



Charoen Pokphand Foods Plc.

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CPF plans expansion of Fresh Mart stores

300-350 outlets will be launched each year

Bangkok Post, July 16, 2013

Charoen Pokphand Foods Plc. (CPF) plans to spend 1.5 billion baht to expand CP Fresh Mart so that the food retail chain's sales will more than double over the next three years.

Chaiyuth Thipsuwanporn , the senior vice-president for retail business at CPF Trading Co, a subsidiary of CPF , said the budget will be used to open 300-350 CP Fresh Mart stores per year from 2014-16

The expansion will accelerate its growth, while the new outlets will bring its total stores to 1,700, up from 700 by year-end.

Most new outlets to be opened in the next three years will be up country, as Bangkok is full of retail operators.

CP Fresh Mart started remodeling its store format last year and completed the work in the first half.

During the remodelling, it closed about 70 non-performing stores because of traffic changes in the locations.

Space in each store can be adjusted to accommodate sugar, packed rice, seasoning products, beverages and beers to serve family customers. About 30% of products at CP fresh Mart stores are non-CP brands.

" We' re ready to expand our business aggressively," By Chaiyuth said .

He added that the company plans to open 80 CP fresh Mart stores in the second half.

CPF also plans to add more refrigerators at stores serving communities in remote area and open 10-15 CP Fresh Mart Plus branches per year.

It will spend another 150 million baht to build three small distribution centres in the North , Northeast and South in the near future

Mr. Chaiyuth said CPF expects sales of CP Fresh Mart in all formats will grow by 32% the highest rate in the past four years, to reach 8 billion baht this year.

With the faster pace of expansion it expects sales to jump to 20 billion baht in 2016

Mr. Chaiyuth said the company is ready to expand its CP Fresh Mart business to Asean including Vietnam and Malaysia to prepare for the launch of the Asean Economic Community in 2016.

CPF's proposed issue of up to THB 10,000 million in senior debentures

CPF offers debentures with financial amount not exceeding THB 10,000 million for institutional investors during July 30 to August 1, 2013 at CPF debentures distributors, which include Krung Thai Bank, TMB Bank Public Company Limited and The Siam Commercial Bank. The proceeds from the debentures will be used to repay CPF's existing debt and for planned capital expenditures.

The first tranche of THB 2,000 million will mature in 4 years (2017) with an interest rate of 4.04% per annum.

The second tranche of THB 2,500 million will mature in 6 years (2019) with an interest rate of 4.54% per annum.

The third tranche of THB 5,500 million will mature in 8 years (2021) with an interest rate of 4.90% per annum.

The debentures have received an AA- rating from Tris Rating as of July 26, 2013.

TRIS Rating affirms the company and current senior debenture rating of Charoen Pokphand Foods PLC (CPF) at "AA-"

TRIS Rating affirms the company and issue ratings of Charoen Pokphand Foods PLC (CPF) at "AA-". At the same time, TRIS Rating assigns the rating of "AA-" to CPF's proposed issue of up to Bt10,000 million in senior debentures. The proceeds from the new debentures will be used to repay CPF's existing debt and for planned capital expenditures. The 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 overseas expansion efforts. The ratings also take into consideration the company's financial flexibility, the inherent volatility of the prices of farm products, and exposure to outbreaks of animal diseases, along with changes in import tariffs imposed by importing countries.

CPF is the largest agribusiness and food conglomerate in Thailand. As of 11 March 2013, Charoen Pokphand Group Co., Ltd. (CPG) and related companies held 45.09% 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. CPF's fully-integrated operations help its products meet safety and traceability standards. This qualifies the products for export to major importing countries, including the countries of the European Union (EU), Asian nations, and the United States (US).

CPF has expanded geographically during the past several years. Currently, its operations cover 12 countries, mainly in Asia. The operations in Thailand accounted for 45% of total revenue in the first quarter of 2013. Operations in China contributed 27% of total revenue, followed by operations in Vietnam (13%). The remaining revenue came from Turkey, Taiwan, India, and other countries, which accounted for 1%-5% each. Animal feed is the largest product segment, contributing about 55% of total revenue in the first quarter of 2013. Sales of commodity-like farm products contributed 32% of the company's total sales in the first quarter of 2013, while revenue from the sale of food products accounted for 13%.

CPF continues to strive to reduce the commodity-like nature of its products and stabilize operating cash flow. The company is enlarging portfolio of own branded products and developing distribution channels for both the domestic and export markets. CPF aims to increase the contribution from food products to 20% of total sales by 2016 and continue expanding its operations into more countries. Revenues from international operations are expected to rise to 63% of total sales by 2016, up from 55% in 2012. 

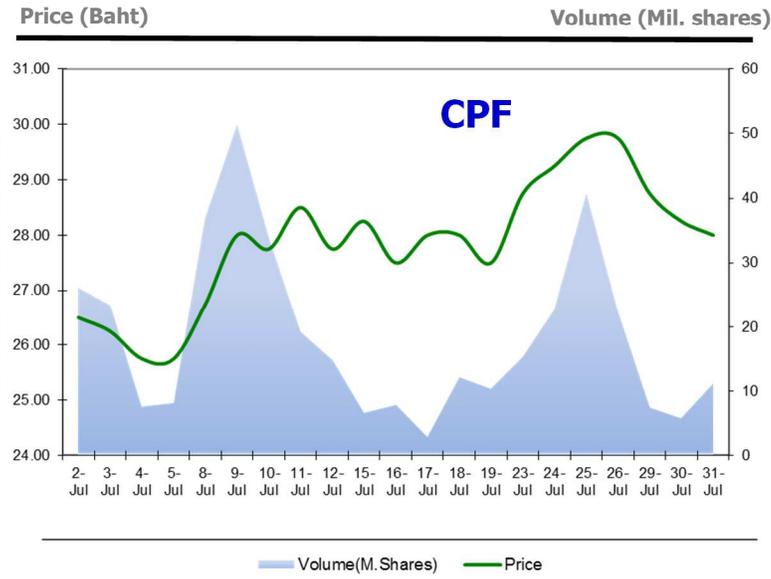
In the first quarter of 2013, CPF was hard hit by an outbreak of early mortality syndrome (EMS) at shrimp farms in Thailand. Based on data collected by Department of Fisheries of Thailand, shrimp production in Thailand tumbled by approximately 25% from the same period of last year in the first quarter of 2013. In other segments, the livestock industry in Thailand was gradually recovering from an over-supply situation. According to the Thai Feed Mill Association, in the first quarter of 2013, the average prices of poultry and swine products increased by 12%-15%, compared with the average prices in 2012. The average price of soybean meal, one of the major components of poultry and swine feed, rose 2% compared with the average price in 2012. The recovery in the livestock segment did not offset the drop in sales in the shrimp segment. As a result, CPF's gross margin dropped to 9.0% in the first quarter of 2013, from 13.6% in the same period of last year. CPF's earnings before interest, tax, depreciation, and amortization (EBITDA) declined by 43% to Bt3,627 million in the first quarter of 2013, compared with Bt6,344 million in the first quarter of 2012. Funds from operations (FFO) were negative in the first quarter of 2013. However, CPF realized divestment gains worth Bt2,143 million in the period to support its weak operating performance. Heavy capital expenditures and investments in affiliated companies drove total debt higher in the first quarter of 2013. Total debt was Bt162,117 million as of March 2013, up from Bt146,203 million at the end of 2012. The EBITDA interest coverage ratio dropped to 2.0 times in the first quarter of 2013, compared with 3.6 times in 2012.

Looking forward, CPF's operations are expected to improve quarter by quarter. Domestic meat prices in Thailand continue to recover. According to the Thai Feed Mill Association, the price of poultry during the second quarter of 2013 hovered around Bt45 per kilogram (kg.), an increase of 14.0% from the average price in the first quarter of 2013 and up 27.9% from the average price in 2012. The swine price climbed to Bt64 per kg. during the second quarter of 2013, a 3.6% increase from the average price in the first quarter of 2013. The price of soybean meal has decreased, and the lower cost of feed should be reflected in the second half of 2013. CPF will use up its higher cost inventory by the end of the second quarter of 2013. The recovery in selling prices and falling costs should boost the profitability of the livestock business in Thailand. The EMS outbreak situation is now improving, but it may take some time to encourage shrimp farmers to resume their farming. CPF planned capital expenditures of approximately Bt50,000 million during 2013-2017 including some acquisitions. Without concrete deleveraging plan, this budget could weaken the company's balance sheet. However, CPF has a clear policy to improve its capital structure and lower its debt to capitalization ratio to less than 50% in the medium term.

Rating Outlook : Stable

The "stable" outlook reflects TRIS Rating's expectation that CPF will be able to maintain its leading position in the dynamic agribusiness and food industry. The company is expected to maintain its financial discipline and sufficient liquidity. CPF has sufficient financial flexibility from its investments and valuable assets. Its flexibility provides a cushion for the company to weather the down-cycle in the shrimp industry.

Price Performances: CPF



July 2013	
Highest Price	30.50
Lowest Price	25.25
Closed Price	28.00
Average Volume/Day (Shares)	18,420,000

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