

CPF (THAILAND) PLC

No. 112/2015

4 November 2015

Company Rating: A+

Outlook: Stable

Rating Rationale

TRIS Rating assigns the company rating of "A+" to CPF (Thailand) PLC (CPFTH). The rating reflects the company's status as a "core" subsidiary of Charoen Pokphand Foods PLC (CPF; "A+/Stable"), the largest agribusiness and food conglomerate in Thailand. CPFTH is a wholly-owned subsidiary of CPF. CPFTH has engaged in fully integrated livestock operation in Thailand and generates one thirds of total revenues and earnings before interest, taxes, depreciation, and amortization (EBITDA) for CPF. The rating takes into consideration its high degree of operational integration with CPF and support receives from CPF.

CPFTH, a 99.98%-owned subsidiary of CPF, was established in February 2012 through the amalgamation of 10 subsidiaries of CPF. The ten subsidiaries were all engaged in the livestock business in Thailand. CPFTH is a fully integrated producer of livestock products, covering animal feed, breeder stock, live animal, fresh meat, and food products. CPFTH is the market leader in livestock business in Thailand, with a market share of about one-third in the animal feed market. For the poultry and swine industry, CPFTH's combined market share accounts for about one-fourth of domestic production in Thailand. CPFTH's business is divided into three segments comprising feed, farm, and food. In 2014, revenue from the farm segment contributed 50% of CPFTH's total revenues, followed by animal feed (29%), and food products (21%). About 90% of CPFTH's products are sold in Thailand. CPFTH's distribution channels as of August 2015 included 5,156 kiosks of Five-Star chicken, 572 CP Fresh Mart shops, and five stores under the CP Food World brand. About 10% of CPFTH's products were exported indirectly through CP Merchandising Co., Ltd., another subsidiary of CPF.

CPFTH is considered a core subsidiary of CPF to operate a whole chain of livestock business in Thailand for CPF. In 2014, CPFTH contributed about 31% of CPF's total revenues and about 36% of CPF's EBITDA. CPFTH's business direction is fully controlled by CPF's management. CPF also provided financial support to CPFTH in the form of shareholder's loans worth Bt20,000 million as of June 2015.

CPFTH's performance was in line with most livestock producers in Thailand. It recorded a good operating performance in 2014 as a result of favorable prices for livestock in Thailand. CPFTH's total revenues increased by 6.8% year-on-year (y-o-y) to Bt133,817 million in 2014. The operating profit margin before depreciation and amortization improved from 5.2% in 2013 to 7.5% in 2014. CPFTH's EBITDA significantly improved from Bt7,414 million in 2013 to Bt11,251 million in 2014. The livestock business entered the down cycle in the first half of 2015. Both poultry and swine prices slumped due to an oversupply in the industry. According to the Thai Feed Mill Association, the average price of poultry declined by 13% y-o-y to Bt35.70 per kilogram (kg.) during the first half of 2015. The average price of fattener also dropped, slipping by 19% y-o-y to Bt60.40 per kg. As a result, CPFTH's operating margin fell as the prices of livestock products, both poultry and swine, deteriorated. During the first six months of 2015, CPFTH's total revenue dropped by 5% y-o-y to Bt63,071 million. The operating profit margin before depreciation and amortization fell from a high of 7.5% in 2014 to 2.2% during the first half of 2015. EBITDA also fell, sliding from Bt6,618 million during the first half of 2014 to Bt1,875 million during the first half of 2015.

As its operating profits fell, CPFTH's leverage increased. Total debt increased from Bt26,619 million at the end of 2014 to Bt31,340 million as of June 2015.

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About two-thirds of CPFTH's total debt is owed to CPF. The total debt to capitalization ratio weakened to 60.7% at the end of June 2015 from 56.9% at the end of 2014. The FFO to total debt ratio declined from 34.1% in 2014 to 17.1% (annualized, from the trailing 12 months) for the first half of 2015. For the remainder of the year, CPFTH's performance is expected to improve as swine prices rebound and its feed costs remain manageable. Moreover, demand for poultry in export markets is expected to remain strong. Several nations recently lifted import bans on Thai frozen chicken meat. The recent depreciation of Thai baht may help boost export demand.

Rating Outlook

The "stable" outlook is based on the expectation that CPFTH will remain a core subsidiary of CPF to operate a whole chain of livestock operation of the CPF Group in Thailand. A rating of CPFTH will align with CPF's credit profile. Any change in CPF's credit rating will affect CPFTH accordingly.

CPF (Thailand) PLC (CPFTH)

| | |
|------------------------|--------|
| Company Rating: | A+ |
| Rating Outlook: | Stable |

Financial Statistics and Key Financial Ratios* CPF (Thailand) PLC (CPFTH)

Unit: Bt million

| | Jan-Jun 2015 | ----- Year Ended 31 December ----- | | |
|--|-----------------|------------------------------------|---------|---------|
| | | 2014 | 2013 | 2012 |
| Sales and service revenues | 63,071 | 133,817 | 125,255 | 93,620 |
| Gross interest expense | 596 | 1,360 | 1,789 | 1,370 |
| Net income from operations | 24 | 6,441 | 2,916 | (2,132) |
| Funds from operations (FFO) | 1,358 | 9,070 | 5,385 | (484) |
| Total capital expenditures | 2,419 | 4,671 | 4,065 | 2,467 |
| Total assets | 75,016 | 72,629 | 71,992 | 70,407 |
| Total debt | 31,340 | 26,619 | 31,280 | 33,246 |
| Shareholders' equity | 20,264 | 20,174 | 21,796 | 21,309 |
| Operating income before depreciation and amortization as % of sales | 2.16 | 7.50 | 5.21 | (0.13) |
| Pretax return on permanent capital (%) | 8.31 ** | 17.93 | 9.65 | (1.34) |
| Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times) | 3.14 | 8.27 | 4.15 | 0.70 |
| FFO/total debt (%) | 17.12 ** | 34.07 | 17.22 | (1.46) |
| Total debt/capitalization (%) | 60.73 | 56.89 | 58.93 | 60.94 |

* Separated financial statements

** Annualized with trailing 12 months

Financial Statistics and Key Financial Ratios*
Charoen Pokphand Foods PLC (CPF)

Unit: Bt million

| | ----- Year Ended 31 December ----- | | | | | |
|--|------------------------------------|---------|---------|---------|---------|---------|
| | Jan-Jun 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
| Sales and service revenues | 199,902 | 426,039 | 389,251 | 357,175 | 206,099 | 189,049 |
| Gross interest expense | 4,107 | 8,241 | 7,568 | 6,283 | 2,422 | 1,773 |
| Net income from operations | (105) | 5,914 | (1,458) | 3,930 | 14,476 | 11,592 |
| Funds from operations (FFO) | 8,155 | 18,269 | 8,027 | 9,486 | 17,480 | 17,455 |
| Total capital expenditures | 12,622 | 25,727 | 23,252 | 20,182 | 10,288 | 6,460 |
| Total assets | 432,582 | 416,764 | 365,003 | 310,544 | 160,506 | 126,092 |
| Total debt | 212,229 | 195,929 | 186,405 | 146,203 | 69,449 | 46,649 |
| Shareholders' equity | 167,328 | 163,966 | 129,573 | 120,781 | 67,077 | 60,944 |
| Operating income before depreciation and amortization as % of sales | 4.53 | 5.58 | 2.59 | 4.30 | 9.43 | 8.89 |
| Pretax return on permanent capital (%) | 4.88** | 6.35 | 2.94 | 7.49 | 16.32 | 15.63 |
| Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times) | 3.13 | 3.81 | 2.26 | 3.58 | 10.18 | 11.76 |
| FFO/total debt (%) | 8.43** | 9.32 | 4.31 | 6.49 | 25.17 | 37.42 |
| Total debt/capitalization (%) | 55.91 | 54.44 | 58.99 | 54.76 | 50.87 | 43.36 |

* Consolidated financial statements

** Annualized with trailing 12 months

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