

CPF (THAILAND) PLC

No. 27/2016

31 March 2016

Company Rating:	A+
Issue Rating:	
Senior unsecured	A+
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
04/11/15	A+	Stable

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Rating Rationale

TRIS Rating affirms the company and senior unsecured debenture ratings of CPF (Thailand) PLC (CPFTH) at “A+”. The ratings continue to reflect CPFTH’s status as a “core” subsidiary of Charoen Pokphand Foods PLC (CPF; “A+/Stable”), the largest agribusiness and food conglomerate in Thailand. The ratings take into consideration the high degree of operational integration CPFTH has with CPF and support it receives from CPF.

CPFTH, a 99.98%-owned subsidiary of CPF, was established in February 2012 through the amalgamation of 10 subsidiaries of CPF, engaging in the livestock business in Thailand. CPFTH is a fully integrated producer of livestock products, covering animal feed, breeder stock, live animals, fresh meat, and food products. CPFTH is the market leader in the livestock business in Thailand, with a market share of about one-third in the animal feed market. CPFTH’s combined market share in the poultry and swine industries accounts for about one-fourth of production of poultry and swine in Thailand. CPFTH’s business is divided into three segments: feed, farm, and food. In 2015, the farm segment was the largest, accounting for 47% of total revenues, followed by animal feed (28%), and food products (25%). About 85% of CPFTH’s products are sold in Thailand. CPFTH’s distribution channels at the end of 2015 included 5,010 kiosks of Five-Star chicken, 426 CP Fresh Mart shops, and about 13 stores under the CP Fresh Mart Plus, CP Kitchen, and CP Food World brands. About 15% of CPFTH’s products were exported indirectly through CP Merchandising Co., Ltd., another subsidiary of CPF.

CPFTH is considered a core subsidiary of CPF as it is responsible for the entire livestock business in Thailand. In 2015, CPFTH contributed about 32% of CPF’s total revenues and about 21% of CPF’s earnings before interest, taxes, depreciation, and amortization (EBITDA). CPFTH’s business direction is fully controlled by CPF’s management.

CPFTH reported a high profit in 2014, but its operating performance plunged in 2015 on the back of oversupply conditions in the livestock industry in Thailand. Significant drops in livestock prices hurt CPFTH’s revenue and profit margin. Total revenues declined by 3.4% year-on-year (y-o-y) to Bt135,975 million in 2015. The operating margin before depreciation and amortization weakened from a high of 7.6% in 2014 to 3.8% in 2015. Earnings before interest, tax, depreciation, and amortization (EBITDA) were Bt6,220 million in 2015, down 46.5% from Bt11,626 million in 2014.

CPFTH’s leverage remains high. Total debt increased from Bt26,619 million at the end of 2014 to Bt33,626 million as of December 2015 due to weaker operating results and ongoing capital expenditures. The total debt to capitalization ratio was 62.5% in 2015, deteriorating from 55.4% at the end of 2014. Cash flow protection declined in 2015 from a peak in 2014, but closed to the 2013 level. The EBITDA interest coverage ratio was 3.9 times in 2015, compared with 8.5 times in 2014 and 4.2 times in 2013. The funds from operations (FFO) to total debt ratio dropped to 20.5% in 2015, compared with the high level of 44.3% in 2014, and a value of 17.2% in 2013.

Going forward, CPFTH’s performance is expected to improve as swine prices rebound and feed costs decline. During the first two months of 2016, the average

swine price increased by 9% y-o-y, while the average prices of corn and soybean meal declined by 5% y-o-y and 8% y-o-y, respectively. Chicken exports are expected to remain strong, especially sales to Japan. The relationship with ITOCHU Corporation, one of the leading trading companies in Japan, and CPF should help boost exports to Japan. Moreover, the import restriction on poultry parent stock following the recent avian influenza outbreak in major exporting countries would lift the price of poultry in late 2016. During 2016-2018, TRIS Rating's base case expects the company's EBITDA will range from Bt9,000-Bt11,000 million per year. CPFTH plans to spend approximately Bt5,000-Bt6,500 million per annum in capital expenditures. Given the expected levels of EBITDA and capital expenditures, the debt to capitalization ratio is expected to hover around 63% in 2016-2018. The EBITDA interest coverage will stay at around 7 times, and the FFO to total debt will range between 25%-27%.

Rating Outlook

The "stable" outlook is based on the expectation that CPFTH will remain a core subsidiary of CPF, being responsible for the 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's rating accordingly.

CPF (Thailand) PLC (CPFTH)

Company Rating:	A+
Issue Ratings:	
CPFTH211A: Bt7,450 million senior unsecured debentures due 2021	A+
CPFTH231A: Bt2,150 million senior unsecured debentures due 2023	A+
CPFTH261A: Bt3,350 million senior unsecured debentures due 2026	A+
CPFTH281A: Bt3,050 million senior unsecured debentures due 2028	A+
Rating Outlook:	Stable

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

Unit: Bt million

	----- Year Ended 31 December ---		
	2015	2014	2013 **
Sales and service revenues	135,975	140,833	125,255
Gross interest expense	1,588	1,361	1,789
Net income from operations	1,762	6,602	2,916
Funds from operations (FFO)	6,881	11,786	5,385
Total capital expenditures	5,992	4,817	4,065
Total assets	79,656	75,328	71,992
Total debt	33,626	26,619	31,280
Shareholders' equity	20,165	21,415	21,796
Operating income before depreciation and amortization as % of sales	3.83	7.62	5.21
Pretax return on permanent capital (%)	7.08	19.24	9.65
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.92	8.54	4.15
FFO/total debt (%)	20.46	44.28	17.22
Total debt/capitalization (%)	62.51	55.42	58.93

* Consolidated financial statements

** Separated financial statements

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

Unit: Bt million

	----- Year Ended 31 December -----				
	2015	2014	2013	20 12	2011
Sales and service revenues	421,355	426,039	389,251	357,175	206,099
Gross interest expense	8,624	8,241	7,568	6,283	2,422
Net income from operations	960	6,101	(1,475)	3,448	14,503
Funds from operations (FFO)	21,975	22,909	8,027	9,486	17,480
Total capital expenditures	25,550	25,727	23,252	20,182	10,288
Total assets	494,263	416,764	365,003	310,544	160,506
Total debt	258,151	195,929	186,405	146,203	69,449
Shareholders' equity	173,725	163,966	129,573	120,781	67,077
Operating income before depreciation and amortization as % of sales	5.15	5.58	2.59	4.30	9.43
Pretax return on permanent capital (%)	4.69	6.41	2.94	7.25	16.34
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.49	3.84	2.26	3.50	10.19
FFO/total debt (%)	8.51	11.69	4.31	6.49	25.17
Total debt/capitalization (%)	59.77	54.44	58.99	54.76	50.87

* Consolidated financial statements

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