

CHAROEN POKPHAND FOODS PLC

No. 33/2011

25 July 2011

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 Bt10,000 million in senior debentures. The proceeds from the new debentures will be used to refinance maturing debentures and to fund the company's planned capital expenditures. The ratings reflect the company's leading position in the Thai agribusiness and food industry, plus its product and market diversification efforts, successful strategic shift towards branded food products, overseas expansion efforts, and strengthened operating performance. The ratings also take into consideration CPF's relatively low operating profit margins, as well as volatile commodity prices, and exposure to climate change.

CPF is the largest agribusiness and food conglomerate in Thailand and is the flagship company of the CP Group. As of March 2011, Charoen Pokphand Group Co., Ltd. (CPG) and related companies held 42.14% 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 the first three months of 2011, revenue from farm products contributed 45% of the company's total sales, followed by animal feed (36%), and food products (19%). To reduce the commodity-like nature of its products and stabilize cash flow, CPF focuses on building 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 one-third of total sales from Thailand operations and to 10% of total overseas sales by 2014, while reducing the proportion of sales from its commodity-like farm products. In addition to diversifying its product lines, the company has continued to expand to many countries, as overseas operations can provide more growth opportunities than its Thailand operations. The contribution from overseas operations increased from 19% of total sales in 2009 to 26% in 2010. The rise largely came from operations in Taiwan, India and Malaysia. CPF plans to increase the contribution from overseas operations to 40% in 2014.

CPF's financial profile remains healthy. For the first three months of 2011, sales grew continuously to Bt45,744 million, up by 4.9% from the same period in 2010. However, the company's gross margin dropped to 16.1% for the first three months of 2011, down from the unusually high margin of 17.3% in 2010. Net profit, excluding gains on sale of investments, was favorable at Bt2,786 million, despite a drop of 13.6% from the same period in 2010, due mainly to the relatively high grain costs and losses in its operations in Turkey. Looking forward, grain costs continue to remain high. To manage its raw material costs in 2011, CPF has stocked up on major raw materials and purchased forward agreements. Both livestock and shrimp farms had been affected by the flooding in the southern

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region of Thailand during early 2011; hence domestic meat prices are expected to remain high in 2011. The operating performance for the remainder of 2011 should remain strong from the good management of raw material costs, production process efficiency, and the expected high domestic prices in most products. During 2011-2013, the company's expansion plan will require Bt8,000-Bt10,000 million in capital expenditures annually to invest in creating more value-added products, expanding its distribution channels, and expanding overseas. As earnings before interest, tax, depreciation, and amortization (EBITDA) are expected to reach Bt15,000-Bt20,000 million per year, these capital expenditures should be able to be financed mainly by operating cash flow. As of March 2011, CPF's total debt to capitalization ratio was healthy at 44.34%.

Rating Outlook

The "stable" outlook reflects the expectation that the company 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:	
CPF118A: Bt3,000 million senior debentures due 2011	AA-
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-
Up to Bt10,000 million senior debentures due within 2041	AA-
Rating Outlook:	Stable

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