, is ranked the second largest firm in China’s feed industry. CPP’s operations in China consist of 78 feed mills, spread across 28 provinces and municipalities throughout China. CPP has an extensive national distribution network supported by more than 20,000 distributors. CPP’s operation in Vietnam is run by C.P. Vietnam Corporation (CPV). CPV is vertically-integrated, covering from feed, breeding, and farming, as well as processed and branded food. It is the market leader in commercial feed production and commercial farming. During the first quarter of 2012, the combined revenue of CPP’s operations in China and Vietnam was US\$1,097 million. It generated EBITDA of US\$73 million. As a result of the acquisition, overseas sales jumped to 49% of CPF’s total sales in the first quarter of 2012.

Chart 8: CPF’s Sales from Overseas Operations



Source: CPF

CPF’s future expansions will focus on its existing overseas operations in Russia, India, Vietnam, Philippines,

and Malaysia, and focus on new countries. The first step in the expansion plan for each country will be on the feed and breed businesses, which normally generate stable margins with less price volatility. CPF also wants to have a foothold in a retail food distribution network or in branded products in some countries. CPF has budgeted about Bt9,000 million, or 60% of total capital expenditure in 2012 for its overseas operations, excluding acquisitions. By diversifying its revenue sources into other countries, the market volatility of CPF's home country should be reduced. However, the successful integration of the increasingly far-flung operations and the ability to generate sustainable returns remain to be seen.

FINANCIAL ANALYSIS

CPF's financial profile is moderate. The debt to capitalization ratio ranged from 43% to 51% during the past five years. The volatile prices of farm products depressed CPF's profits in the first quarter of 2012. The low meat prices and rising grain costs will hurt profits in 2012, and this will lower cash flow protection. The debt to capitalization ratio will hover around 50% in the medium term due to the planned capital expenditures for CPF's domestic and overseas expansion efforts.

- **Soft domestic livestock performance depressed the operation in the first quarter of 2012**

Total sales of CPF continued rising in 2011. Sales were Bt206,099 million, up 9.0% from 2010. The gross profit margin remained high at 16.3%, thanks to the higher domestic meat prices during the year. However, the gross margin was lower than the margins of 17.3%-17.7% recorded in 2009 and 2010 because CPF had some difficulties in its operations in Turkey and Taiwan.

For the first three months of 2012, sales jumped to Bt73,480 million, up by 60.6% from the same period in 2011. The surge in sales was mainly the result of consolidating CPP after the acquisition. However, excluding CPP, CPF's sales still grew satisfactorily, climbing by 9.6% y-o-y. Despite the strong sales growth, CPF's gross margin contracted in the first quarter of 2012. The domestic prices of poultry and swine pushed down the gross margin of CPF's domestic livestock operation. However, CPF's diversified base of revenue and operations partly alleviate the impact of the weaker domestic livestock operation. Domestic aquaculture turned in a good performance and the operations in Turkey also improved. CPF's sales and margins were also buoyed by the consolidation of CPP. Overall, CPF's gross margin fell modestly from 16.1% in the first quarter of 2011 to 13.6% in the first quarter of 2012. The decline in gross margin was considered acceptable during a low cycle of the livestock industry. CPF's gross margin was better than

many peers in the livestock industry, as peers reported the falling margins by 5%-10% in the first quarter of 2012. The ratio of CPF's operating income before depreciation and amortization to sales declined to 6.7% for the first three months of 2012, from 8.9% in the same period of the prior year.

Table 6: Highlights of CPF's Financial Performance

Unit: Bt million

Performance	2008	2009	2010	2011	Jan-Mar 2011	Jan-Mar 2012
Sales	156,238	165,063	189,049	206,099	45,744	73,480
Gross profit	20,500	29,192	32,698	33,612	7,387	10,016
Gross margin (%)	13.1	17.7	17.3	16.3	16.1	13.6
Selling & admin.	17,309	18,232	20,683	18,919	4,470	6,749
EBIT	5,527	14,144	16,049	19,710	4,122	4,683
EBITDA	10,091	18,777	20,847	24,450	5,266	6,344
Interest	2,458	1,859	1,773	2,422	515	1,258
Net profit	3,128	10,190	13,563	15,837	3,677	12,113

Source: CPF

Looking forward, rising grain costs will be another challenge for poultry producers. The drought in the US, the major exporter of grains, has driven up soybean and corn prices since the second quarter of 2012. According to Thai Feed Mill Association, imported soybean average price jumped to Bt19/kg. in July 2012, compared with Bt13.58/kg. in 2011. The corn average price rose to Bt10.86/kg., compared with Bt9.70/kg. in 2011. However, a number of countries that import frozen chicken, including the EU and the Philippines, have gradually removed bans on imported frozen chicken products from Thailand beginning in the second quarter of 2012. If more countries, such as Korea and Japan, follow suit, the oversupply situation in the domestic market will ease. Prices for chicken and chicken products are expected to gradually rebound in 2013. This will let poultry producers pass through the rising grain costs to buyers.

- **Weaker cash flow protection due to sizeable acquisition**

CPF's funds from operations (FFO) to total debt ratio was abnormally high lately, ranging from 25% to 37% during 2009-2011 due to the strong domestic operations and limited capital expenditures. However, the FFO to total debt ratio dropped significantly to 2.21% (non-annualized) in the first quarter of 2012. On top of weaker operating performance in the first quarter of 2012, the sizeable acquisition of CPP by leverage funding was another factor depressing the cash flow protection. The acquisition caused total debt to increase to Bt118,644 million at the end of March 2012, from Bt69,449 million at the end of

2011. The EBITDA interest coverage ratio was moderate at 5.0 times in the first three months of 2012, but fell from more than 10 times in the upturn cycle in 2009-2011. The cash flow protection is expected to improve gradually in 2013.

▪ **Capital expenditures are focused on overseas expansion**

CPF's strategy is to grow through overseas expansion and more contribution from food products. To these ends, the company plans to spend approximately Bt16,000 million for capital expenditures in 2012. About 60% will go for overseas expansion while the remainder will be used in domestic operations. With EBITDA expected to be Bt25,000-Bt30,000 million annually during the next three

years, CPF should have sufficient operating cash flow to fund its investment plans.

▪ **Leverage level is expected to be moderate**

CPF's total debt increased to Bt118,644 million as of March 2012 from Bt69,449 million in 2011. However, CPF's equity base expanded as well. The equity base was enlarged because of an increase in paid-up capital from a share swap with CPP's shareholders, gains on the sale of the remaining treasury stock, and the revaluation of CPF's investments. As a result, the total debt to capitalization ratio remained under control at 50.4% as of March 2012, compared with 50.9% at the end of 2011. With the expected amounts of EBITDA, capital expenditures, and its current dividend policy, CPF should be able to maintain its target debt to equity ratio of less than one times in the medium term.

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Mar 20 12	2011	2010	2009	2008	2007
Sales and service revenues	73,480	206,099	189,049	165,063	156,238	134,809
Gross interest expense	1,258	2,422	1,773	1,859	2,458	2,347
Net income from operations	2,412	14,283	11,592	9,546	2,756	1,007
Funds from operations (FFOs)	2,622	17,599	17,455	13,936	7,104	4,978
Total capital expenditures	3,581	10,287	6,460	4,218	5,258	6,500
Total assets	276,691	160,506	126,092	115,698	107,510	102,546
Total debt	118,644	69,449	46,649	42,797	47,482	44,278
Shareholder equity	116,790	67,077	60,944	54,979	45,551	44,215
Operating income before depreciation and amortization as % of sales	6.71	9.43	8.89	9.45	4.96	3.84
Pretax return on permanent capital (%)	2.52 **	16.14	15.63	14.83	6.09	4.15
Earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage (times)	5.04	10.09	11.76	10.10	4.11	3.30
FFOs/total debt (%)	2.21 **	25.34	37.42	32.56	14.96	11.24
Total debt/capitalization (%)	50.39	50.87	43.36	43.77	51.04	50.04

* Consolidated financial statements

** Non-annualized

Rating Symbols and Definitions

TRIS Rating uses eight letter rating symbols for announcing medium- and long-term credit ratings. The ratings range from AAA, the highest rating, to D, the lowest rating. The medium- and long-term debt instrument covers the period of time from one year up. The definitions are:

- AAA** The highest rating, indicating a company or a debt instrument with smallest degree of credit risk. The company has extremely strong capacity to pay interest and repay principal on time, and is unlikely to be affected by adverse changes in business, economic or other external conditions.
- AA** The rating indicates a company or a debt instrument with a very low degree of credit risk. The company has very strong capacity to pay interest and repay principal on time, but is somewhat more susceptible to the adverse changes in business, economic, or other external conditions than AAA rating.
- A** The rating indicates a company or a debt instrument with a low credit risk. The company has strong capacity to pay interest and repay principal on time, but is more susceptible to adverse changes in business, economic or other external conditions than debt in higher-rated categories.
- BBB** The rating indicates a company or a debt instrument with moderate credit risk. The company has adequate capacity to pay interest and repay principal on time, but is more vulnerable to adverse changes in business, economic or other external conditions and is more likely to have a weakened capacity to pay interest and repay principal than debt in higher-rated categories.
- BB** The rating indicates a company or a debt instrument with a high credit risk. The company has less than moderate capacity to pay interest and repay principal on time, and can be significantly affected by adverse changes in business, economic or other external conditions, leading to inadequate capacity to pay interest and repay principal.
- B** The rating indicates a company or a debt instrument with a very high credit risk. The company has low capacity to pay interest and repay principal on time. Adverse changes in business, economic or other external conditions could lead to inability or unwillingness to pay interest and repay principal.
- C** The rating indicates a company or a debt instrument with the highest risk of default. The company has a significant inability to pay interest and repay principal on time, and is dependent upon favourable business, economic or other external conditions to meet its obligations.
- D** The rating for a company or a debt instrument for which payment is in default.

The ratings from AA to C may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within a rating category.

TRIS Rating's short-term ratings focus entirely on the likelihood of default and do not focus on recovery in the event of default. Each of TRIS Rating's short-term debt instrument covers the period of not more than one year. The symbols and definitions for short-term ratings are as follows:

- T1** Issuer has strong market position, wide margin of financial protection, appropriate liquidity and other measures of superior investor protection. Issuer designated with a "+" has a higher degree of these protections.
- T2** Issuer has secure market position, sound financial fundamentals and satisfactory ability to repay short-term obligations.
- T3** Issuer has acceptable capacity for meeting its short-term obligations.
- T4** Issuer has weak capacity for meeting its short-term obligations.
- D** The rating for an issuer for which payment is in default.

All ratings assigned by TRIS Rating are local currency ratings; they reflect the Thai issuers' ability to service their debt obligations, excluding the risk of convertibility of the Thai baht payments into foreign currencies.

TRIS Rating differentiates a "structured finance product" from other debt instruments by attaching the "(sf)" identifier next to the original letter rating symbol. The "(sf)" identifier is assigned to all debt instruments that are deemed to meet the definition of a "structured finance product" defined by the Securities and Exchange Commission (SEC). The addition of this subscript to the rating symbol does not change the definition of the letter rating symbols mentioned above.

TRIS Rating also assigns a "Rating Outlook" that reflects the potential direction of a credit rating over the medium to long term. In formulating the outlook, TRIS Rating will consider the prospects for the rated company's industry, as well as business conditions that might have an impact on the fundamental creditworthiness of the company. The rating outlook will be announced in conjunction with the credit rating. In most cases, the outlook of each debt obligation is equal to the outlook assigned to the issuer or the obligor. The categories for "Rating Outlook" are as followed:

- Positive** The rating may be raised.
- Stable** The rating is not likely to change.
- Negative** The rating may be lowered.
- Developing** The rating may be raised, lowered, or remain unchanged.

TRIS Rating may announce a "CreditAlert" as a part of its monitoring process of a publicly announced credit rating when there is a significant event that TRIS Rating considers to potentially exerting a substantial impact on business or financial profiles of the rated entity. Due to an insufficient data or incomplete developments of the event, such as merger, new investment, capital restructuring, and etc., current credit rating remains unchanged. The announcement aims to forewarn investors to take a more cautious stance in investment decision against debt instruments of the rated entity. CreditAlert report consists of a "Rational" indicating warning reasons, a "CreditAlert Designation", and a current credit rating. Rating Outlook is withheld in the announcement.

CreditAlert Designation illustrates a short-term rating outlook indicative of the characteristics of impacts on the credit rating in one of the three directions (1) *Positive* (2) *Negative* and (3) *Developing*.

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