

CHAROEN POKPHAND FOODS PLC

No. 89/2020
8 December 2020

CORPORATES

Company Rating:	A+
Issue Ratings:	
Senior unsecured	A+
Hybrid	A-
Outlook:	Stable

Last Review Date: 31/03/20

Company Rating History:

Date	Rating	Outlook/Alert
13/03/20	A+	Alert Negative
31/03/15	A+	Stable
20/06/14	AA-	Negative
19/05/11	AA-	Stable
30/04/10	A+	Positive
22/06/06	A+	Stable
20/05/05	A	Positive
12/07/04	A	Stable
28/05/04	A	-
01/03/01	A+	-

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RATIONALE

TRIS Rating removes the CreditAlert with “negative” implication placed on the company rating and issue ratings on Charoen Pokphand Foods PLC (CPF) since 13 March 2020. At the same time, TRIS Rating affirms the company rating and the ratings on its senior unsecured debentures at “A+”, and subordinated capital debentures (hybrid debentures) at “A-” with a “stable” outlook.

TRIS Rating also assigns the “A+” rating to CPF’s proposed issue of up to Bt30 billion in senior unsecured debentures. The company intends to use the proceeds from the new debentures for working capital and/or investment and/or repayment of its existing debts and/or lending to CPF’s subsidiaries.

The rating affirmation reflects our expectation that CPF’s leverage will not elevate significantly, following the debt-funded acquisition of a 20% equity interest in Tesco Stores (Thailand) Ltd. and Tesco Stores (Malaysia) Sdn. Bhd. The acquisition cost to CPF is up to USD1.5 billion (equivalent to approximately THB48 billion).

Thanks to the steep rise of swine prices and the improvement in aquaculture business in Thailand, CPF recorded satisfactory operating results for the first nine months of 2020. CPF’s operating revenue surged by 12.2% year-on-year (y-o-y) to THB441.7 billion in the first nine months of 2020. Earnings before interest, tax, depreciation, and amortization (EBITDA) rose to THB63.5 billion, a 71.5% up from the same period of 2019. EBITDA margin hit a record high at 14.4% in the first nine months of 2020, compared with 7%-10% in 2017-2019.

Going forward, we expect the swine price to decline from its extraordinarily high level, but should still hover in the high range as supply shortage caused by African swine fever (ASF) will likely continue in the near future. CPF is well positioned to benefit from favorable swine prices, together with low feed cost. The rising demand of chicken for exports to China could also be a revenue growth driver. We project CPF’s adjusted debt to EBITDA after incorporating the new acquisition debt, to hover around 5-8 times over the next few years, a level that is still commensurate with a “A+” rating given the company’s strong business profile.

With the objectives to vertically integrate its business and further penetrate the swine market in China, the world’s largest and fast-growing market worth around USD200 billion, CPF announced the merger of its swine business in China. The merger transaction will facilitate the integration of its feed production in China with the swine business which is currently managed by Chia Tai Animal Husbandry Investment (Beijing) Co., Ltd. (CTAI), a subsidiary of Charoen Pokphand Group. This merger transaction was made through a share swap.

After the merger, CPF’s subsidiary will hold 35% in the newly combined company, while the remaining 65% of equity shares to be held by a subsidiary of Charoen Pokphand Group. Financially, the merger transaction will result in a decrease in CPF’s revenue and EBITDA because of the deconsolidation of its feed business in China. However, CPF will earn a share of the profit and dividend income from its equity stake in the merged company. Overall, we project the deconsolidation of its China feed business will cause CPF’s

revenue to decline by around THB130 billion per year and EBITDA to decline by THB3-THB4 billion per year. On the other hand, interest bearing debt is projected to decline by THB22 billion. Consequently, we forecast the net effect of this merger transaction is to increase the ratio of adjusted debt to EBITDA by 0.2-0.3 times per year.

The ratings continue to reflect CPF's leading position in the Thai agribusiness and food industry, as well as the geographic diversity of its operations, and the diverse range of its product offerings and markets served. The ratings also reflect the financial flexibility the company gains from its strategic investments. However, these strengths are weighed down by its relatively high leverage, the inherent cyclical nature of commodity-type products, exposure to disease outbreaks, changes in regulations imposed by importing countries, and the prolonged economic downturn.

RATING OUTLOOK

The "stable" outlook reflects our expectation that CPF will maintain its leading position in the dynamic agribusiness and food industry. We expect the company's diverse range of operations, products, and markets to partly mitigate the volatile effect of commodity-like farm products and from disease epidemics.

RATING SENSITIVITIES

Any rating upside hinges on CPF's ability to strengthen its capital structure significantly and demonstrate a material, sustainable improvement in debt servicing ability.

In contrast, the ratings would likely be downgraded should operating performance fall significantly below the anticipated levels or any debt-funded acquisitions weaken the company's balance sheet and cash flow protection, such that the ratio of adjusted debt to EBITDA rises above 8 times on a sustained period.

COMPANY OVERVIEW

Founded in 1978, CPF is Thailand's largest agribusiness and food conglomerate. As of 30 September 2020, Charoen Pokphand Group held 52.9% of CPF's shares. CPF's business is divided into two segments, livestock, and aquaculture, with three types of operations in each segment: feed, farm, and food.

CPF is a fully integrated producer of swine, chicken, and shrimp products. Its fully integrated operations help its products meet international standards, with its products qualifying for export to the major markets such as Japan, the EU countries, and the US.

In order to insulate itself from the price fluctuations inherent in commodity-type products, CPF is pursuing a long-term strategy of focusing on value-added products. CPF has continued to broaden its portfolio of products and markets as well as adding new distribution channels through several acquisitions. The investments include an integrated pork producer in Canada, plus several food service suppliers in Europe, a shrimp farm in Brazil, as well as restaurants in Thailand and Vietnam.

In March 2020, CPF entered into an agreement to acquire up to 20% of total issued shares in Tesco Stores (Thailand) Limited and Tesco Stores (Malaysia) Sdn. Bhd. The acquisition cost for the 20% interest is up to USD1.5 billion (equivalent to approximately THB48.0 billion). This acquisition meets the conditions precedent, which are approval from the relevant regulators, the Office of Trade Competition Commission of Thailand, and the Ministry of Domestic Trade and Consumers Affairs of Malaysia, in November 2020.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Sep 2020	-----Year Ended 31 December -----			
	2019	2018	2017	2016	
Total operating revenues	441,660	535,614	545,068	503,734	466,792
Earnings before interest and taxes (EBIT)	47,504	39,956	32,411	21,258	38,039
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	63,548	55,846	47,881	35,564	51,102
Funds from operations (FFO)	43,011	34,090	27,659	21,463	31,623
Adjusted interest expense	12,623	16,310	14,011	13,850	12,267
Capital expenditures	19,376	25,974	29,009	30,639	22,576
Total assets	773,997	634,050	628,091	593,497	582,179
Adjusted debt	357,353	346,934	335,213	299,600	299,378
Adjusted equity	241,264	211,372	211,158	219,142	193,706
Adjusted Ratios					
EBITDA margin (%)	14.39	10.43	8.78	7.06	10.95
Pretax return on permanent capital (%)	9.91	6.82	5.76	3.94	7.68
EBITDA interest coverage (times)	5.03	3.42	3.42	2.57	4.17
Debt to EBITDA (times)	4.34	6.21	7.00	8.42	5.86
FFO to debt (%)	15.47	9.83	8.25	7.16	10.56
Debt to capitalization (%)	59.70	62.14	61.35	57.76	60.72

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Hybrid Securities Rating Criteria, 12 September 2018
- Key Financial Ratios and Adjustments, 5 September 2018

Charoen Pokphand Foods PLC (CPF)

Company Rating:	A+
Issue Ratings:	
CPF218A: THB3,000 million senior unsecured debentures due 2021	A+
CPF218B: THB5,500 million senior unsecured debentures due 2021	A+
CPF225A: THB7,600 million senior unsecured debentures due 2022	A+
CPF228A: THB4,000 million senior unsecured debentures due 2022	A+
CPF235A: THB5,500 million senior unsecured debentures due 2023	A+
CPF237A: THB1,940 million senior unsecured debentures due 2023	A+
CPF244A: THB3,500 million senior unsecured debentures due 2024	A+
CPF246A: THB8,407.6 million senior unsecured debentures due 2024	A+
CPF246B: THB2,725 million senior unsecured debentures due 2024	A+
CPF24NA: THB2,200 million senior unsecured debentures due 2024	A+
CPF251A: THB5,460 million senior unsecured debentures due 2025	A+
CPF257A: THB3,000 million senior unsecured debentures due 2025	A+
CPF276A: THB7,164.4 million senior unsecured debentures due 2027	A+
CPF276B: THB2,643 million senior unsecured debentures due 2027	A+
CPF277A: THB2,000 million senior unsecured debentures due 2027	A+
CPF281A: THB6,540 million senior unsecured debentures due 2028	A+
CPF28NA: THB3,200 million senior unsecured debentures due 2028	A+
CPF30NA: THB5,300 million senior unsecured debentures due 2030	A+
CPF314A: THB2,500 million senior unsecured debentures due 2031	A+
CPF326A: THB940 million senior unsecured debentures due 2032	A+
CPF328A: THB5,000 million senior unsecured debentures due 2032	A+
CPF356A: THB3,120 million senior unsecured debentures due 2035	A+
CPF418A: THB4,000 million senior unsecured debentures due 2041	A+
CPF41DA: THB6,000 million senior unsecured debentures due 2041	A+
CPF17PA: THB15,000 million subordinated capital debentures	A-
Up to THB30,000 million senior unsecured debentures due within 12 years 4 months	A+
Rating Outlook:	Stable

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