

CPF (THAILAND) PLC

No. 77/2015

14 December 2015

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 rating 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 Bt22,000 million in senior unsecured debentures. The proceeds from the new debentures will be used for refinancing its debt. The “A+” 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. CPFTH has engaged in fully integrated livestock operation in Thailand and generates one thirds of total revenues and earnings before interest, taxes, depreciation, and amortization (EBITDA) for CPF. The ratings take into consideration its high degree of operational integration with CPF and support 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 animal, fresh meat, and food products. CPFTH is the market leader in livestock business in Thailand, with a market share of about one-third in the animal feed market. For the poultry and swine industry, CPFTH’s combined market share accounts for about one-fourth of domestic production in Thailand. CPFTH’s business is divided into three segments comprising feed, farm, and food. During the first nine months of 2015, revenue from the farm segment is the largest contributor, accounting for 47% of total revenues, followed by animal feed (30%), and food products (23%).

About 90% of CPFTH’s products are sold in Thailand. CPFTH’s distribution channels as of August 2015 included 5,156 kiosks of Five-Star chicken, 572 CP Fresh Mart shops, and five stores under the CP Food World brand. About 10% of CPFTH’s products were exported indirectly through CP Merchandising Co., Ltd., another subsidiary of CPF.

CPFTH is considered a core subsidiary of CPF to operate a whole chain of livestock business in Thailand. In 2014, CPFTH contributed about 31% of CPF’s total revenues and about 36% of CPF’s EBITDA. CPFTH’s business direction is fully controlled by CPF’s management. CPF also provided shareholder’s loans worth Bt26,440 million to CPFTH as of September 2015.

CPFTH’s performance was in line with most livestock producers in Thailand. It recorded a good operating performance in 2014 as a result of favorable prices for livestock in Thailand. CPFTH’s total revenues increased by 6.8% year-on-year (y-o-y) to Bt133,817 million in 2014. The operating profit margin before depreciation and amortization improved from 5.2% in 2013 to 7.5% in 2014. CPFTH’s EBITDA significantly improved from Bt7,414 million in 2013 to Bt11,251 million in 2014.

The livestock industry entered a down cycle in 2015. Poultry prices and swine prices slumped due to oversupplies of both products. According to the Thai Feed Mill Association, the average price of poultry declined by 15% y-o-y to Bt35.8 per kilogram (kg.) during the first nine months of 2015. The average price of swine also dropped, slipping by 16% y-o-y to Bt62.7 per kg. during the same period. As a result, CPFTH’s operating margin, defined as operating profit before depreciation and amortization, weakened from a high of 7.5% in 2014 to 3.4% during the first

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nine months of 2015. Despite soft operating margin, the figure has improved quarter by quarter. CPFTH’s operating margin in the third quarter of 2015 improved to 5.9%, up from a low of 1.8% in the first quarter and 2.5% in the second quarter. The operating margin has recovered as the average price of swine rebounded. The price of swine gradually climbed from Bt59.5 per kg. in January 2015 to Bt69.5 per kg. in September 2015. Chicken export partly helped support the third quarter performance. During the third quarter of 2015, the volume of chicken exports of CPF Group rose by 10% over the second quarter of 2015 to 27,390 tonnes, while the value of chicken exports increased by 16% over the second quarter of 2015 to Bt4,426 million. EBITDA rose to normal level of Bt2,190 million in the third quarter of 2015, compared with Bt900 million per quarter during the first half of 2015.

As of 30 September 2015, CPFTH’s debt to capitalization ratio was relatively high. Total debt increased from Bt26,619 million at the end of 2014 to Bt32,430 million as of September 2015. About 80% of CPFTH’s total debt is owed to CPF. The total debt to capitalization ratio deteriorated from 56.9% at the end of 2014 to 61.1% at the end of September 2015. The FFO to total debt ratio declined to 13.1% (annualized, from the trailing 12 months) for the first nine months of 2015 from the peak of 34.1% in 2014.

Going forward, CPFTH’s performance is expected to improve as swine prices have rebound and its feed costs remain manageable. Demand for poultry in export markets is expected to remain strong, especially in Japan. During the first nine months of 2015, the value of exports sold to nations in Asia increased strongly, rising by 43% y-o-y to Bt5,835 million. Additionally, the recent depreciation of the Thai baht is expected to boost exports.

Rating Outlook

The “stable” outlook is based on the expectation that CPFTH will remain a core subsidiary of CPF to operate a 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 accordingly.

CPF (Thailand) PLC (CPFTH)

Company Rating:	A+
Issue Rating:	
Up to Bt22,000 million senior unsecured debentures due within 2028	A+
Rating Outlook:	Stable

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

Unit: Bt million

	Jan-Sep 2015	----- Year Ended 31 December -----		
		2014	2013	2012
Sales and service revenues	95,656	133,817	125,255	93,620
Gross interest expense	1,148	1,360	1,789	1,370
Net income from operations	896	6,441	2,916	(2,132)
Funds from operations (FFO)	2,973	9,070	5,385	(484)
Total capital expenditures	3,876	4,671	4,065	2,467
Total assets	75,207	72,629	71,992	70,407
Total debt	32,430	26,619	31,280	33,246
Shareholders' equity	20,635	20,174	21,796	21,309
Operating income before depreciation and amortization as % of sales	3.43	7.50	5.21	(0.13)
Pretax return on permanent capital (%)	5.80 **	17.93	9.65	(1.34)
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.54	8.27	4.15	0.70
FFO/total debt (%)	13.05 **	34.07	17.22	(1.46)
Total debt/capitalization (%)	61.11	56.89	58.93	60.94

* Separated financial statements

** Annualized with trailing 12 months

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

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Sep 2015	2014	2013	2012	2011	2010
Sales and service revenues	311,779	426,039	389,251	357,175	206,099	189,049
Gross interest expense	6,242	8,241	7,568	6,283	2,422	1,773
Net income from operations	1,353	5,914	(1,458)	3,930	14,476	11,592
Funds from operations (FFO)	13,172	18,269	8,027	9,486	17,480	17,455
Total capital expenditures	18,363	25,727	23,252	20,182	10,288	6,460
Total assets	448,270	416,764	365,003	310,544	160,506	126,092
Total debt	215,691	195,929	186,405	146,203	69,449	46,649
Shareholders' equity	173,165	163,966	129,573	120,781	67,077	60,944
Operating income before depreciation and amortization as % of sales	5.19	5.58	2.59	4.30	9.43	8.89
Pretax return on permanent capital (%)	4.54 **	6.35	2.94	7.49	16.32	15.63
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.52	3.81	2.26	3.58	10.18	11.76
FFO/total debt (%)	8.16 **	9.32	4.31	6.49	25.17	37.42
Total debt/capitalization (%)	55.47	54.44	58.99	54.76	50.87	43.36

* Consolidated financial statements

** Annualized with trailing 12 months

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