

CHAROEN POKPHAND FOODS PLC

 No. 72/2023
 28 April 2023

CORPORATES

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

Last Review Date: 31/03/22

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 outstanding senior unsecured debentures at “A+”, and affirms the rating on its subordinated capital debentures (hybrid debentures) at “A-”. The outlook remains “stable”.

At the same time, TRIS Rating assigns a rating of “A+” to CPF’s proposed issues of up to THB14 billion senior unsecured debentures due within 15 years. The proceeds from the new debenture issuances are intended to be used for the following purposes of the company or companies in the CPF Group: (1) general business operations and/or (2) business expansion and/or (3) investment in shares or assets and/or (4) repayment of debts and/or (5) lending to companies in the CPF Group or restructuring of shareholding structure in the CPF Group.

The ratings continue to reflect CPF’s strong market position as one of the world’s leaders in agribusiness, the geographic diversity of its operations, as well as diverse range of product offerings and markets served. However, the ratings are constrained by its exposure to fluctuating prices of commodity protein and earnings volatility with relatively low margins, as well as its continuing acquisitions and investments that keep its financial leverage at high levels.

KEY RATING CONSIDERATIONS

Recovering operating results

CPF’s operating results posted to recover in 2022. The improvement was driven by its domestic livestock operation following the record-high of pork and poultry prices in Thailand. However, other business units continued under pressure from steep rising grain costs. In 2022, CPF’s operating revenue grew by 19.6% year-on-year (y-o-y) to THB618.1 billion, while earnings before interest, taxes, depreciation, and amortization (EBITDA) rose by 17.0% y-o-y to THB61.3 billion.

We expect CPF’s operating performance to continue improving. The company should further benefit from high meat prices in Thailand, driven by the ongoing supply shortage and escalating demand boosted by the revival in tourism. We also anticipate the operating performance of CPF’s subsidiaries and affiliated companies overseas to recover gradually following the ease of the Coronavirus Disease 2019 (COVID-19) impacts. Also, CPF’s synergy with its affiliated companies, particularly leading retailers in Thailand, together with efficiency improvement and biosecurity concerns should help the company achieve satisfactory performance over the next few years. In our base-case forecast, we expect CPF’s revenue to increase to THB641-THB690 billion in 2023-2025. The EBITDA margin is projected to stay in the 10%-10.4% range, while EBITDA is projected to reach THB64-THB72 billion per annum during 2023-2025.

High leverage but expected to decline

Owing to sizable investments and higher feed costs, CPF’s financial leverage has increased significantly over the past few years. The adjusted debt stood at THB501.5 billion in 2022, from THB376 billion in 2020. As a result, CPF’s debt to EBITDA ratio weakened to 8.2 times in 2022 from 4.5 times in 2020, while the debt to capitalization ratio rose to 63.2% in 2022 from 59.6% in 2020.

We forecast CPF's leverage to stay at a high level following its sizable capital spending and investments. However, CPF intends to improve its balance sheet with consideration of deleveraging options, including a spinning-off its subsidiary that operates trading of fresh meat and food products, to list on the Stock Exchange of Thailand (SET) over the next few quarters.

We project CPF's debt to EBITDA ratio to hover around 7.8 times in 2023 in anticipation of persistently high inflation, but the ratio should improve to below 7 times during 2024-2025 following its deleverage plans. The debt to capitalization ratio is projected to hover around 62% in 2023 and gradually improve to 57% in 2025.

Adequate liquidity

We assess CPF's liquidity to be adequate over the next 12 months. Scheduled debt repayments of approximately THB66 billion are due in 2023. The primary source of repayment will come from cash flow from operations. We forecast CPF to generate funds from operations (FFO) of about THB37 billion in 2023. The liquidity buffer is backed by cash on hand and short-term securities totaling THB36 billion at the end of 2022. Additionally, CPF has sizable equity investments in CP All PLC (CPALL) and Siam Makro PLC (MAKRO). Currently, CPF holds a 34.1% stake in CPALL and 8.9% in MAKRO. The market values of CPF's equity interest in CPALL and MAKRO were around THB209 billion and THB37 billion, respectively, as of 31 December 2022. As these equity investments are marketable securities, they should serve as a source of financial flexibility.

Geographic diversification and diverse product range

CPF's business risk is partly mitigated by the geographic diversity of its operations and markets. As of 31 December 2022, CPF had production bases in 17 countries on four continents. Operations in Thailand accounted for 36% of its total revenue in 2022, while operations abroad contributed 64%.

CPF's revenue sources are geographically diverse. Sales in Thailand comprised only 31% of its total sales in 2022. The Asian region, a growing market, has become the largest source of its sales, accounting for 49%. The European Union (EU) and the United States (US) accounted for only 13% and 6%, 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 aquaculture products. The company's product portfolio includes animal feed, poultry, swine, and shrimp, as well as food products. In 2022, revenue from farm (poultry, swine, and shrimp) constituted the largest revenue contribution, accounting for 55% of its total revenue, followed by feed (24%), and food products (21%).

BASE-CASE ASSUMPTIONS

- Operating revenues to range from THB641-THB690 billion during 2023-2025.
- EBITDA of THB64-THB72 billion per annum during 2023-2025.
- Total capital spending of around THB25 billion per year during 2023-2025, 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 mitigate the volatile effects of commodity-like farm products and disease epidemics.

RATING SENSITIVITIES

CPF's ratings and/or outlook could be revised upward, should the adjusted debt to EBITDA ratio fall below 4 times on a sustained basis.

In contrast, a rating downgrade scenario could emerge should CPF's operating performance fall significantly below the forecast levels or any debt-funded acquisitions materially weaken the company's balance sheet and cash flow protection, such that the adjusted debt to EBITDA ratio 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 2023, Charoen Pokphand Group held 50.3% 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'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 21% of the domestic production of poultry and

16% of swine in 2022. As one of the nation’s largest integrated food producers, CPF leverages its competitive advantage on economies of scale.

Recently in April 2023, CPF Global Food Solution LC (CPFGS), a subsidiary of CPF, filed an application for listing on the SET. CPFGS was founded to operate trading of fresh meat and food products including restaurant and pet snack businesses. After the completion of initial public offering, CPFGS will remain as a CPF’s subsidiary while the combined shareholding of CPF and subsidiaries in CPFGS will be no less than 70% of total issued and paid-up ordinary shares of CPFGS.

KEY OPERATING PERFORMANCE

Table 1: CPF’s Revenue Breakdown

Unit: %

By Product	2018	2019	2020	2021	2022
Feed	42	38	37	25	24
Farm	41	44	47	54	55
Food	17	18	16	21	21
Total	100	100	100	100	100
Sales (mil. THB)	541,937	532,573	589,713	512,704	614,197

Source: CPF

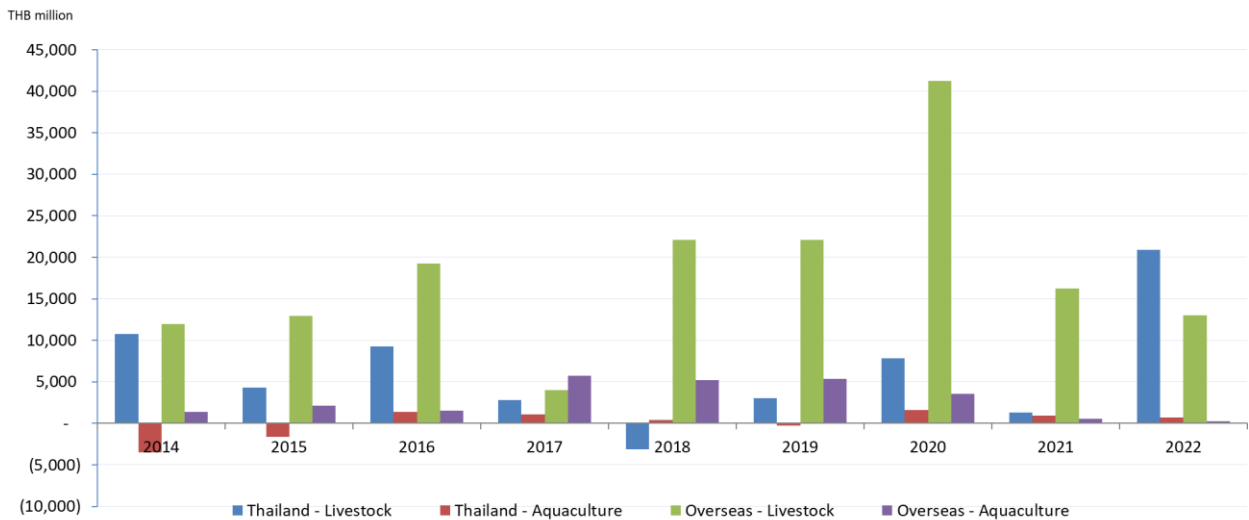
Table 2: CPF’s Revenue Breakdown by Geography

Unit: %

Country	2018	2019	2020	2021	2022
Thailand	27.5	27.0	25.7	31.2	31.1
EU	10.0	10.4	8.8	11.8	13.4
Asia	57.8	57.8	61.0	51.1	49.4
USA	4.4	4.6	4.3	5.6	5.8
Others	0.3	0.2	0.2	0.3	0.3
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 -----				
	2022	2021	2020	2019	2018
Total operating revenues	618,115	516,777	593,129	535,618	545,068
Earnings before interest and taxes (EBIT)	37,146	22,639	64,148	39,961	32,411
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	61,304	52,414	83,449	55,851	47,881
Funds from operations (FFO)	33,208	28,366	54,404	33,884	28,575
Adjusted interest expense	21,408	17,619	17,915	16,310	14,011
Capital expenditures	27,644	24,455	27,157	25,974	29,009
Total assets	926,987	845,244	761,719	634,051	628,091
Adjusted debt	501,546	442,877	376,042	346,934	335,213
Adjusted equity	292,344	281,852	254,679	211,372	211,158
Adjusted Ratios					
EBITDA margin (%)	9.92	10.14	14.07	10.43	8.78
Pretax return on permanent capital (%)	4.66	3.12	10.01	6.82	5.76
EBITDA interest coverage (times)	2.86	2.97	4.66	3.42	3.42
Debt to EBITDA (times)	8.18	8.45	4.51	6.21	7.00
FFO to debt (%)	6.62	6.40	14.47	9.77	8.52
Debt to capitalization (%)	63.18	61.11	59.62	62.14	61.35

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Hybrid Securities Rating Criteria, 28 June 2021
- Rating Methodology – Corporate, 26 July 2019

Charoen Pokphand Foods PLC (CPF)

Company Rating:	A+
Issue Ratings:	
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+
CPF268A: THB4,989.1 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+
CPF288A: THB3,079.7 million senior unsecured debentures due 2028	A+
CPF28NA: THB3,200 million senior unsecured debentures due 2028	A+
CPF308A: THB3,806 million senior unsecured debentures due 2030	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+
CPF22PA: THB15,000 million subordinated capital debentures	A-
Up to THB14,000 million senior unsecured debentures due within 15 years	A+
Rating Outlook:	Stable

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