



# Charoen Pokphand Foods Plc.

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**Company News : CPF agrees the party's latest policy as adopting "Two Highs" theory to form part of its economic/populist agenda**  
**: Tris Rating affirms company and issue ratings of "CPF" at "AA-" with "Stable" outlook**

**Price Performance : CPF**

## **CPF agrees the party's latest policy as adopting "Two Highs" theory to form part of its economic/populist agenda**

CPF concedes policies of the new government as adapting minimum wage of 300 baht a day, people's salary 15,000 baht a month and a rice mortgage 15,000-20,000 baht. Those policies are in line with the Two Highs theory of CP Group CEO Dhanin Chearavanont, stated a couple years ago.

Adirek Sripratak, President and Chief Executive Officer of Charoen Pokphand Foods Plc. or "CPF" stated that there has been a big global change, resulting from increases in fuel prices, which has seen a significant rise in the use of alternative energy sources such as cassava, sugar cane, palm oil, and corn converted to biodiesel and ethanol, also including rubber which has been in high demand recently. However there are not enough rubber fields. Another big change is the influence of global warming and the change in the climate, as there have been floods and droughts before. Consequently, yields were destroyed as well as chicken farming, pig farming and shrimp farming. This would lead to food shortages and food prices would be pushed up.

Thailand should prepare for such changes by raising peoples' income to meet the rising cost of living. However, when raising the minimum wage to reach 300 baht a day, the government should make it clear, in order for business to proceed normally. In the beginning, they might effect support using alternative methods. Tax policy should compensate SME business, whereas big business is expected to survive by developing and improving through effective use of employees' work and unskilled workers' work. Throughout, other expenses should be reduced. The Government's policy, reducing tax's legal person from 30% to 23%, should be one of the parts of support. Such policy is a good thing as Thailand is likely to have more tax collection than other countries.

He added that "CPF has about 40,000 employees and they currently get paid more than the minimum wage so we are ready to proceed the latest policy". Even he is worried about continuing the policy but he is willing to support in order to enhance the benefit to people as a whole

As before CPF pointed to increased effective use of employees and unskilled workers with high technology in producing greater competition in the market. As has been clearly seen, there has been a rise in goods prices from 40 years ago, for example the price of Benzine has risen from 1.90 to 40 baht, which is 20 times, or the price of gold which has gone from 400 per baht to 22,000 per baht now, which is 50 times the original price. The minimum wage has increased from 20 baht

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per day to 215 baht per day which is only 11 times, egg prices from 0.50 to 3.50 baht which is 7 times. The price of Pork has risen from 7 baht to 75 baht, which is 11 times, while chicken from 12 baht to 38 baht ,which is only 3 times. It can be seen that chicken price has seen the lowest rise. Accordingly the price of goods is encouraging people to invest in this business, which in turn affects the level of competing technology towards improving the products. Government should leave the market to drive the yield price , and the government should also financial support to ensuring effective production to increase the amount and quality. Consumers therefore can more easily obtain goods an affordable

In conclusion we should prepare for big changes and be ready to overcome. The latest policies, raising minimum wages and improving yields are significant in stimulating Thailand's economy, These should enhance benefits as a whole with the increase in the purchasing power for Thailand's people .

### **Tris Rating affirms company and issue ratings of “CPF” at “AA-” with “Stable” outlook**

Tris rating affirms the company and current 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 refinance maturing debentures and to fund the company's planned capital expenditures. The ratings reflect the company's leading position in the Thai agribusiness and food industry, plus its product and market diversification efforts, successful strategic shift towards branded food products, overseas expansion strengthened operating performance. The ratings also take into consideration CPF's relatively low operating profit margins, as well as and exposure to climate change.

CPF is the largest agribusiness and food conglomerate in Thailand and is the flagship company of the CP Group. As of March 2011 Co., Ltd. Charoen Pokphand Group Co., Ltd (CPG) and related companies held 42.14% of CPF's shares. The company's business is divided into two major categories, livestock and aquaculture, each of which comprises feed, farm, and food products. Fully-integrated operations help its 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 countries, and the United States (US).

For the first three months of 2011, revenue from farm products contributed 45% of the company's total sales, followed by animal feed (36%) and food products (19%). To reduce the commodity-like nature of its products and stabilize cash flow, CPF focuses on building its own branded and value-added products and developing distribution channels for both the domestic and export markets. CPF aims to increase the contribution from food products to one-third of total sales from Thailand operations and to 10% of total overseas sales by 2014, While reducing the proportion of sales from its commodity-like farm products. In addition to diversifying its product lines, the company has continue to expand to many countries, as overseas operations can provide more growth opportunities than its Thailand operations, The contribution from overseas operation increased from 19% of total sales in 2009 to 26% in 2010. The rise largely came from operations in Taiwan, India and Malaysia. CPF plans to increase the contribution from overseas operations to 40% in 2014.

CPF's financial profile remains healthy. For the first three months of 2011, sales grew continuously to Bt45,744 million, up by 4.9% from the same period in 2010. However, the company's gross margin dropped to 16.1% for the first three months of 2011, down from the unusually high margin of 17.30% in 2010 Net profit, excluding gains on sale of investments, was favorable at Bt2,786 million, despite a drop of 13.6% from the same period in 2010, due mainly to the relatively high grain costs and losses in its operations in Turkey. Looking forward, grain costs continue to remain high. To manage its raw material costs in 2011, CPF has stocked up on major raw materials and purchased forward agreements. Both livestock and shrimp farms had been affected by the flooding in the southern region of Thailand during early 2011; hence domestic meat prices are expected to remain high 2011. The operating performance for the remainder of 2011 should remain strong from the good management of raw material costs, production process efficiency, and the expected high domestic prices in most products, During 2011-2013, the company's expansion plan will require Bt8,000-Bt10,000 million in capital expenditures annually to

invest in creating more value-added products, expanding its distribution channels. And expanding overseas. As earning before interest, tax, depreciation, and amortization (EBITDA) are expected to reach Bt15,000-Bt20,000 million per year, these capital expenditures should be able to be financed mainly by operating cash flow. As of March 2011, CPF's total debt to capitalization ratio was healthy at 44.34%

### Rating Outlook

The "stable" outlook reflects the expectation that the company will be able to maintain its leading position in the dynamic global food market. The company's diverse range of products and markets, along with economies of scale, are expected to help improve credit protection and stabilize profits. The focus on food products should offset the fluctuations in the prices of its commodity-like farm products.

### Charoen Pokphand Foods PLC (CPF)

#### Company Rating:

AA-

#### Issue Ratings:

CPF118A: Bt3,000 million senior debentures due 2011

AA-

CPF120A: Bt2,500 million senior debentures due 2012

AA-

CPF138A: Bt3,000 million senior debentures due 2013

AA-

CPF13NA: Bt2,200 million senior debentures due 2013

AA-

CPF14NA: Bt3,200 million senior debentures due 2014

AA-

CPF14NB: Bt3,000 million senior debentures due 2014

AA-

CPF15NA: Bt3,000 million senior debentures due 2015

AA-

CPF17NA: Bt5,000 million senior debentures due 2017

AA-

Up to Bt10,000 million senior debentures due within 2041

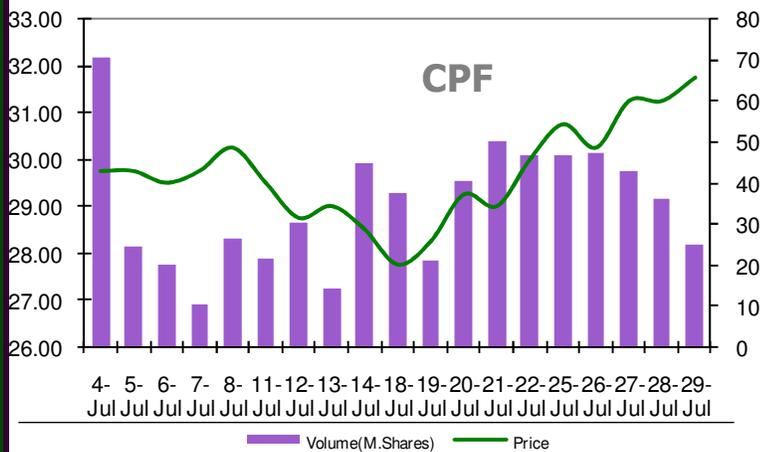
AA-

#### Rating Outlook

Stable

## Price Performances: CPF

Price (Baht) Volume (Mil. shares)



### July 2011

<b>Highest Price</b>	31.75
<b>Lowest Price</b>	27.75
<b>Closed Price</b>	31.75
<b>Average Volume/Day</b>	34,600,000

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