

# CPF (THAILAND) PLC

No. 30/2016

4 July 2016

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
Senior unsecured	A+
<b>Outlook:</b>	Stable

## Company Rating History:

Date	Rating	Outlook/Alert
4/11/15	A+	Stable

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## Rating Rationale

TRIS Rating affirms the company and current senior unsecured debenture ratings of CPF (Thailand) PLC (CPFTH) at "A+". At the same time, TRIS Rating assigns the rating of "A+" to CPFTH's proposed issue of up to Bt17,000 million in new senior unsecured debentures. The proceeds from the new debenture issue will be used to repay CPFTH's existing debts, to invest in planned capital expenditures and to lend money to companies within the CPF Group. 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 poultry and swine production 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 as of March 2016 included 4,870 kiosks of Five-Star Chicken, 416 CP Fresh Mart shops, and about 13 stores under the 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's performances fluctuated over the course of the livestock industry cycle. CPFTH's operating results in 2015 deteriorated from a high level of 2014 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. EBITDA were Bt6,220 million in 2015, down 46.5% from Bt11,626 million in 2014.

During the first quarter of 2016, CPFTH reported a better operating performance. The improvement was driven by a rise of swine price, strong demand for chicken exports, together with a drop in prices of soybean meal and corn. Total revenues were Bt34,247 million, a 2.8% up from the first three months of 2015. The operating margin before depreciation and amortization was 8.2%, rising from 2.4% during the first quarter of 2015. EBITDA were Bt2,971 million during the first three months of 2016, up from Bt994 million during the same period of 2015.

*CreditUpdate* reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The *CreditUpdate* occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The *CreditUpdate* announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

*CreditUpdates* are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

CPFTH's leverage remains high. Total debt increased from Bt26,619 million at the end of 2014 to Bt35,167 million as of March 2016 due to weak operating results in 2015 and ongoing capital expenditures. The total debt to capitalization ratio was 60.6% at the end of March 2016, deteriorating from 55.4% at the end of 2014. Cash flow protection declined in 2015, but improved in the first quarter of 2016, following the improvement in operating performance. The EBITDA interest coverage ratio was 11.3 times in the first quarter of 2016, improved from 3.9 times in 2015 and 8.5 times in 2014. The FFO to total debt ratio declined from 44.3% in 2014 to 20.5% in 2015, but improved to 26.2% (annualized, from the trailing 12 months) during the first quarter of 2016.

Looking forward, CPFTH's operating performance is expected to improve for the remainder of the year as swine prices remain high and feed costs get under control. Chicken exports are expected to remain strong, especially in sales to Japan. The relationship between ITOCHU Corporation, one of the leading trading companies in Japan, and CPF should help boost exports to Japan. During 2016-2018, TRIS Rating's base case expects CPFTH's EBITDA will range from Bt9,000 million to Bt11,000 million per year. CPFTH plans capital expenditures of Bt5,000 million-Bt6,500 million per annum. In June 2016, CPF injected Bt10,511 million in new equity into CPFTH. However, CPFTH's debt to capitalization ratio is expected to remain high, hovering around 60%, as CPFTH plans to issue new debenture totaling Bt17,000 million. The EBITDA interest coverage ratio will range from 5-6 times, and the FFO to total debt ratio will range between 15%-20% in 2016-2018.

### 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 operations 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.

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### CPF (Thailand) PLC (CPFTH)

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
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+
Up to Bt17,000 million senior unsecured debentures due within 2031	A+
<b>Rating Outlook:</b>	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 and investments	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 -----					
	Jan-Mar 2016	2015	2014	2013	2012	2011
Sales and service revenues	105,513	421,355	426,039	389,251	357,175	206,099
Gross interest expense	2,595	8,624	8,241	7,568	6,283	2,422
Net income from operations	2,209	960	6,101	(1,475)	3,448	14,503
Funds from operations (FFO)	6,987	21,975	22,909	8,027	9,486	17,480
Total capital expenditures and investments	7,333	66,341	42,341	38,010	74,050	17,254
Total assets	486,369	494,263	416,764	365,003	310,544	160,506
Total debt	249,973	258,151	195,929	186,405	146,203	69,449
Shareholders' equity	179,333	173,725	163,966	129,573	120,781	67,077
Operating income before depreciation and amortization as % of sales	8.31	5.15	5.58	2.59	4.30	9.43
Pretax return on permanent capital (%)	5.73 **	4.69	6.41	2.94	7.25	16.34
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.25	3.49	3.84	2.26	3.50	10.19
FFO/total debt (%)	10.16**	8.51	11.69	4.31	6.49	25.17
Total debt/capitalization (%)	58.23	59.77	54.44	58.99	54.76	50.87

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**TRIS Rating Co., Ltd.**

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