

CHAROEN POKPHAND FOODS PLC

No. 15/2012

14 March 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+

Contacts:

Rungrat Suntornpagasit
rungrat@trisrating.com

Chanaporn Pinphithak
chanaporn@tris.co.th

Kanokporn Nitnitiphрут
kanokporn@tris.co.th

Wiyada Pratoomsuwan, CFA
wiyada@tris.co.th

WWW. TRISRATING.COM

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 Bt6,500 million in senior debentures. The proceeds from the new debentures will be used to repay CPF's debt and for planned capital expenditures. The ratings reflect the company's leading position in Thai agribusiness and food industry, its product and market diversification, a successful strategic shift towards branded food products, its overseas expansion efforts, and strengthened operating performance. The ratings also take into consideration CPF's relatively low operating profit margins, the inherent volatility of commodity products, and exposure to climate change.

CPF is the largest agribusiness and food conglomerate in Thailand. As of 21 December 2011, Charoen Pokphand Group Co., Ltd. (CPG) and related companies held 42.15% of CPF's shares. The company's business is divided into two major categories, livestock and aquaculture, each of which 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 countries, and the United States (US).

For 2011, revenue from the sale of farm products contributed 43% of the company's total sales, followed by animal feed (38%), and food products (19%). To reduce the commodity-like nature of its products and stabilize operating cash flow, CPF focuses on creating its own branded and value-added 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 2015, while reducing the proportion of sales from its commodity-like farm products. In addition to diversifying its product lines, the company aims to expand its operations into many countries. Revenue from overseas operations is planned to rise to 63% of total sales by 2015, compared with 25% in 2011. On 8 March 2012, CPF and its subsidiary acquired 74.18% in 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 fully integrated operator of livestock and aquaculture in Vietnam. Revenue from overseas operations will increase from 25% of total sales in 2011 to more than 50% after the acquisition. In terms of product segment, revenue from the sale of feed products will jump to almost 55% of the company's total sales, followed by farm products, and food products.

CPF's operating performance in 2011 was strong. Sales grew to Bt206,099 million, up by 9.0% from 2010. The gross margin for 2011 was considered healthy at 16.3% even though the massive flooding in Thailand pushed down the meat

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.

CreditUpdates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

prices in the fourth quarter of 2011. In 2011, earnings before interest, tax, depreciation and amortization (EBITDA) grew 17.3% to Bt24,450 million. Net profit, excluding gains on the sale of investments and foreign exchange, was favorable at Bt14,283 million, rising by 23.2% from 2010, due mainly to relatively high meat prices and efficient cost control. As of December 2011, CPF's total debt to capitalization ratio jumped to 51.1% from 43.4% in 2010 due to the pre-funding for CPP acquisition. Nevertheless, the total debt to capitalization ratio is expected to improve after the full realization of CPP's contribution.

Rating Outlook

The "stable" outlook reflects the expectation of TRIS Rating that CPF will be able to maintain its leading position in the dynamic global food market. The company's diverse range of products and markets, along with economies of scale, are expected to help improve credit protection and stabilize profits. The focus on food products should offset the fluctuations in the prices of its commodity-like farm products.

Charoen Pokphand Foods PLC (CPF)

Company Rating:	AA-
Issue Ratings:	
CPF12OA: 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-
Up to Bt6,500 million senior debentures due within 2016	AA-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Year Ended 31 December					
	2011	2010	2009	2008	2007	2006
Sales and service revenues	206,099	189,049	165,063	156,238	134,809	124,931
Gross interest expense	2,422	1,773	1,859	2,458	2,347	1,953
Net income from operations	14,283	11,592	9,546	2,756	1,007	2,016
Funds from operations (FFO)	17,599	17,455	13,936	7,104	4,689	5,803
Total capital expenditures	10,287	6,460	4,218	5,258	6,500	8,377
Total assets	159,904	126,320	115,698	107,510	102,546	95,735
Total debt	69,449	46,649	42,797	47,482	44,278	40,218
Shareholder equity	66,519	61,103	54,979	45,551	44,215	42,680
Operating income before depreciation and amortization as % of sales	9.43	8.89	9.45	4.96	3.84	4.81
Pretax return on permanent capital (%)	16.19	15.62	14.83	6.09	4.15	5.43
Earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage (times)	10.09	11.76	10.10	4.11	3.30	4.13
FFO/total debt (%)	25.34	37.42	32.56	14.96	10.59	14.43
Total debt/capitalization (%)	51.08	43.36	43.77	51.04	50.04	48.51

* Consolidated financial statements

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*.

TRIS Rating Co., Ltd.

Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

© Copyright 2012, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at http://www.trisrating.com/en/rating_information/rating_criteria.html.