



Charoen Pokphand Foods Plc.

Volume 12, Issue 8

August 2012

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: TRIS Rating affirms company & current senior debt ratings of "CPF" and assigns rating to its new senior debt worth up to Bt15,000 million at "AA-" with "Stable" outlook

Price Performance : CPF

The Acquisition of Chester's Food Co., Ltd.

CPF will acquire 799,997 ordinary shares of Chester's Food Co., Ltd. ("Chester") (or 99.99% of Chester's total issued shares) at the price of THB 562.50 per share, totaling THB 449,998,312.50 from Charoen Pokphand International Company Limited ("CP Inter"), within the 3rd quarter of 2012.

General Description of the Acquired Asset

Company Name : Chester's Food Company Limited ("Chester")
 Nature of Business : Restaurant and beverage
 Registered Capital : As of March 31, 2012, Chester had registered and paid-up capital of THB 80,000,000 comprising 800,000 ordinary shares with a par value of THB 100 per share
 Shareholding Structure :

	Shareholding Percentage	
	Pre-Transaction	Post-Transaction
CP Inter(1)	99.99	-
CPF	-	99.99
Others	<u>0.01</u>	<u>0.01</u>
Total	<u>100.00</u>	<u>100.00</u>

(1) An indirect subsidiary of Charoen Pokphand Group Company Limited ("CPG") with 99.99% stake

Key Financial Information of Chester from the Audited Financial Statements for Fiscal Years ended December 31, 2009 - 2011

(THB million)	2009	2010	2011
Sales	701	712	827
Net Profits	17	16	35
Total Assets	315	338	280
Total Liabilities	203	210	193
Shareholders' Equities	112	128	87
Book Value per Share (THB/share)	35	40	108
Number of Shares (million shares)	3.20	3.20	0.80

The Board of Directors (excluding those directors with the conflict of interest as mentioned below) considered and viewed that this transaction is reasonable and beneficial to CPF as the Company will have additional downstream business and will own Chester network of more than 160 restaurants which will become the important Food Retail Outlet of the Company with high growth potential in both local and international market. This is due to Chester trademark and products which are well-known countrywide. To enter this transaction, the Company took the risks and rate of return into consideration, as well as the opinion of financial advisor derived from the financial due diligence and Chester's executive interview, then, opined that the price is appropriate.

TRIS Rating affirms company & current senior debt ratings of "CPF" and assigns rating to its new senior debt worth up to Bt15,000 million at "AA-", with "Stable" outlook

TRIS Rating, July 18, 2012

Rating Rationale

TRIS Rating affirms the company and current 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 Bt15,000 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 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 inherent volatility of farm products, exposure to disease outbreaks, rising grain costs, and changes in tariff imposed by importing countries.

CPF is the largest agribusiness and food conglomerate in Thailand. As of May 2012, Charoen Pokphand Group Co., Ltd. (CPG) and related companies held 49.93% 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 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 nations, and the United States (US).

On 8 March 2012, CPF and its subsidiary completed the acquisition of 76.13% of issued shares of C.P. Pokphand Co., Ltd. (CPP) for a total consideration of US\$2,174 million. CPP is listed on the Stock Exchange of Hong Kong. It is a leading animal feed producer in China and owns fully integrated operations of livestock and aquaculture in Vietnam. After the acquisition, the revenue base of CPF became more diversified geographically. For the first quarter of 2012, revenue from overseas operations accounted for one half of total revenue, up from one fourth in the past years. Its Thailand operations contributed 51% of total revenue, down from 75% in 2011. Animal feed is now the largest product segment, contributing about 52% of total revenue in the first quarter of 2012. Sales of commodity-like farm products contributed 35% of the company's total sales, down from 43% in 2011. Revenue from sale of food products accounted for 13%, down from 19% in 2011. CPF is still striving to reduce the commodity-like nature of its products and stabilize operating cash flow by creating its own branded and value-added products and by 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 further expand its operations into many countries. Revenues from overseas operations are planned to rise to 63% of total sales by 2016 from 49% in the first quarter of 2012.

For the first three months of 2012, CPF's sales was Bt73,480 million, a 60.6% rise from the same period of last year. This was mainly due to the consolidation of the operations in China and Vietnam after the CPP acquisition. However, since the severe flooding in Thailand during the last quarter of 2011, the domestic consumption of livestock products has remained low. In addition, the livestock market encountered the oversupply situation. As a result, prices of most livestock products, especially chicken, fell noticeably. CPF's gross margin in the first quarter of 2012 shrank to 13.6% from 16.1% in the first quarter of 2011. Net profit, excluding gains due to the revaluation and sale of investments and foreign exchange, was moderate at Bt2,412 million, down by 17.8% from the first quarter of 2011.

 To be Continued

However, earnings before interest, tax, depreciation, and amortization (EBITDA) grew by 23.1% year-on-year (y-o-y) to Bt6,344 million, thanks to the growing revenue base after acquisition. The EBITDA interest coverage ratio was acceptable at 5.0 times in the first quarter of 2012. The livestock prices have begun to recover since the second quarter of 2012. The European Union's (EU) action to remove bans on imported frozen chicken products from Thailand since July 2012 will alleviate the current oversupply of poultry domestically. Prices for chicken and chicken products are expected to gradually recover, which should improve profitability of the company despite increasing pressure from rising corn and soybean prices. In 2012, CPF plans to have capital expenditures of about Bt16,000 million. This budget, including its overseas expansion, should keep the debt to capitalization ratio of CPF hovering around 50%, close to the level as of March 2012.

The EU has recently announced the new criteria for granting generalized system of preferences (GSP) for shrimp products. Thailand will be disqualified under these new GSP criteria. Under current GSP, Thai frozen shrimp faces 4.2% import tax while processed shrimp is levied at 7.0%. The tariff will be upward revised to 12% for frozen shrimp and 20% for processed shrimp from 1 January 2014 onwards.

The end of current EU GSP privileges is expected to have limited direct impact on CPF's business since only 2% of CPF's total revenue comes from shrimp exports to the EU in 2011. CPF also plans to relocate production of some products from Thailand plants to other countries which are eligible for GSP privileges. However, the ending GSP privileges on Thai shrimp export may have a negative impact on shrimp farming and shrimp feed demand over the next few years.

Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that CPF will be able to maintain its leading position in the dynamic worldwide agribusiness and food industry. The company's diverse range of products and markets is expected to insulate the company from the cyclical nature of commodity-like farm products. TRIS Rating also expects the company to maintain the debt to capitalization ratio of approximately 50% while pursuing its growth strategy.

Charoen Pokphand Foods PLC (CPF)

Company Rating: AA-

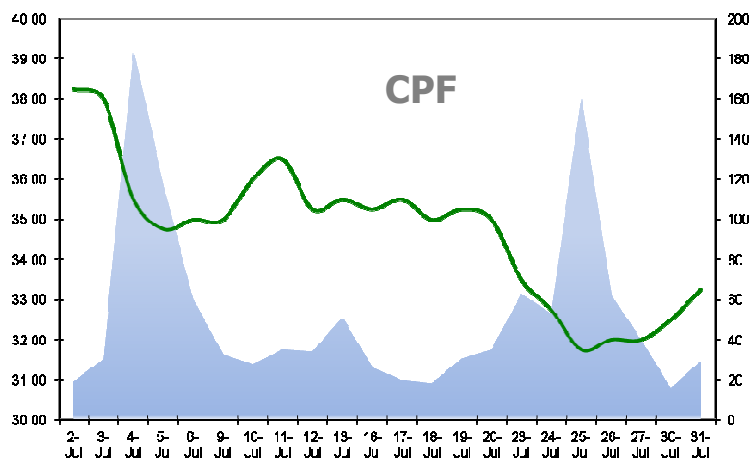
Issue Ratings:

CPF12OA: 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-
CPF188A: Bt3,000 million senior debentures due 2018	AA-
CPF218A: Bt3,000 million senior debentures due 2021	AA-
CPF418A: Bt4,000 million senior debentures due 2041	AA-
CPF41DA: Bt6,000 million senior debentures due 2041	AA-
CPF163A: Bt6,060 million senior debentures due 2016	AA-
Up to Bt15,000 million senior debentures due within 2032	AA-

Rating Outlook: Stable

Price Performances: CPF

Price (Baht) Volume (Mil. shares)



Volume(M.Shares) Price

July 2012

Highest Price	39.00
Lowest Price	31.00
Closed Price	33.25
Average Volume/Day (Shares)	51,970,000

Charoen Pokphand Foods Plc.
Investor Relations Office
 26thFl., C.P. Tower, 313 Silom Rd.
 Bangkok 10500, Thailand
 Telephone +662 638 2935-6
 Facsimile +662 638 2942
Email: iroffice@cpf.co.th

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