

CHAROEN POKPHAND FOODS PLC

No. 42/2021
31 March 2021

CORPORATES

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

Last Review Date: 08/12/20

Company Rating History:

Date	Rating	Outlook/Alert
08/12/20	A+	Stable
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 affirms the company rating on Charoen Pokphand Foods PLC (CPF) and the ratings on its senior unsecured debentures at “A+”, and subordinated capital debentures (hybrid debentures) at “A-”. The outlook remains “stable”.

The ratings continue to reflect CPF’s leading position in the Thai agribusiness and food industry, the geographic diversity of its operations, as well as diverse range of product offerings and markets served. The ratings also reflect the financial flexibility the company gains from its strategic investments. However, these strengths are partly offset by the inherent cyclicity of commodity-type products, exposure to disease outbreaks, and changes in regulations imposed by importing countries.

KEY RATING CONSIDERATIONS

Solid operating results

CPF’s operating results improved remarkably in 2020. This was mainly driven by the solid operations of its swine business, together with the turnaround performance of the aquaculture business in Thailand. Swine prices increased steeply in Vietnam and Thailand caused by regional supply shortage from the prolonged African swine fever (ASF) outbreak. As a result, the average swine price in Vietnam skyrocketed by 60% year-on-year (y-o-y), while that in Thailand was elevated by 10% y-o-y in 2020.

CPF’s earnings before interest, taxes, depreciation, and amortization (EBITDA) rose substantially to a record high at THB83.4 billion in 2020, compared with THB36-THB56 billion during the past few years. EBITDA margin surged to 14.1% in 2020, compared with 7%-10% in 2017-2019.

Looking ahead, we expect CPF’s operation to face increasing pressure from escalating feed costs and falling swine prices. The swine price is projected to dip from its extraordinarily high level, although it may still hover in the high range as supply shortage from the ASF outbreak will likely continue in the short to medium term.

Overall, we expect CPF’s operating performance to remain at satisfactory levels over the next few years. The company’s strategies that focus on technology adaptation for efficiency improvement and cost reduction, as well as the company’s expansion plan, combined with the prospect of post COVID-19 economic recovery, should help the company achieve steady performance over the next few years.

We also expect the company to benefit from its recent acquisition of a significant equity interest in Tesco Asia’s hypermarket stores operation in Thailand and Malaysia. The acquisition will strengthen CPF’s distribution channels and market penetration in the respective markets.

Acquisition of swine business in China

CPF went into a merger transaction in December 2020 to integrate its feed business in China with the swine business run by a subsidiary of Charoen Pokphand Group. China is the world’s largest and fast-growing swine market worth around USD200 billion. During the post-merger integration, CPF’s subsidiary holds 35% interest in the newly combined company, Chia Tai Investment Co., Ltd. (CTI), while the remaining 65% of equity shares are 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. We project CPF's revenue to decline by around THB130 billion per year and operating profit to decline by THB7 billion per year. Nonetheless, the drop in revenue and profit from its feed business in China will be compensated by a share of the profit and dividend income from its equity stake in the high potential growth of the integrated swine business in China.

Debt serviceability temporarily improved

Despite the sizable debt-funded acquisition, CPF's capital structure and cash flow protection improved substantially following its strong operating results.

With the Tesco Asia acquisition cost of USD1.3 billion (or equivalent to THB40 billion), CPF's adjusted debt rose to THB376 billion in 2020 from THB346.9 billion in 2019. Nonetheless, the debt to capitalization ratio improved to 59.6% in 2020 from 62.1% in 2019. Cash flow protection also improved. The adjusted debt to EBITDA ratio was 4.5 times in 2020, down from 6-8 times in 2017-2019, while the ratio of funds from operations (FFO) to total debt was 14.6% in 2020, up from 7%-10% in 2017-2019.

Despite the improved debt servicing metrics in 2020, we expect CPF's leverage will likely continue to rise. To pursue its growth strategy, CPF has laid out plans for sizable capital expenditures of approximately THB30-THB32 billion a year. We project its debt to EBITDA ratio to climb back to 5-7 times during 2021-2023. The debt to capitalization ratio is projected to stay below 60%.

Adequate liquidity

We assess CPF's liquidity to be at adequate level over the next 12 months. Scheduled debt repayments of approximately THB37 billion are due in 2021. The primary source of repayment will come from the cash flow from operations. The liquidity buffer is backed by cash on hand and short-term securities totaling THB58 billion at the end of 2020. Additionally, CPF has a considerably large investment in CP All PLC (CPALL), the leading convenience store operator in Thailand. Currently, CPF holds a 34.1% stake in CPALL. The market capitalization of CPALL, for the portion of interest held by CPF, was approximately THB178 billion as of 31 December 2020. Given the liquidity of CPALL's shares, it should serve a source of financial flexibility for CPF in a liquidity stress scenario.

Leading position in the Thai agribusiness and food industry

CPF's strong business profile reflects its leading position in Thailand's agribusiness and food industry. In the feed segment, it holds about half of the total market for shrimp feed, based on production volume, and more than one-third of the market for livestock feed. In the Thai poultry and swine segments, CPF accounts for 22% of the domestic production of poultry and 32% of swine. As one of the nation's largest integrated food producers, CPF leverages its competitive advantage on economies of scale.

Geographic diversification and diverse range of products

CPF's operational risk is partly mitigated by the geographic diversity of its operations and markets. As of 31 December 2020, CPF had production bases in 17 countries on five continents. Operations in Thailand accounted for 31% of total revenue in 2020, while operations abroad contributed 69%. China operations contributed 27% of total revenue, followed by Vietnam (18%). Other major sources of revenue were the United Kingdom (UK), Taiwan, India, the United States (US), Cambodia, Russia, and Turkey. Sales in each of these nations accounted for 2%-4% of total revenue in 2020.

CPF's revenue sources are geographically diverse. Sales in Thailand comprised only 26% of total sales in 2020. The Asian region, a growing market, has become the largest source of sales, accounting for 61%. The European Union (EU) and the US accounted for only 9% and 4%, respectively. CPF's continued effort to broaden its geographic coverage also helps alleviate the impacts from disease outbreaks and trade barriers.

A diverse range of products further helps reduce the volatility of earnings. CPF is a fully integrated producer of livestock and shrimp products. The company's product portfolio includes animal feed, poultry, swine, and shrimp, as well as food products. In 2020, revenue from farm (poultry, swine, and shrimp) constituted the largest revenue contributor, accounting for 47% of total sales, followed by feed (37%), and food products (16%).

BASE-CASE ASSUMPTIONS

- Operating revenues to decline by 21% in 2021 as a result of the revenue deconsolidation from the feed business in China and to grow by 4% per year in 2022-2023.
- EBITDA margin to stay at around 12%-15% in 2021-2023.
- Total capital spending of around THB30-THB32 billion per year during 2021-2023, excluding business acquisitions.

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 effects of commodity-like farm products and from disease epidemics.

RATING SENSITIVITIES

A rating upgrade hinges primarily on CPF’s ability to strengthen its capital structure significantly and demonstrate a material, sustainable improvement in debt servicing metrics.

In contrast, a rating downgrade scenario could emerge should CPF’s operating performance fall significantly below the anticipated levels or any debt-funded acquisitions materially 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 March 2021, Charoen Pokphand Group held 51.4% 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, qualifying its products for export to major markets such as the EU, Japan, 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 add new distribution channels through several acquisitions. The investments include an integrated pork producer in Canada, several food service suppliers in Europe, a shrimp farm in Brazil, as well as the integrated shrimp business in Malaysia.

In December 2020, CPF completed two major acquisitions: Tesco Asia Group, and the swine business in China. The first transaction, worth USD1.3 billion (or equivalent to THB40 billion), will strengthen CPF’s distribution channels and customer base. The latter, made through a share swap, will provide CPF with more market presence and capture the potential growth in China’s swine business.

KEY OPERATING PERFORMANCE

Table 1: CPF’s Revenue Breakdown

<i>Unit: %</i>					
By Product	2016	2017	2018	2019	2020
Feed	48	45	42	38	37
Farm	40	37	41	44	47
Food	12	18	17	18	16
Total	100	100	100	100	100
Sales (mil. THB)	464,465	501,507	541,937	532,573	589,713

Source: CPF

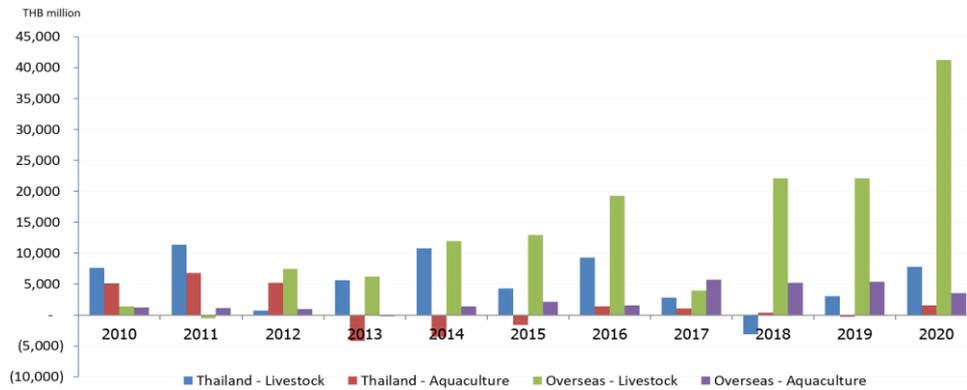
Table 2: CPF's Revenue Breakdown by Geography

Unit: %

Country	2016	2017	2018	2019	2020
Thailand	32.3	29.5	27.5	27.0	25.7
EU	9.4	10.2	10.0	10.4	8.8
Asia	57.2	54.7	57.8	57.8	61.0
USA	0.8	5.2	4.4	4.6	4.3
Others	0.3	0.4	0.3	0.2	0.2
Total	100	100	100	100	100

Source: CPF

Chart 1: CPF's Operating Profit by Business Unit



Source: CPF

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total operating revenues	593,129	535,618	545,068	503,734	466,792
Earnings before interest and taxes (EBIT)	64,148	39,961	32,411	21,258	38,039
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	83,449	55,851	47,881	35,564	51,102
Funds from operations (FFO)	54,966	34,095	27,659	21,463	31,623
Adjusted interest expense	17,481	16,310	14,011	13,850	12,267
Capital expenditures	27,157	25,974	29,009	30,639	22,576
Total assets	761,719	634,051	628,091	593,497	582,179
Adjusted debt	376,041	346,934	335,213	299,600	299,378
Adjusted equity	254,679	211,372	211,158	219,142	193,706
Adjusted Ratios					
EBITDA margin (%)	14.07	10.43	8.78	7.06	10.95
Pretax return on permanent capital (%)	10.01	6.82	5.76	3.94	7.68
EBITDA interest coverage (times)	4.77	3.42	3.42	2.57	4.17
Debt to EBITDA (times)	4.51	6.21	7.00	8.42	5.86
FFO to debt (%)	14.62	9.83	8.25	7.16	10.56
Debt to capitalization (%)	59.62	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+
CPF231A: THB2,500 million senior unsecured debentures due 2023	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+
CPF261A: THB13,064.5 million senior unsecured debentures due 2026	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+
CPF281B: THB4,028.7 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+
CPF311A: THB5,034.4 million senior unsecured debentures due 2031	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+
CPF331A: THB5,372.4 million senior unsecured debentures due 2033	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-
Rating Outlook:	Stable

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