

CPF (THAILAND) PLC

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CORPORATES

Company Rating:	A+
Issue Ratings:	
Senior unsecured	A+
Outlook:	Stable

Last Review Date: 11/05/18

Company Rating History:

Date	Rating	Outlook/Alert
04/11/15	A+	Stable

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RATIONALE

TRIS Rating affirms the company rating on CPF (Thailand) PLC (CPFTH) and the ratings on CPFTH's outstanding senior unsecured debentures at "A+". At the same time, TRIS Rating assigns the rating of "A+" on CPFTH's proposed issue of up to Bt12,000 million in senior unsecured debentures and the additional greenshoe portion of up to Bt5,000 million. The proceeds from the new debentures will be used to fund normal operations, repay debts, or lend to any entities within CPF Group.

The ratings continue to reflect CPFTH's status as a core subsidiary of Charoen Pokphand Foods PLC (CPF; rated "A+/Stable" by TRIS Rating), the largest agribusiness and food conglomerate in Thailand. The ratings also take into consideration the high degree of the operational integration CPFTH has with CPF and the support it receives from CPF.

KEY RATING CONSIDERATIONS

Core subsidiary of CPF

CPFTH is considered as a core subsidiary of CPF, responsible for the domestic livestock operation. In 2018, CPFTH's operating revenue reached Bt147.0 billion (27% of CPF's total sales). The cyclical downturn in the livestock industry in Thailand pushed CPFTH's earnings before interest, tax, depreciation, and amortization (EBITDA) to be only Bt2.5 billion in 2018 (5% of CPF's EBITDA). In a normal year, EBITDA of CPFTH makes up 15%-25% of CPF's EBITDA.

CPFTH's strong profile reflects a high degree of operational integration with CPF plus the support it receives from CPF. Because CPF owns nearly all of CPFTH, CPF controls CPFTH's business direction and operations. CPF selects CPFTH's top managements and nominates directors to the board. CPF broadens the reach of CPFTH's distribution channels by marketing CPFTH's products abroad. CPF also helps CPFTH secure raw materials. For example, CPFTH purchases grain from CPF through subsidiaries and from external suppliers which are recommended by CPF.

Performance was hurt by a down cycle in livestock prices

CPFTH's performance fell short of TRIS Rating's estimate. The operating results were severely hurt by a prolonged glut of livestock in Thailand. Swine prices fell to 10-year lows at the beginning of 2018 but gradually recovered by mid-year. Broiler prices hit bottom in early 2018 as well and had stayed low throughout the year. As a result, CPFTH's operating margin before depreciation and amortization declined to 0.6% in 2018, from 4.1% in 2017 and 8.2% in 2016. Earnings before interest, tax, depreciation and amortization (EBITDA) was Bt2.5 billion, down from Bt5.8 billion in 2017 and 12.1 billion in 2016.

Despite the recent drop in earnings, TRIS Rating believes CPFTH's earnings will improve gradually. Swine prices are expected to rise and the cost of feed costs will remain stable. Rising demand of chicken exports is expected to ease the supply glut in the domestic market. Chicken price rebounded slightly in early 2019. We view that the price of chicken will pick up further in the second half of this year. In our base case forecast, CPFTH's operating revenue will range between Bt154-Bt163 billion during 2019-2021. EBITDA will range around Bt8-Bt11 billion per annum.

High leverage and weaker cash flow protection

High capital expenditures and weak operating results pushed leverage higher. Adjusted debt surged to Bt75.9 billion in 2018, from Bt66.6 billion in 2017. Total debt to capitalization ratio stayed flat at 60.1% in 2018. CPF made an equity injection of approximately Bt9.6 billion to CPFTH in 2018. The injection helped bolster the company's total debt to capitalization ratio.

Cash flow protection weakened in 2018 because livestock prices plummeted. The EBITDA interest coverage ratio declined to 1.0 times in 2018 from 3.2 times in 2017 and 8.1 times in 2016. The ratio of funds from operations (FFO) to total debt dropped to 1.4% in 2018 from 6.2% in 2017 and 14.2% in 2016.

Looking forward, leverage is expected to remain high. Capital expenditures are forecast at around Bt10 billion per annum. As a result of the issues of up to Bt17,000 million, the debt to capitalization ratio is expected to hover around 65% from 2019 through 2021. The EBITDA interest coverage ratio will stay around 2 to 3 times during the same period.

Market leader in livestock products

CPFTH is the market leader in the livestock industry in Thailand, with a market share of about one-third in the animal feed market. CPFTH's market share accounts for about 25% of the production of poultry and 18% of the production of swine. As one of the nation's largest producers, CPFTH benefits significantly from economies of scale.

Focus on value-added products

CPFTH is focusing on value-added products, a move that is consistent with CPF's strategy. CPFTH uses the "CP" brand for most of the packaged food products it produces. By focusing on processed food products, the company can avoid competing in the commodity-like markets of frozen and fresh products. CPFTH is developing its own distribution network. At the end of 2018, CPFTH and a subsidiary, CPF Trading Co., Ltd., owned 4,328 "Five-Star" chicken kiosks, 396 "CP Fresh Mart" shops, 5 stores under the "CP Kitchen" and 20 branches of "CP Food World" brand.

BASE CASE ASSUMPTIONS

- Revenue of CPFTH will grow by 3%-5% per annum over the next three years.
- The gross profit margin is forecast at 9%-10%, the adjusted operating margin will stay around 4%-6%.
- Total capital spending will be Bt10 billion per year over the next three years.

RATING OUTLOOK AND SENSITIVITIES

The "stable" outlook is based on our expectation that CPFTH will remain a core subsidiary of CPF, responsible for the whole chain of CPF's livestock operations in Thailand. The company rating of CPFTH is aligned with CPF's credit profile. Any change in CPF's rating will affect CPFTH's rating accordingly.

COMPANY OVERVIEW

CPFTH is a nearly wholly-owned (99.98%) subsidiary of CPF. Established in February 2012, the company was founded through the amalgamation of 10 subsidiaries of CPF.

The company is a fully-integrated producer of livestock products. CPFTH's business is divided into three segments: feed, farm, and food. In 2018, the farm segment was the largest, accounting for 50% of CPFTH's total revenues, followed by food products (25%) and animal feed (25%). About 85% of CPFTH's products are sold in Thailand. CPFTH's products are sold in Thailand and also exported indirectly through CP Merchandising Co., Ltd., another subsidiary of CPF.

KEY OPERATING PERFORMANCE

Table 1: CPFTH's Revenue Breakdown

<i>Unit: %</i>					
By Product Segment	2014	2015	2016	2017	2018
Feed	28	28	24	25	25
Farm	48	47	51	49	50
Food	24	25	25	26	25
Total	100	100	100	100	100
Sales (Bt mil.)	140,833	135,975	142,190	142,608	146,202

Source: CPFTH

Chart 1: CPFTH's Gross Margin, and the Average Prices of Broiler and Swine, by Year



Sources: CPFTH and Thai Feed Mill Association

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	-----Year Ended 31 December -----				
	2018	2017	2016	2015	2014
Total operating revenues	146,983	143,375	142,903	136,697	141,502
Operating income	920	5,924	11,713	6,620	11,594
Earnings before interest and taxes (EBIT)	(2,024)	1,940	8,567	3,758	9,399
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,480	5,832	12,121	6,891	11,784
Funds from operations (FFO)	1,042	4,091	9,212	4,613	8,790
Adjusted interest expense	2,474	1,805	1,501	1,846	1,553
Capital expenditures	10,626	10,544	8,353	6,060	4,844
Total assets	139,628	122,974	118,587	79,656	75,329
Adjusted debt	75,889	66,565	64,673	38,348	31,236
Adjusted equity	50,480	44,003	37,572	20,165	21,415
Adjusted Ratios					
Operating income as % of total operating revenues (%)	0.63	4.13	8.20	4.84	8.19
Pretax return on permanent capital (%)	(1.68)	1.80	10.45	6.67	17.02
EBITDA interest coverage (times)	1.00	3.23	8.07	3.73	7.59
Debt to EBITDA (times)	30.60	11.41	5.34	5.56	2.65
FFO to debt (%)	1.37	6.15	14.24	12.03	28.14
Debt to capitalization (%)	60.05	60.20	63.25	65.54	59.33

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

CPF (Thailand) PLC (CPFTH)

Company Rating:	A+
Issue Ratings:	
CPFTH207A: Bt5,000 million senior unsecured debentures due 2020	A+
CPFTH211A: Bt7,450 million senior unsecured debentures due 2021	A+
CPFTH215A: Bt4,500 million senior unsecured debentures due 2021	A+
CPFTH231A: Bt2,150 million senior unsecured debentures due 2023	A+
CPFTH237A: Bt3,300 million senior unsecured debentures due 2023	A+
CPFTH245A: Bt4,000 million senior unsecured debentures due 2024	A+
CPFTH261A: Bt3,350 million senior unsecured debentures due 2026	A+
CPFTH267A: Bt1,400 million senior unsecured debentures due 2026	A+
CPFTH281A: Bt3,050 million senior unsecured debentures due 2028	A+
CPFTH287A: Bt1,100 million senior unsecured debentures due 2028	A+
CPFTH305A: Bt3,500 million senior unsecured debentures due 2030	A+
CPFTH317A: Bt2,200 million senior unsecured debentures due 2031	A+
CPFTH335A: Bt3,000 million senior unsecured debentures due 2033	A+
Up to Bt12,000 million in senior unsecured debentures and additional greenshoe portion of up to Bt5,000 million due within 12 years	A+
Rating Outlook:	Stable

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