

Charoen Pokphand Foods Public Company Limited

Company Rating:	A+
Issue Ratings:	
CPF100A: Bt3,500 million senior debentures due 2010	A+
CPF117A: Bt3,800 million senior debentures due 2011	A+
CPF118A: Bt3,000 million senior debentures due 2011	A+
CPF120A: Bt2,500 million senior debentures due 2012	A+
CPF138A: Bt3,000 million senior debentures due 2013	A+
CPF13NA: Bt2,200 million senior debentures due 2013	A+
CPF14NA: Bt3,200 million senior debentures due 2014	A+
CPF15NA: Bt3,000 million senior debentures due 2015	A+
Up to Bt8,000 million senior debentures due within 2017	A+
Rating Outlook:	Positive

Rating History:	Company Rating	Issue Rating	
		Secured	Unsecured
30 Apr 2010	A+/Positive	-	A+
22 Jun 2006	A+/Stable	-	A+
20 May 2005	A/Positive	-	A
12 Jul 2004	A/Stable	-	A
28 May 2004	A	-	A
1 Mar 2001	A+	-	A+

Rating Rationale

TRIS Rating affirms the company and issue ratings of Charoen Pokphand Foods PLC (CPF) at “A+”. At the same time, TRIS Rating assigns the rating of “A+” to CPF’s proposed issue of up to Bt8,000 million in senior debentures. The ratings reflect the company’s leading position in the Thai agribusiness and food industry, its product and market diversification, increasing penetration in the packaged 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 disease outbreaks.

CPF is the largest agribusiness and food company, representing the flagship company of the CP Group in Thailand. As of August 2010, Charoen Pokphand Group Co., Ltd. (CPG) and related companies held 40.81% 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 six months of 2010, revenue from farm products contributed 44% of total sales, followed by animal feed (39%), and food products (17%). To reduce the commodity-like nature of its products and stabilize cash flow, CPF continues to focus on building branded and value-added products and developing distribution channels for both the domestic and export markets. CPF aims to increase the contribution

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from food products to one-third of total sales within five years, 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. The contribution from overseas operations increased from 19% of total sales in 2009 to 26% for the first six months of 2010, mainly from operations in Turkey, Taiwan, and India.

CPF's financial profile remains healthy. For the first six months of 2010, sales grew to Bt91,471 million, up by 21.3% from the same period of 2009, due mainly to contributions from the operations in Taiwan, acquired in late 2009. Net profit increased by 82.3% to Bt7,227 million for the first six months of 2010. The company's gross margin remained high at 18.9% for the first six months of 2010, compared with 17.7% for 2009. The rise in the gross margin was mainly due to shortages in the supply of domestic meat, which pushed domestic prices higher, and an improvement in the aquaculture businesses in both domestic and overseas markets. Profitability also strengthened due to better control of expenses by improving the cash conversion cycle. Although grain costs increased in early 2010, CPF already purchased forward agreements for most of its major raw materials. Prices are locked in until October 2010. During 2011-2013, the company's development plan will require Bt6,000-Bt8,000 million in capital expenditures annually to invest in value-added products, distribution channels, and overseas operations. The proceeds from the new debentures will be used to repay its maturing debentures and for business expansion. As of June 2010, CPF's total debt was Bt40,441 million and the total debt to capitalization ratio stood at 41.21%.

Rating Outlook

The "positive" outlook reflects the development of CPF's business structure towards branded and value-added products plus overseas expansion. The focus on value-added products should offset the fluctuations in commodity prices, while the diverse range of products and markets as well as economies of scale are expected to help improve credit protection and stabilize profits of CPF.

For subscription information, contact

TRIS Rating Co., Ltd., Office of the President, Tel: 0-2231-3011 ext 500

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand, www.trisrating.com

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