

CHAROEN POKPHAND FOODS PLC

Announcement no. 788

19 May 2011

Company Rating: AA-
Outlook: Stable
New Issue Rating: -

Rating History:

Date	Company	Issue (Secured/Unsecured)
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 upgrades the company and issue ratings of Charoen Pokphand Foods PLC (CPF) to “AA-” from “A+”. The upgrades reflect the company’s successful strategic shift towards branded food products, its overseas expansion efforts and its strengthened operating performance, as proven by growth in sales and net profit during the past three years. The ratings also reflect the company’s leading position in the Thai agribusiness and food industry, its product and market diversification, increasing penetration into food segment with CP brand products, and reduced costs through operational improvements. The ratings also take into consideration the relatively low operating profit margins, 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).

In 2010, revenue from farm products contributed 43% of total sales, followed by animal feed (39%), and food products (18%). 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 distributional 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 in 2014, while reducing the proportion of sales from the commodity-oriented farm products. In addition to product diversification, the company has increasingly expanded its operations to many countries, as overseas operations provided more growth opportunities than 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. Sales grew by 14.5% to Bt189,049 million in 2010, due mainly to contributions from the operations in Taiwan which were acquired in late 2009. The company’s gross margin remained high at 17.3% in 2010, though down slightly from 17.7% in 2009. Net profit increased by 33.1% to Bt13,563 million in 2010. The rise in profit in 2010 came mainly from the ability to manage raw material costs, while product prices increased from supply shortages, and an improvement in the aquaculture businesses in both domestic and overseas markets. 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, net profit, excluding gain on sale of investments, dropped to Bt2,786 million, down by 13.6% from the same period in 2010, due mainly to the relatively lower domestic meat prices and the losses in Turkey operations. Looking forward, grain costs continue to remain high. To manage the 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 flood in the South during early 2011; hence, domestic meat prices are expected to remain high in 2011.

During 2011-2013, the company's expansion plan will require Bt8,000-Bt10,000 million in capital expenditures annually to invest in value-added products, distribution channels, and overseas operations. With the expected earnings before interest, tax, depreciation and amortization (EBITDA) of Bt15,000-Bt20,000 million per year, these capital expenditures should be financed mainly by operating cash flow. As of March 2011, CPF's total debt to capitalization ratio slightly increased to 44.34%, up from 43.29% in 2010.

Rating Outlook

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

Charoen Pokphand Foods PLC (CPF)

Company Rating:	AA-
Issue Ratings:	
CPF117A: Bt3,800 million senior debentures due 2011	AA-
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-
Rating Outlook:	Stable

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