CHAROEN POKPHAND FOODS PLC

No. 46/2014 20 June 2014

Company Rating: AA-

Issue Rating:
Senior unsecured AA-

Outlook: Negative

Company Rating History:

Date	Rating	Outlook/Alert
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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Rating Rationale

TRIS Rating affirms the company and current senior unsecured debenture ratings of Charoen Pokphand Foods PLC (CPF) at "AA-". At the same time, TRIS Rating revises CPF's outlook to "negative" from "stable". The "negative" outlook reflects CPF's increasing financial leverage and deteriorating cash flow protection following the acquisition of C.P. Pokphand Co., Ltd. (CPP) and a slow recovery from the early mortality syndrome (EMS) shrimp disease outbreak in Thailand. The "AA-" ratings continue to reflect the company's leading position in the Thai agribusiness and food industry, diverse range of products and markets, strategic shift towards branded food products, and financial flexibility. The inherent volatility of the prices for farm products, exposure to disease outbreaks, and changes in regulations imposed by importing countries remain rating concerns.

CPF is the largest agribusiness and food conglomerate in Thailand. As of 9 May 2014, Charoen Pokphand Group Co., Ltd. (CPG) and related companies held 43.71% of CPF's shares. The company's business is divided into two major categories, livestock and aquaculture. Each of these categories comprises feed, farm, and food products. Fully-integrated operations help CPF's products meet safety and traceability standards, which qualify the products for export to major importing countries, including the countries of the European Union (EU), Asian nations, and the United States (US).

CPF's revenue is geographically diverse. Based on geography, the operations in Thailand accounted for 42% of total revenue in 2013. China operations contributed 29% of total revenue, followed by operations in Vietnam (14%). The remaining revenue came from Turkey, Taiwan, India, and other countries, which accounted for 1%-5% each. Animal feed, which is a relatively stable source of revenue, is the largest product segment, contributing about 56% of total revenue in 2013. Sales of commodity-like farm products contributed 32% of the company's total sales. Revenue from the sales of food products accounted for 12% in 2013.

The company is striving to enlarge its portfolio of branded products and develop distribution channels for both the domestic and overseas markets. As of 31 March 2014, CPF's distribution channels included 5,088 kiosks of Five-Star chicken, 188 Chester's restaurants, 628 CP Fresh Mart shops and about 12 stores under the CP Fresh Mart Plus, CP Kitchen, and CP Food World brands. CPF, through its subsidiary, CPP, is building two food processing plants in China, one in Qinghuangdao and one in Qingdao.

In 2013, CPF's operation in Thailand was hard hit by an EMS outbreak in farmed shrimp in Thailand. The EMS outbreak cut in half the supply of farmed shrimp in Thailand in 2013. CPF's poultry and swine businesses in Thailand recovered from oversupply situations in the second half of 2013. However, the severe loss from the shrimp business was more than offset the improvement in the livestock segment. CPF's operating margin before depreciation and amortization contracted to 2.6% in 2013, from 4.3% in 2012. CPF's operating profit in 2013 slid to Bt1,525 million, an 81% drop from 2012. Equity income from associated companies remained strong and partly alleviated the decline in CPF's earnings. CPF's earnings before interest, tax, depreciation, and amortization (EBITDA) declined by only 24% to Bt17,124 million in 2013, compared with Bt22,493 million in 2012. CPF has realized divestment gains worth Bt8,219 million and reported a net profit of Bt7,065 million in 2013.

In the first quarter of 2014, CPF's operations improved noticeably. The EMS outbreak persisted in Thailand. However, performances of the livestock segment in Thailand were robust due to strong farm prices, strong demand for chicken exports and lower cost of feed. The improved farm prices in CPF's overseas operations, including Turkey, Vietnam, and India, also helped increase CPF's profit. CPF's operating margin before depreciation and amortization climbed to 5.8% in the first three months of 2014, from 2.1% in the same period of 2013. CPF's operating profit jumped to Bt3,204 million in the first quarter of 2014, compared with a loss of Bt122 million in the first quarter of 2013. EBITDA rose by 115% over the same period of the prior year, to Bt7,806 million in the first quarter of 2014.

Despite improved operation in the first quarter of 2014, ongoing capital expenditures and expansions drove CPF's leverage significantly higher. The debt to capitalization ratio rose to 60.2% as of March 2014, from 54.8% in 2012 and 50.9% in 2011. CPF's total debt jumped from Bt69,449 million in 2011 to Bt197,648 million as of March 2014. This was due mainly to the debt-funded acquisition of CPP in the beginning of 2012. CPF experienced an oversupply situation of livestock products in Thailand in 2012 and EMS outbreak in 2013. An increase in CPF's total debt far outpaced an increase in its EBITDA, resulting in deteriorating cash flow cushion. However, CPF's liquidity and flexibility are considered good. As of March 2014, CPF's had cash on hand and short-term securities valued at Bt20 billion. The company has 32.25% interest in CP All PLC (CPALL), the leading convenient store operator in Thailand. The market capitalization of CPALL was approximately Bt430 billion, as of 20 June 2014.

Looking forward, the slow recovery from the EMS plague may cause CPF's aquaculture business in Thailand to remain weak. However, CPF's earnings in the short term will be bolstered by the current manageable level of grain costs and strong farm prices for livestock in Thailand, Turkey, and Vietnam. CPF has capital expenditure plan about Bt20,000 million for 2014. Based on an estimate of Bt30,000-Bt35,000 million in EBITDA, the amount of debt maturing each year ranges between Bt12-Bt14 billion in 2014-2016, the debt to capitalization is expected to remain high. Cash flow protection is projected to remain in low range over the next one or two years. CPF has plans to lower its debt to capitalization ratio to less than 50% in the medium term, but the execution depends largely on market conditions.

Recently, Carrefour, a worldwide supermarket chain, announced to stop purchasing shrimp products from CPF. The halt was in response to a recent report published by a British newspaper alleging that CPF buys fishmeal from vessels employing slave labor. The suspended order from Carrefour will have a limited impact on CPF. CPF's export to Carrefour accounted only about 0.03% of CPF's total revenues and CPF's total shrimp export to the US and EU were worth Bt5,416 million in 2013, or 1.4% of total sales. However, this allegation is a challenge for the Thai seafood industry, including CPF. Thailand has been on the Tier 2 Watch List of the US human trafficking blacklist for four consecutive years. The US Department of State is scheduled to release its Trafficking in Persons report soon. The allegation may put more risk of Thailand being downgraded to the Tier 3 list, which might bring sanctions from customers in the US for seafood products from Thailand.

Rating Outlook

The "negative" outlook reflects CPF's deteriorating balance sheet during the period of longer-than-expected recovery in the aquaculture unit in Thailand, which is one of the company's major profit contributor. The outlook could be revised back to "stable" should the company demonstrate an ability to return its capital structure and cash flow protection to its normal level. However, the ratings could be downgraded if CPF requires more time to restore its financial strengths.

Charoen Pokphand Foods PLC (CPF)

Company Rating:	AA-
Issue Ratings:	
CPF14NA: Bt3,200 million senior unsecured debentures due 2014	AA-
CPF14NB: Bt3,000 million senior unsecured debentures due 2014	AA-
CPF155A: Bt1,000 million senior unsecured debentures due 2015	AA-
CPF155B: Bt1,000 million senior unsecured debentures due 2015	AA-
CPF15NA: Bt3,000 million senior unsecured debentures due 2015	AA-
CPF163A: Bt6,060 million senior unsecured debentures due 2016	AA-
CPF17NA: Bt5,000 million senior unsecured debentures due 2017	AA-
CPF178A: Bt2,000 million senior unsecured debentures due 2017	AA-
CPF185A: Bt6,000 million senior unsecured debentures due 2018	AA-
CPF188A: Bt3,000 million senior unsecured debentures due 2018	AA-
CPF198A: Bt6,000 million senior unsecured debentures due 2019	AA-
CPF198B: Bt2,500 million senior unsecured debentures due 2019	AA-
CPF218A: Bt3,000 million senior unsecured debentures due 2021	AA-
CPF218B: Bt5,500 million senior unsecured debentures due 2021	AA-
CPF228A: Bt4,000 million senior unsecured debentures due 2022	AA-
CPF328A: Bt5,000 million senior unsecured debentures due 2032	AA-
CPF418A: Bt4,000 million senior unsecured debentures due 2041	AA-
CPF41DA: Bt6,000 million senior unsecured debentures due 2041	AA-
Rating Outlook:	Negative

KEY RATING CONSIDERATIONS

Strengths/Opportunities

- Leading position in Thailand's agribusiness and food industry
- Diverse range of products and markets
- Full vertical integration
- Focus on branded products
- Financial flexibility from valuable investments

Weaknesses/Threats

- Inherent volatility of commodity prices
- Exposure to outbreaks of disease and climate change
- Changes in regulations imposed by importing countries
- Deteriorating balance sheet from continued large capital expenditures

CORPORATE OVERVIEW

Founded in 1978, CPF is Thailand's largest agribusiness and food conglomerate. As of 9 May 2014, CPG and its related companies held 43.71% of CPF's shares. CPF's business is divided into two segments, livestock and aquaculture, with three types of operation in each segment: feed, farm, and food.

CPF has a market share of 45%-50% in the shrimp feed market and a 35%-40% share in the animal feed market in Thailand. Its fully-integrated operations help its products meet international standards, making its products qualified for export to the EU, Japan, and the US.

CPF started to invest overseas in 2002. Currently, CPF's revenue base and operations have expanded to cover 12 countries. In 2013, overseas operations accounted for 58% of total sales. Domestic sales were 34% of total sales and export sales from its Thailand operations were 8%.

Table 1: CPF's Revenue Breakdown

Unit: %

Market	2010	2011	2012	2013	Jan-Mar 2014
Thailand Operations					
- Domestic sales	60	61	36	34	36
- Export sales	14	14	9	8	6
Overseas Operations	26	25	55	58	58
Total	**100**	**100**	**100**	**100**	**100**
Sales (Bt mil.)	**189,049**	**206,099**	**357,175**	**389,251**	**98,122**

Source: CPF

Revenue from feed products contributed more than half, or about 56%, of total sales in 2013. The contribution from farm products accounted for 32% of total sales in 2013, while food products accounted for 12%.

Table 2: CPF's Revenue Breakdown

Unit: %

Market	2010	2011	2012	2013	Jan-Mar 2014
Feed	39	38	56	56	51
Farm	43	43	32	32	37
Food	18	19	12	12	12
Total	100	100	100	100	100
Sales (Bt mil.)	**189,049**	**206,099**	**357,175**	**389,251**	**98,122**

Source: CPF

RECENT DEVELOPMENTS

- ***Continue to make investments in Thailand and overseas***

During the second half of 2013 through the first half of 2014, CPF announced a series of investments both in Thailand and overseas. CPF's investments totaled Bt6,858 million, as shown in the table below.

Table 3: CPF's Investments announced during Jul 2013-Jun 2014

Company, Country	Business	% Holding	Investments (Bt million)
CP-Meiji, Thailand	Dairy products producer	60.0%	1,200
Russia Baltic Pork Invest, Norway	Holding company with investment in swine farms in Russia	69.7%	2,403
Hefei Chia Tai, China	Animal feed producer	100%	1,173
Tops Foods, Belgium	Chilled and ambient ready-to-eat foods using microwave system technology	80.0%	416
BHJ Kalino Food AB, Sweden	Producer of trading chilled and frozen products	15.1%	24
Kaifeng Chia Tai, China	Animal feed producer	100%	1,642
Total			6,858

Source: CPF

- ***Issued five-year exchangeable bonds worth US$290.4 million***

In January 2014, CPF's subsidiary, C.P. Foods Holdings Ltd. (CPFH), successfully issued Exchangeable Bonds (EBs) worth US$290.4 million. CPF provided an irrevocable sponsor undertaking for this EBs issue. The EBs carry a 0.5% annual coupon. The EB holders have the options to put the EBs to CPFH or hold the EBs until its maturity in 2019. The initial exchange ratio of EBs is 123,966.94 CPALL shares for each US$200,000 principal amount of EBs (1 CPALL share equivalent to Bt53.29, given the foreign exchange rate of Bt33.03 per one US dollar). Upon the exercise of the exchange right by an EB holder, the EB issuer has an option to pay the EB holder in cash or deliver CPALL shares. The cash payment will be equal to the market value of CPALL's shares. Before maturity, the EBs may be redeemed at the option of the EB holder, on 15 January 2016 at stated early redemption amount. The issuer also has right to redeem the bonds at the early redemption price after 5 February 2017, under certain conditions. The bonds will be redeemed on 15 January 2019 at 111.97% of their principal amount, unless previously redeemed or exchanged or purchased and cancelled. The all-in cost of the bonds was 2.75%, lower than CPF's average cost of funds of 4.65% in 2013.

BUSINESS ANALYSIS

CPF's strong business profile reflects its leading position in Thailand's agribusiness and food industry, its fully-integrated production process, and its diverse markets. The volatile nature of farm products and disease outbreaks remain major challenges for the company. However, the diverse product lines and geographical diversity would help alleviate the impact.

- ***Fully-integrated operations in swine, chicken, and shrimp products***

Except for grandparent breeder stock, CPF's chicken production process is fully vertically integrated. CPF produces feed, breeds animals, uses in-house and contract farms, and processes the meat. CPF has a competitive advantage because it can control the quality and the costs throughout the production processes. CPF also has the flexibility to adjust the product mix.

Once it successfully developed its own white shrimp breeder, CPF's shrimp business became fully integrated. The traceability of shrimp products is a major competitive advantage in export markets, just as it is for chicken products.

- ***Market leader in agricultural products***

CPF is the market leader in many business lines. In the feed segment, the company's share of the shrimp feed market, based on production volume, is 45%-50%. Its market share for animal feed is 35%-40%. In the Thai poultry and swine industry, CPF's market shares are 20%-30% of domestic production. As one of the largest producers, CPF benefits significantly from economies of scale.

- ***Diverse markets***

CPF's operations in Thailand accounted for 42% of its total revenue in 2013 while revenues from its international operations comprised 58%. The operations in China contributed the largest portion of international sales, or 29% of total revenue, followed by operations in Vietnam (14%). Operations in Turkey, Taiwan, India, and other countries each accounted for 1%-5% of total revenue.

In terms of sales destination, Thailand contributed only 34.5% of total sales in 2013. The Asian region has become important for sales destination. The portion of revenue from the Asian region increased from 21.9% of total sales in 2010 to 55.5% in 2013. The EU and the US accounted for only 8.0% and 1.0% of total sales in 2013, respectively. By operating in many nations, CPF can partly offset the cyclical nature of the agribusiness industry in each country. If the import regulations change in any importing countries, CPF will be less affected than other exporters in the agribusiness industry because CPF can relocate some production to other countries to alleviate the impact of the regulatory changes.

Table 4: CPF's Revenue Breakdown by Country

Unit: %

Country	2010	2011	2012	2013	Jan-Mar 2014
Thailand	59.8	60.9	35.9	34.5	36.3
EU	16.5	14.5	9.1	8.0	8.5
Asia	21.9	22.7	53.8	55.5	53.5
USA	1.5	1.6	0.9	1.0	1.5
Others	0.3	0.3	0.3	1.0	0.2
Total	**100**	**100**	**100**	**100**	**100**

Source: CPF

- ***Diverse product lines***

The company's product portfolio includes animal feed, poultry, shrimp, swine, and food products. In 2013, feed generated the largest portion of revenue for the Thailand operations, or about 13% of total sales. The second largest sales contribution came from branded food products (11%), and then poultry (8%), swine (7%), and shrimp (3%). For CPF's international operations, feed is the largest revenue contributor, providing 42% of total sales, followed by swine and poultry (13%) and shrimp (1%). CPF's operational risk is partly mitigated because its sources of revenue are spread across diverse range of products and markets.

Table 5: CPF's Revenue Breakdown by Product

Unit: %

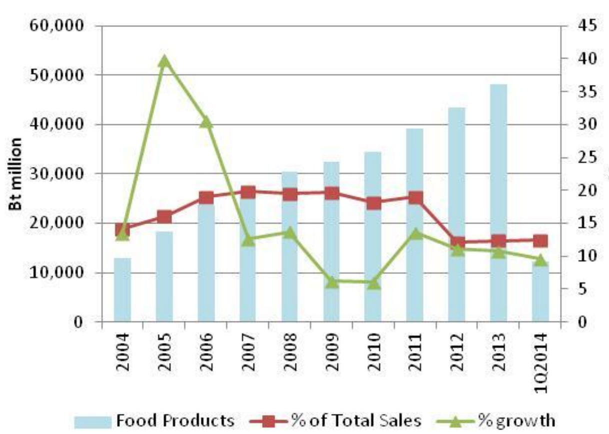
Product	2010	2011	2012	2013	Jan-Mar 2014
Sales (Bt mil.)	189,049	206,099	357,175	389,251	98,122
Sales growth (y-o-y)	15	9	73	9	12
Thailand					
- Animal feed	25	26	16	13	12
- Poultry	13	13	7	8	8
- Shrimp	7	6	3	3	3
- Swine	12	12	7	7	8
- Food products	17	18	11	11	11
- Others	0	0	1	0	0
Overseas					
- Animal feed	14	13	40	42	38
-Poultry and swine	10	10	12	13	16
-Shrimp	1	1	1	1	1
- Food products	1	1	1	2	2
-Others	0	0	1	0	0
Total	100	100	100	100	100

Source: CPF

- ***Move towards value-added products under the "CP" brand***

CPF is pursuing a long-term strategy of focusing on value-added products. As a result, CPF has partially insulated itself from the price fluctuations inherent in commodity-type products. CPF has adopted a one brand policy, using the "CP" brand for all of its packaged products sold in Thailand and overseas.

Chart 1: CPF's Sales of Food Products



Source: CPF

CPF's strategy to focus on processed products is prudent, as it is a response to changing consumer preferences. This strategy also enables the company to avoid competition in the commodity-like markets of frozen and fresh products, and allows the company to charge a premium for its branded products.

In 2013, revenue from food products accounted for 12% of CPF's total sales. The proportion fell from 19% in 2011 because the CPP acquisition increased the proportion of revenue from the feed segment. The food segment posted a satisfactory rise in revenue in 2013, climbing by 10.7% over the same period of the prior year (year-on-year or y-o-y) in 2013 and 9.7% in the first quarter of 2014. CPF aims to increase revenue from food by 15%-20% per year onwards.

- ***Expands retail distribution network***

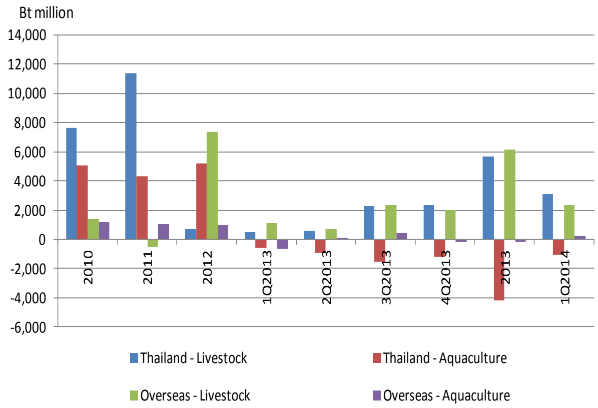
CPF created a retail distribution channel, CP Fresh Mart, to support its strategy of focusing on branded food products. The company opened 628 CP Fresh Mart stores by the end of March 2014. CPF also expanded the number of franchised Five-Star kiosks from 4,517 kiosks in 2011 to 5,088 kiosks by the end of March 2014. Five-Star franchises include Five-Star grilled/fried chicken, Five-Star chicken rice, wonton noodles, and ready meals kiosks. As of March 2014, CPF also had three CP Fresh Mart Plus shops and two CP Food World stores. CPF operates 188 Chester's fast food restaurants via Chester's Food Co., Ltd. CPF's efforts to develop its own distribution network will drive the sales of its food products over the long term.

- ***Increasing contribution from international ventures***

Over the past seven years, CPF has focused its efforts on expanding in order to pursue growth opportunities and partially mitigate the volatility of its revenue streams and margins. Sales from CPF's international operations have increased gradually via acquisitions and expansions. In 2013, more than half of CPF's revenues (58%) came from overseas. Although the international subsidiaries have pushed CPF's revenue higher, the profit contributions made by most foreign operations remain negligible, except CPF's operations in China and Vietnam which are run by CPP. In 2013, CPP posted a net profit of US$186 million in 2013, down from US$204 million in 2012. The performance of CPP in 2013 was mainly depressed by the Vietnam operation. Farm prices are low and grain costs are high in Vietnam.

However, CPP's net profit improved in the first quarter of 2014. Despite slow consumption and economic growth in China, the rise in swine price from low level in 2013 in Vietnam helped boost margin. CPP reported net profit of US$41 million in the first quarter of 2014, a 37.7% y-o-y rise. The increasing earnings from overseas helped offset the suffered aquaculture segment in Thailand operations, which generated a huge loss from EMS outbreak. In total, CPF's operating profit improved to Bt3,204 million in the first quarter of 2014, compared with a loss of Bt122 million in the first quarter of 2013. EBITDA rose by 115% over the same period of the prior year, to Bt7,806 million in the first quarter of 2014.

Chart 2: CPF's Operating Profit by Business Unit



Source: CPF

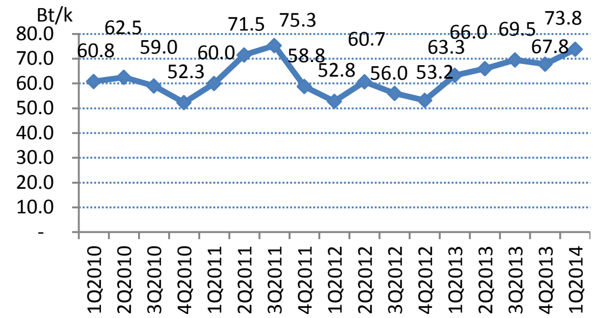
CPF's future expansion will focus on its existing overseas operations in China, Vietnam, India, Russia, and the Philippines. CPF also aims to penetrate the food industry in other countries. CPF, through its subsidiary, CPP, is building two food processing plants in China. One plant is in Qinghuangdao, the other is in Qingdao. The company is promoting the Five Star brand in the Indian and Vietnam market. Further diversification to other countries, CPF's earnings should be less volatile.

- ***Strong farm prices in livestock segment in Thailand***

The livestock segment in Thailand entered a cyclical downturn in 2012 and the first quarter of 2013, brought on by an oversupply. Chicken and swine prices started rising in the second quarter of 2013. The upturn in the broiler segment accelerated partly because one major broiler producer, Saha Farm Co., Ltd. suffered financial problems and cut production.

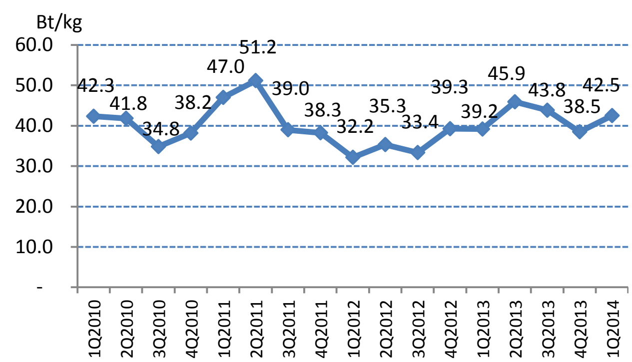
According to the Thai Feed Mill Association, the average domestic price of broilers was Bt40.96/kilogram (kg.) in 2013, a 15% increase compared with 2012. The average price of domestic swine jumped 20% to Bt64.93/kg., compared with the 2012 average. The price of broiler and swine remained strong in the first quarter of 2014. The broiler price averaged Bt40.55/kg. and the swine price averaged Bt71.25/kg. in the first quarter of 2014. In addition, the cost of feed declined. Corn, which is a major component of feed, decreased in price by 11% during 2013 according to the Thai Feed Mill Association. Rising meat prices and falling grain costs widened the gross margin for domestic livestock producers. CPF's gross margin of livestock in Thailand hovered between 15%-19% from the second quarter of 2013 through the first quarter of 2014, compared with CPF's average gross margin of 9% in 2012. Looking forward, the prices of both swine and broilers should remain at solid levels entering into the second quarter of 2014. As a result, CPF's livestock unit in Thailand is expected to continue to post strong earnings for the remainder of 2014.

Chart 3: Swine Prices at Farms



Source: Office of Agricultural Economics (OAE)

Chart 4: Broiler Prices at Farms



Source: OAE

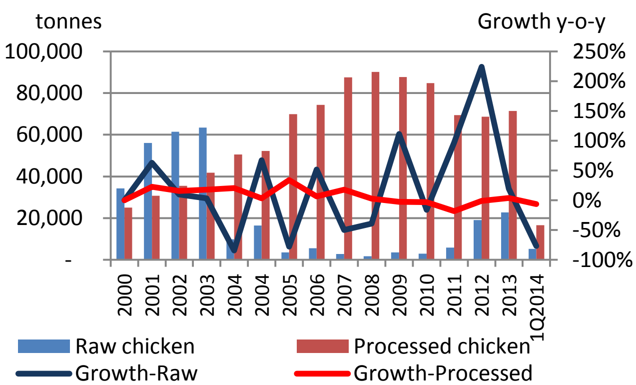
- ***Chicken exports rise after EU lifts ban on frozen chicken***

The EU Standing Committee on the Food Chain and Animal Health had withdrawn the import restriction on frozen chicken from Thailand. The restriction was lifted on 1 July 2012. Once the ban was lifted, the value of CPF's chicken exports in 2013 grew to Bt14,910 million in 2013, a 17.2% rise compared with 2012. CPF's chicken export volume expanded by 7.4% to 94,201 tonnes in 2013. The export volume of frozen chicken meat rose by 19.3%, while the export volume of processed meat increased by 4.1% in 2013. CPF exported more chicken to the EU and other countries in Asia, especially Japan. In contrast, the total volume of fresh chicken meat exported from Thailand in 2013 declined by 6.3% to 504,651 tonnes, according to the Custom Department's report. The chicken exports from Thailand fell because one major producer, Saha Farm, cut production. The chicken exports from Thailand recovered in the first five months of 2014. Thailand exported about 207,827 tonnes of chicken in January to May 2014, a 1.5%

y-o-y increase. The export value rose by 10.6% y-o-y to Bt29,069 million in the same period.

CPF's chicken exports continued to increase, rising by 14.5% y-o-y in the first quarter of 2014. The growth was bolstered by a 28.3% y-o-y increase in exports of fresh chicken meat. The prospects for chicken export are encouraging. Japan, which accounts for 40% of total chicken export from Thailand, has allowed the import of fresh chicken meat from Thailand since the end of December 2013. Import of fresh chicken from Thailand had been banned for 10 years. Japan had ever imported frozen chicken from Thailand about 150,000 tonnes in 2003 before ban.

Chart 5: CPF's Broiler Exports



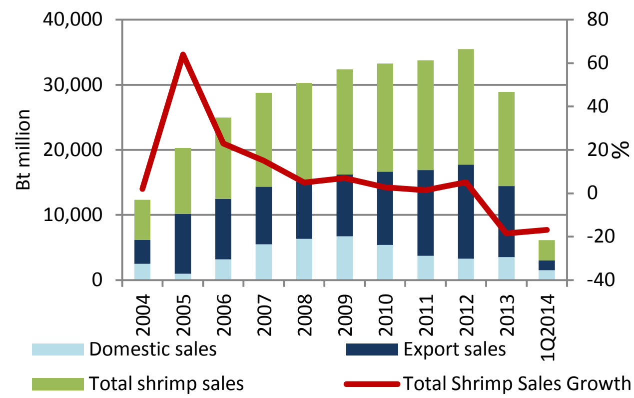
Sources: CPF

- ***Aquaculture in Thailand was hard hit by EMS outbreak***

The shrimp industry in Thailand has been battling an EMS outbreak since the second half of 2012. The outbreak took a severe toll on the shrimp industry, causing supply shortage and slashing Thailand's shrimp exports. According to the Thai Frozen Foods Association, Thailand's farmed shrimp supply contracted by about 10% to 540,000 tonnes in 2012, but plunged 54% to 250,000 tonnes in 2013. Shrimp exports from Thailand declined by 12.5% in volume, and 13.5% in baht terms in 2012. Shrimp exports tumbled by 40.3% in volume and 28.7% in baht terms in 2013. CPF's shrimp segment suffered from the disease epidemic. In 2013, CPF's sales of shrimp feed in Thailand sank by 42.0% versus 2012, while sales of breeder dropped by 43.2%. CPF's shrimp exports slipped by 24.3% compared with 2012. CPF's domestic shrimp sales grew by 7.8% in 2013. The supply shortage caused a sharp increase in the price of shrimp. The disease caused CPF's shrimp segment reported a significant loss in 2013.

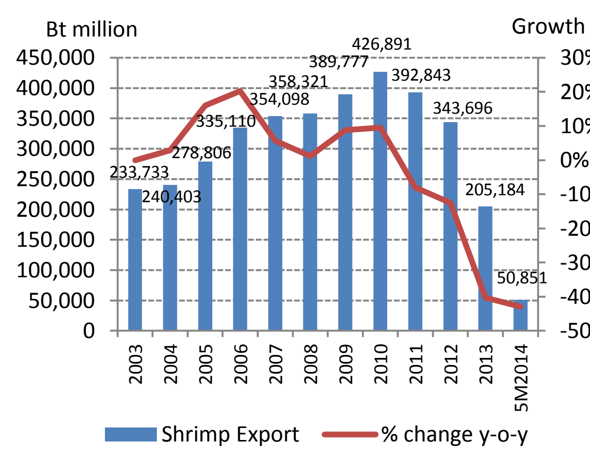
To effectively handle with the EMS outbreak, the farmers have to improve sanitation in the shrimp hatcheries, and nurseries, plus improve management of their shrimp farm. The Fishery Department is encouraging shrimp farmers to adjust their farming procedures. However, most farmers remain reluctant to farm more shrimp. As a result, the shrimp supply has not rebounded. The shrimp supply in Thailand in 2014 is expected to remain low at 250,000-280,000 tonnes, close to the production volume in 2013. The persistent shrimp shortage has caused shrimp exports from Thailand to fall to 50,851 tonnes during the first five months of 2014, a 42.9% drop compared with the same period of the prior year, according to figures of the Customs Department. CPF's shrimp export declined by 48.5% to Bt1,535 million in the first quarter of 2014.

Chart 6: CPF's Shrimp Sales (Thailand Operations)



Source: CPF

Chart 7: Thailand's Shrimp Exports



Source: Customs Department

- ***Human trafficking problem is another challenge for the shrimp industry***

Recently, Carrefour, a worldwide supermarket chain, announced it would suspend purchasing shrimp products from CPF. The halt came after a recent report published by a British newspaper alleged that Thailand's fishery industry, which is supply chain of shrimp production uses forced and slave labors. It also accused that CPF buys fishmeal from vessels employing slave labor. The suspended order from Carrefour will have limited impact on CPF. CPF's export to Carrefour accounted for only about 0.03% of CPF's total revenues. In response, CPF officially denied the allegation, and insisted that the company condemns all aspects of human trafficking and slavery. CPF will audit independent fishmeal suppliers to determine if they have been involved in illegal actions. CPF will stop purchasing fishmeal from suppliers, which acquire raw materials from fishing boats involved in human trafficking or slavery, until the suppliers and fishing boats can rectify any illicit actions. CPF has clarified its position on the human trafficking issue with all customers, especially Carrefour. Tesco, another worldwide hyper-market chain, recently announced to continue ordering food products from CPF.

This allegation is a challenge for the entire Thai seafood industry, including CPF. Thailand has been on the Tier 2 Watch List of the US human trafficking blacklist for four consecutive years. The US Department of State is scheduled to release its Trafficking in Persons report soon. If the US considered that Thailand was slow response to the human trafficking issue and downgrades Thailand to the Tier 3 list, the lowest rank in human trafficking problem, this would concern the customers in the US and EU. They might consider halting orders from Thai shrimp producers. The loss of orders would be another challenge for the Thai shrimp industry, which is currently crippled by the EMS outbreak. However, CPF's geographical and market diversification will help alleviate the direct impact of the lost orders, if any. CPF's total shrimp export to the US and EU were worth Bt5,416 million in 2013, or 1.4% of total sales.

FINANCIAL ANALYSIS

CPF's financial profile weakened in 2012 and 2013. A downturn in the livestock segment in Thailand in 2012 and an EMS outbreak in the shrimp segment in Thailand in 2013 dampened profitability. The debt to capitalization ratio rose to 60.2% at the end of March 2014, from 50.9% at year end 2011 due to the large capital expenditures and CPP acquisition. Stronger performances in livestock segment in Thailand, Turkey, India, and Vietnam improved CPF's profitability in the first quarter of 2014. However, rising leverage and limited recovery in shrimp segment in Thailand caused CPF's cash flow protection to remain-weak in the first quarter of 2014.

- ***Poor performance in 2013, but a rebound in the first quarter of 2014***

CPF's total sales were Bt389,251 million in 2013, up 9.0% from 2012. However, profitability was very poor in 2013. In the first quarter of 2013, CPF still encountered the continued down cycle of livestock segment in Thailand. The prices for poultry and swine continued to be low from 2012 while the feed cost remained high. The gross profit of the domestic livestock segment in the first quarter of 2013 was low at 9.0%, close to the level in 2012. Livestock segment started to rebound in the second quarter of 2013. However, the domestic aquaculture segment tumbled due to the EMS outbreak. The international operations remained weak. As a result, CPF's gross profit margin fell noticeably to 10.0% in 2013 from 11.6% in 2012, the lowest level since 2005. The ratio of operating income before depreciation and amortization to sales declined to only 2.6% in 2013, compared with 3.8%-9.4% during 2007-2012. CPF's performance was partly boosted by the equity income it earned from its investments in associated firms and the gains from divestments. CPF recorded a gain from divestment worth Bt8,219 million in 2013, and reported a net profit of only Bt7,065 million in 2013.

CPF's earnings recovered noticeably in the first quarter of 2014. Even though the disease outbreak in farmed shrimp continued in Thailand, the prices for farm products in Thailand, Turkey, India, and Vietnam bolstered CPF's profitability and EBITDA. CPF benefited from strong export sales of chicken and lower costs of feed. CPF's gross profit margin recovered to 13.4%. The ratio of operating income before depreciation and amortization to sales increased to 5.8% in the first quarter of 2014, the highest level in the past seven quarters. EBITDA rose by 115% over the same period of the prior year, to Bt7,806 million.

Looking forward, the prices of chicken and pork will remain high in Thailand and in CPF's major overseas markets. The continued strong performances of the livestock segment will help improve CPF's earnings, despite slow recovery from the EMS outbreak in the Thai shrimp industry in 2014.

Table 6: Highlights of CPF's Financial Performance

Unit: Bt million

Performance	2010	2011	2012	2013	Jan-Mar 2014
Sales	189,049	206,099	357,175	389,251	98,122
Gross profit	32,698	33,612	41,337	38,857	13,103
Gross margin (%)	17.3	16.3	11.6	10.0	13.4
Selling & admin.	20,683	18,919	33,354	37,332	9,899
EBIT	16,049	19,916	15,117	8,580	5,341
EBITDA	20,847	24,655	22,493	17,124	7,806
Interest	1,773	2,422	6,283	7,568	2,098
Gains from investment	962	1,358	14,682	8,219	518
Net profit	13,563	16,117	18,790	7,065	2,050

Source: CPF

- ***Weakened cash flow protection***

CPF's funds from operations (FFO) to total debt ratio dropped significantly in 2013. The ratio tumbled to 3.2%, compared with normal level of 11%-15%. The FFO to total debt ratio remained weak at 1.1% (non-annualized) in the first quarter of 2014 even though earnings improved. Cash flow protection was weak in 2012 and 2013 because CPF's operating performances was weak in these two years. In addition, CPF incurred considerable capital expenditures and made debt-funded acquisition of CPP in 2012. Total debt increased to Bt197,648 million at the end of the first quarter of 2014, from Bt69,449 million at the end of 2011. The EBITDA interest coverage ratio softened to 3.7 times in the first quarter of 2014, compared with normal level of 5-6 times.

- ***Uncertain deleverage plan***

CPF's total debt to capitalization ratio rose noticeably to 60.2% as of March 2014, compared with 50.9% at the end of 2011. CPF plans to spend Bt20,000 million in capital expenditures in 2014. These expenditures are for expansions in Thailand and overseas. Assuming the slow recovery in domestic shrimp industry, CPF's EBITDA is expected to be about Bt30,000-Bt35,000 million per year. This level of EBITDA is sufficient to fund the planned capital expenditures and meet CPF's interest expenses and a normal dividend payout. However, CPF's leverage will remain high. CPF has plans to bring its debt to equity ratio down below 1 times in the medium term by divesting non-core assets and some investments. However, the execution of these plans depends on market conditions.

- ***Liquidity and financial flexibility remain strong***

As of 31 March 2014, CPF had Bt20 billion in cash on hand and short-term securities. The company had a 32.25% interest in CPALL, the leading convenience store operator in Thailand. The market capitalization of CPALL was approximately Bt430 billion, as of 20 June 2014. In addition to CPALL, CPF's subsidiary also owns 354.82 million shares of CPF worth Bt9,758 million, based on the market price of Bt27.50 per share. The shares of CPP owned by CPF are valued about Bt64,000 million, based on the market price of HK$0.81 per share on the Stock Exchange of Hong Kong. These investments will provide financial flexibility to CPF.

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		------------------------- Year Ended 31 December	-------------------------			
	Jan-Mar 2014	2013	20 12	2011	2010	2009
Sales and service revenues	98,122	389,251	357,175	206,099	189,049	165,063
Gross interest expense	2,098	7,568	6,283	2,422	1,773	1,859
Net income from operations	1,881	(1,458)	3,930	14,476	11,592	9,546
Funds from operations (FFO)	2,069	6,022	9,486	17,480	17,455	13,936
Total capital expenditures	5,423	23,252	20,182	10,288	6,460	4,218
Total assets	379,241	365,003	310,544	160,506	126,092	115,698
Total debt	197,648	186,405	146,203	69,449	46,649	42,797
Shareholders' equity	130,531	129,573	120,781	67,077	60,944	54,979
Operating income before depreciation and amortization as % of sales	5.78	2.59	4.30	9.43	8.89	9.45
Pretax return on permanent capital (%)	1.66 **	2.94	7.49	16.32	15.63	14.83
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.72	2.26	3.58	10.18	11.76	10.10
FFO/total debt (%)	1.05 **	3.23	6.49	25.17	37.42	32.56
Total debt/capitalization (%)	60.23	58.99	54.76	50.87	43.36	43.77

* *Consolidated financial statements*
** *Non-annualized*

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