

# CPF (THAILAND) PLC

No. 43/2021  
31 March 2021

## CORPORATES

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
Senior unsecured	A+
<b>Outlook:</b>	Stable

Last Review Date: 08/12/20

### Company Rating History:

Date	Rating	Outlook/Alert
08/12/20	A+	Stable
31/03/20	A+	Alert Negative
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 senior unsecured debentures at "A+" with a "stable" outlook.

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 operational integration CPFTH has with CPF and the support it receives from CPF.

## KEY RATING CONSIDERATIONS

### Core subsidiary of CPF

CPFTH is a core subsidiary of CPF for the domestic livestock operation. In 2020, CPFTH generated operating revenue of THB151 billion (25% of CPF's total operating revenue), and THB14.5 billion in earnings before interest, taxes, depreciation, and amortization (EBITDA) (17% of CPF's EBITDA).

CPFTH's strong profile reflects the high degree of operational integration with CPF and the support it receives from CPF. As CPF owns nearly all of the interest in CPFTH, it has full control of CPFTH's business direction and operations. CPF broadens the reach of CPFTH's distribution channels through CPF's overseas distribution network. CPF also helps CPFTH secure raw materials.

### Impact from change in CPF's group structure

To pursue the growth strategy in food business and distribution channels, CPF restructured its business group to eliminate the cross shareholding among affiliated companies, and consolidate the food and distribution-related businesses under C.P. Merchandising Co., Ltd. (CPM). Thus, CPFTH had to spin-off three subsidiaries, comprising CPF Trading Co., Ltd., CPF Food and Beverage Co., Ltd., and CPF Restaurant and Food Chain Co., Ltd. in exchange for the 12.5% equity stakes in CPM. This transaction was completed in December 2020.

Financially, the restructuring will result in a decrease in CPFTH's revenue and EBITDA because of the deconsolidation of the spun-off companies. We project CPFTH's revenue to decline by around THB20 billion per year and net income to decline by THB0.8-THB1 billion per year. Nonetheless, the drop in revenue and profit will be compensated by the share of profit and dividend income from its 12.5% equity stake in CPM. We expect the share of profit CPFTH receives from CPM to hover around THB1 billion per year.

In our view, CPFTH's operating revenue and profit margin will be more volatile due to the higher revenue contribution from the farm business and lower contribution from the food business. Nevertheless, CPFTH will benefit from the high growth opportunities of CPM, which covers not only food companies and distribution channels, but also retailers.

### Improved operating performance

CPFTH's operating results improved in 2020 from a favorable swine price because of the supply shortage following the prolonged African swine fever (ASF) outbreak in several countries. CPFTH's EBITDA rose to THB14.5 billion in 2020, from THB3-THB9 billion in 2017-2019. EBITDA margin also shot up to

9.6% in 2020, compared with 2.2%-6.1% in 2017-2019.

### **Better leverage and cash flow protection**

The debt to capitalization ratio improved to 57.5% in 2020 from 61% in 2017. The capital injections of THB7-THB10 billion per year during the down cycle period of the livestock business helped bolster the company's total debt to capitalization ratio. Cash flow protection also improved as profits grew. The EBITDA interest coverage ratio improved to 4.6 times in 2020, compared with 1-3 times in 2017-2019. The adjusted debt to EBITDA ratio was 6.3 times in 2020, improved from 9-25 times in 2017-2019, while the ratio of funds from operations (FFO) to total debt was 10.7% in 2020 up from 2%-7% in 2017-2019.

As of December 2020, the company's adjusted debt amounted to THB91.5 billion, with debentures and long-term loans making up nearly 80% of total debt. The remainder was short-term loans to finance CPFTH's working capital needs. We assess CPFTH to have adequate liquidity for the next 12 months. The major cash outflows are its scheduled debt repayments of approximately THB12.6 billion due in 2021, which are expected to be funded primarily by cash flow from operations. The company also has a significant liquidity buffer with cash on hand of around THB21.5 billion and numerous credit lines from commercial banks.

### **Market leader in livestock products**

CPFTH is the market leader in the livestock industry in Thailand. CPFTH holds more than one-third of the market for livestock feed. The company's market share accounts for about 22% of the production of poultry and 32% of the production of swine. As one of the nation's largest producers, CPFTH is able to leverage its competitive advantage on economies of scale.

### **BASE-CASE ASSUMPTIONS**

- Operating revenues to decline by 12% in 2021 owing to the deconsolidation and to grow by 2%-4% per year in 2022-2023.
- EBITDA margin to stay at around 8%-10% in 2021-2023.
- Total capital spending of around THB10 billion per year during 2021-2023.

### **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 on 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 (99.99%) 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 2020, the farm segment was the largest, accounting for 59% of CPFTH's total revenues, followed by food products (24%) and animal feed (17%).

In December 2020, CPFTH spun off three companies, operating food business, and distribution channels in exchange for a 12.5% equity stake in CPM. As a result of the deconsolidation, CPFTH's revenue contribution will change to farm segment (69% of CPFTH's total revenues), animal feed (20%), and food products (11%).

**KEY OPERATING PERFORMANCE**

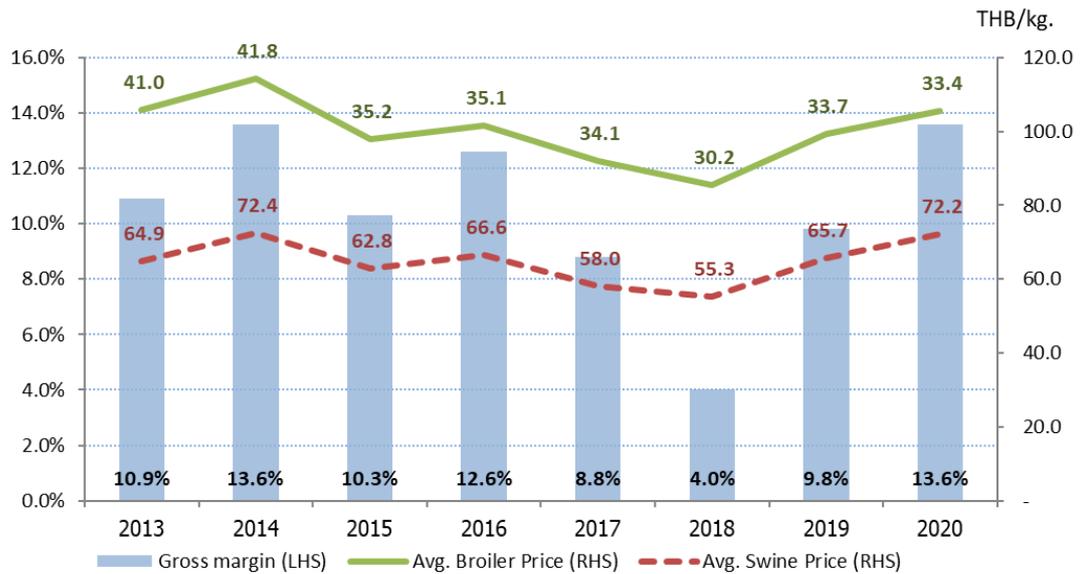
**Table 1: CPFTH's Revenue Breakdown**

Unit: %

By Product Segment	2016	2017	2018	2019	2020
Feed	24	25	25	18	17
Farm	51	49	50	55	59
Food	25	26	25	27	24
<b>Total</b>	100	100	100	100	100
<b>Sales (mil. THB)</b>	<b>142,190</b>	<b>142,608</b>	<b>146,202</b>	<b>143,335</b>	<b>150,142</b>

Source: CPFTH

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



Sources: CPFTH and Thai Feed Mill Association

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Mil. THB*

	----- Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total operating revenues	150,954	144,165	146,983	143,375	142,903
Earnings before interest and taxes (EBIT)	7,921	3,212	(1,865)	2,084	8,700
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	14,461	8,833	3,169	6,470	12,766
Funds from operations (FFO)	9,796	5,956	1,572	4,585	9,724
Adjusted interest expense	3,165	2,841	2,634	1,949	1,635
Capital expenditures	4,883	6,715	10,626	10,544	8,353
Total assets	193,335	150,769	139,628	122,974	118,587
Adjusted debt	91,505	80,596	78,257	68,755	66,605
Adjusted equity	67,545	60,141	50,480	44,003	37,572
<b>Adjusted Ratios</b>					
EBITDA margin (%)	9.58	6.13	2.16	4.51	8.93
Pretax return on permanent capital (%)	4.88	2.32	(1.52)	1.89	10.37
EBITDA interest coverage (times)	4.57	3.11	1.20	3.32	7.81
Debt to EBITDA (times)	6.33	9.12	24.70	10.63	5.22
FFO to debt (%)	10.71	7.39	2.01	6.67	14.60
Debt to capitalization (%)	57.53	57.27	60.79	60.98	63.93

**RELATED CRITERIA**

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

## CPF (Thailand) PLC (CPFTH)

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
CPFTH215A: THB4,500 million senior unsecured debentures due 2021	A+
CPFTH231A: THB2,150 million senior unsecured debentures due 2023	A+
CPFTH235A: THB4,000 million senior unsecured debentures due 2023	A+
CPFTH237A: THB3,300 million senior unsecured debentures due 2023	A+
CPFTH245A: THB4,000 million senior unsecured debentures due 2024	A+
CPFTH252A: THB13,445 million senior unsecured debentures due 2025	A+
CPFTH255A: THB2,000 million senior unsecured debentures due 2025	A+
CPFTH261A: THB3,350 million senior unsecured debentures due 2026	A+
CPFTH267A: THB1,400 million senior unsecured debentures due 2026	A+
CPFTH275A: THB500 million senior unsecured debentures due 2027	A+
CPFTH278A: THB2,359.1 million senior unsecured debentures due 2027	A+
CPFTH281A: THB3,050 million senior unsecured debentures due 2028	A+
CPFTH287A: THB1,100 million senior unsecured debentures due 2028	A+
CPFTH295A: THB4,000 million senior unsecured debentures due 2029	A+
CPFTH305A: THB3,500 million senior unsecured debentures due 2030	A+
CPFTH308A: THB806.1 million senior unsecured debentures due 2030	A+
CPFTH315A: THB6,500 million senior unsecured debentures due 2031	A+
CPFTH317A: THB2,200 million senior unsecured debentures due 2031	A+
CPFTH328A: THB872.6 million senior unsecured debentures due 2032	A+
CPFTH335A: THB3,000 million senior unsecured debentures due 2033	A+
CPFTH358A: THB2,517.2 million senior unsecured debentures due 2035	A+
<b>Rating Outlook:</b>	Stable

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