TRIS RATING
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CHAROEN POKPHAND FOODS PLC

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CORPORATES

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

Company Rating History:

Date	Rating	Outlook/Alert
31/03/15	A+	Stable
20/06/14	AA-	Negative
19/05/11	AA-	Stable
30/04/10	A+	Positive
22/06/06	A+	Stable
20/05/05	A	Positive
12/07/04	A	Stable
28/05/04	A	
01/03/01	A+	

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RATIONALE

TRIS Rating affirms the company rating and the ratings of the outstanding senior unsecured debentures of Charoen Pokphand Foods PLC (CPF) at "A+". At the same time, TRIS Rating affirms the rating of CPF's unsecured and subordinated capital debentures (hybrid debentures) at "A-".

The ratings of CPF and the outstanding debenture issues continue to reflect the company's leading position in the Thai agribusiness and food industry, as well as the geographic diversity of its operations, and diverse range of product offerings and markets served. The ratings also reflect the efforts to create more branded food products, as well as the financial flexibility the company gains from its strategic investments. However, these strengths are partially offset by high leverage, the inherent cyclicality of commodity-type products and the cost of grain, the exposure to disease outbreaks, and changes in regulations imposed by importing countries.

KEY RATING CONSIDERATIONS

Leading position in the Thai agribusiness and food industry

CPF's strong business profile reflects its leading position in Thailand's agribusiness and food industry. In several lines of business in Thailand, CPF is the largest producer. In the feed segment, its share is about half of the total market for shrimp feed based on production volume. The market share for livestock feed is about one-third of the total market. In the Thai poultry and swine segment, CPF accounts for about one-fourth of the domestic production of both poultry and swine. As one of the nation's largest integrated producers, CPF benefits significantly from economies of scale.

Geographic diversification

CPF's operational risk is partly mitigated by the geographic diversity of its operations and markets. As of 31 March 2018, CPF has production bases in 16 countries on five continents. The operations in Thailand accounted for 36% of total revenue in 2017, while the operations abroad contributed 64%. China operations contributed 25% of total revenue, followed by operations in Vietnam (13%). The remaining sources of revenue mainly were the United States (US), Taiwan, Turkey, India, Russia, and Cambodia. Sales in each of these nations accounted for 1%-4% of total revenue in 2017.

In terms of market, CPF's revenue sources are geographically diverse. Sales in Thailand comprised only 30% of total sales in 2017. The Asian region, a growing market, has become the largest source of sales, accounting for 55% of total sales in 2017. The European Union (EU) nations and the US accounted for only 10% and 5% of total sales in 2017, respectively. CPF's continued effort to broaden its geographic coverage will gradually alleviate the impact of disease outbreaks~~,~~ and trade barriers.

Diverse range of products

CPF is a fully integrated producer of livestock and shrimp products. The company's product portfolio includes animal feed, poultry, shrimp, swine, and food products. In 2017, feed was the largest revenue contributor, providing 45% of total sales, followed by poultry, swine and shrimp (37%), and food products (18%).

A diverse range of products reduces the volatility of earnings. For example, during 2013-2015, the aquaculture segment struggled as a result of an outbreak of early mortality syndrome (EMS) in shrimp, however, the operating results from the livestock segment helped offset the losses in the aquaculture segment. The situation was reversed in 2017. The aquaculture abroad recovered and partially offset the weaker performance in the livestock segment.

Move towards value-added products

To mitigate risks from the price fluctuations inherent in commodity-type products, CPF is pursuing a long-term strategy of focusing on value-added products. In 2017, food products made up 18% of total sales, up from 12% in 2016. The increase was mainly attributed to the acquisition of US-based Bellisio Parent, LLC, which manufactures and distributes single-serve frozen entrees in the US and Canada. Food products are forecast to comprise an increasing portion of revenue because the operation in China has expanded its scope of business to food products.

Operating results deteriorate

Nearly 40% of CPF's revenue hinges on the sales of commodity-like farm products. As a result, CPF's financial performances fluctuate along with the cycles of the livestock and aquaculture industries.

In 2017, CPF reported weaker operating results. Profits fell, caused by supply glut and the resulting slump in the prices of swine. The price for swine in Vietnam and Thailand fell sharply and significantly in 2017. Based on the information provided by Thai Feed Mill Association and CPF, the average price of swine plunged by 38% year-on-year (y-o-y) to 28,614 Vietnam dong (VND) per kilogram (kg.) and sank by 13% y-o-y to Bt58 per kg. in Thailand. As a result, the operating profit margin of livestock segment tumbled from 7.2% in 2016 to 1.6% in 2017. However, the poor results in livestock segment were partly offset by aquaculture operations abroad. The operating profit margin of the aquaculture segment improved from 4.2% in 2016 to 9.2% in 2017. As a result, CPF's operating margin before depreciation and amortization fell from 8.6% in 2016 to 4.7% in 2017. Earnings before interest, tax, depreciation, and amortization (EBITDA) was Bt35,941 million in 2017, down from Bt50,022 million in 2016.

Despite the drop in operating profit, CPF earned a healthy amount of equity income from its investments in associated firms. Equity income rose from Bt6,512 million in 2016 to Bt7,983 million in 2017. CPF recorded a gain from divestments worth Bt10,429 million in 2017. Net profit improved from Bt14,703 million in 2016 to Bt15,259 million in 2017.

Going forward, the recent plunges in livestock prices, together with rising feed costs, will continue to put pressure on CPF's operating performance. However, CPF will benefit from a rise in chicken exports as well as the gradual recovery of shrimp operations in Thailand and abroad. In addition, cash flow is projected to increase after several recent acquisitions. Under TRIS Rating's base case scenario, revenue will range from Bt520,000-Bt620,000 million in 2018-2020. EBITDA is expected to hover around Bt33,000-Bt58,000 million per annum. Over the next three years, the EBITDA interest coverage ratio is expected to hold at 3-4 times.

Leverage will remain high

In 2017, CPF strengthened its financial position by raising Bt21,707 million in new equity capital. The funds were used to repay outstanding high-yield debt. As a result, total debt (including 50% of the subordinated capital debentures, which are treated as debts) fell to Bt296,210 million as of December 2017, down from Bt312,728 million at the end of 2016. The debt to capitalization ratio declined to 57.5% in 2017, from 61.8% in 2016.

Despite the recent drop, leverage is forecast to stay high over the next few years. To pursue its growth strategy, CPF has laid out plans for sizeable capital expenditures of about Bt20,000-Bt30,000 million per year, excluding acquisitions. CPF continues to explore investment opportunities as long as an acquisition or investment is aligned with its core business and generates a reasonable profit. Under TRIS Rating's base case scenario, the debt to capitalization ratio of CPF is expected to be below 60% over the next few years despite the aggressive growth strategy.

Cash flow protection weakens, but financial flexibility remains high

CPF's cash flow protection has weakened as profits dropped. The EBITDA interest coverage ratio was 3.1 times in 2017, compared with 4.9 times in 2016. The ratio of funds from operations (FFO) to total debt was 8.7% in 2017, down from 11.6% in 2016. As of December 2017, outstanding debt totaled Bt288,710 million. About 60% of the total debt were debentures and long-term loans, while the remainder was short-term loans to finance working capital needs. Scheduled debt repayments of approximately Bt25,000 million are due in 2018. Nevertheless, CPF's liquidity and financial flexibility remain strong. CPF had Bt26,838 million in cash on hand and short-term securities at the end of 2017. Additionally, CPF's liquidity profile is strengthened because it has a significant amount of financial flexibility. CPF holds a 34.3% stake in CP All

PLC (CPALL), the leading convenience store operator in Thailand. The market capitalization of CPALL was approximately Bt271,000 million as of 2 May 2018.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that CPF will maintain its leading position in the dynamic agribusiness and food industry. The company's diverse range of operations, products, and markets is expected to provide some insulation from the cyclical nature of commodity-like farm products and from disease epidemics.

RATING SENSITIVITIES

Any rating upside hinges on CPF's ability to strengthen its capital structure significantly and demonstrate a material, sustainable improvement in debt serviceability. In contrast, the ratings would likely be downgraded should any debt-funded acquisitions materially deteriorate the balance sheet and weaken cash flow protection as well as the operating performance is much weaker than anticipated.

COMPANY OVERVIEW

Founded in 1978, CPF is Thailand's largest agribusiness and food conglomerate. As of 13 March 2018, CPG Group [1] held 52.6% of CPF's shares. CPF's business is divided into two segments, livestock and aquaculture, with three types of operations in each segment: feed, farm, and food. Revenue from feed products contributed 45% of total sales in 2017. Farm products accounted for 37% of revenue, while food products accounted for 18%.

CPF is a fully-integrated producer of swine, chicken, and shrimp products. Its fully-integrated operations help its products meet international standards, making its products qualified for export to the EU countries, Japan, and the US. CPF started to invest abroad in 2002. Since then, revenue base and operations have expanded to cover 16 countries, as of March 2018. In 2017, overseas operations accounted for 64% of total sales. Domestic sales were 30% of total sales, and export sales from its Thailand operations were 6%.

Fully-integrated operations help CPF's products meet safety and traceability standards. As a result, CPF's products qualify for export to major importing countries, including the EU countries, Asian nations, and the US.

CPF is pursuing a long-term strategy of focusing on value-added products in order to insulate itself from the price fluctuations inherent in commodity-type products. The company is striving to broaden its portfolio of branded products and develop distribution channels for both the domestic market and abroad. CPF created its own retail distribution channel to support its strategy of focusing on branded food products. CPF holds a majority stake in CP7-11, the largest convenient store chain in Thailand. The company had 425 CP Fresh Mart stores by the end of December 2017. CPF expanded the number of franchised Five-Star kiosks from 4,517 kiosks in 2011 to 4,740 kiosks by the end of December 2017. Five-Star franchises include Five-Star grilled/fried chicken, Five-Star chicken rice, wonton noodles, and ready-meal kiosks. As of December 2017, CPF had 12 CP Food World stores, and five CP Kitchen shops. CPF operates 198 Chester's fast food restaurants via Chester's Food Co., Ltd.

In April 2017, CPF acquired Westbridge Food Group Ltd. (WFGL) for GBP52 million (equivalent to Bt2,251 million). WFGL is a United Kingdom (UK) based company, selling meat and ready-made products to food retailers, food service companies, and food manufacturers in the UK and the EU. WFGL also develops sources and supplies other kinds of food products on a worldwide basis. WFGL owns stakes in several companies in the UK and Netherlands. These companies have import quota licenses, which permit them to import poultry meat and other poultry products into the EU. In addition, WFGL has a repacking factory in England. The factory packages products according to customers' specifications. In 2015, WFGL posted total revenue of Bt14,730 million with Bt173 million in net profit.

In October 2017, CPF purchased 95% of Paulsen Food Gmbh (PF) for about Euro11.5 million (or Bt444 million). This transaction means CPF holds the EU import quota licenses for around 6,100 tonnes a year of poultry meats and other poultry products. Additionally, the acquisition gives CPF new networks and distribution channels for food service companies and food manufacturers in Germany and the EU.

[1] CPG Group is a reporting group to be in compliance with Section 246 and Section 247 of the Securities and Exchange Act of 2535.

CPF signed investment agreement to purchase a 40% stake in Camanor Produtos Marinhos Ltd. (Camanor) for US$17.5 million (or Bt547 million) in April 2018. Camanor farms and processes shrimp in Brazil. Its main products include fresh and frozen processed shrimp distributed through domestic wholesalers and exported to markets such as France. Additionally, Camanor has developed shrimp farming technology called AquaScience. This technology is a close system for raising shrimp in a high density environment without using chemical or antibiotics.

KEY OPERTING PERFORMANCE

Table 1: CPF's Revenue Breakdown

Unit: %

By Product	2013	2014	2015	2016	2017
Feed	56	53	52	48	45
Farm	32	35	36	40	37
Food	12	12	12	12	18
Total	100	100	100	100	100
Sales (Bt mil.)	**389,251**	**426,039**	**421,355**	**464,465**	**501,508**

Source: CPF

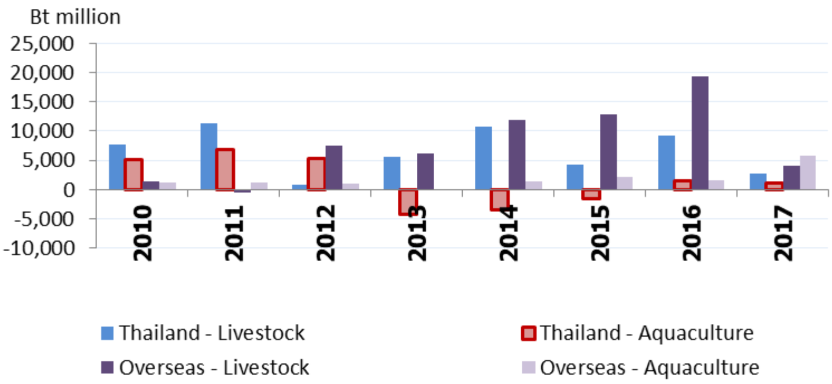
Table 2: CPF's Revenue Breakdown by Geography

Unit: %

Country	2013	2014	2015	2016	2017
Thailand	34.5	34.8	33.4	32.3	29.5
EU	8.0	8.4	7.9	9.4	10.2
Asia	55.5	55.2	57.3	57.2	54.7
USA	1.0	1.4	1.0	0.8	5.2
Others	1.0	0.2	0.4	0.3	0.4
Total	**100**	**100**	**100**	**100**	**100**

Source: CPF

Chart 1: CPF's Operating Profit by Business Unit



Source: CPF

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	---------------------- Year Ended 31 December --------------------				
	2017	**2016**	**2015**	**2014**	**2013**
Sales and service revenues	501,507	464,465	421,355	426,039	389,251
Gross interest expense	11,669	10,141	8,624	8,241	7,568
Net income from operations	5,813	13,437	960	6,101	(1,475)
Funds from operations (FFO)	25,633	36,198	21,975	22,909	8,027
Total capital expenditures and investments	45,025	73,218	66,341	42,341	38,010
Total assets	593,497	582,179	494,263	416,764	365,003
Total debt	296,210	312,728	258,151	195,929	186,405
Shareholders' equity	219,142	193,706	173,725	163,966	129,573
Operating income before depreciation and amortization as % of sales	4.74	8.60	5.15	5.58	2.59
Pretax return on permanent capital (%)	3.93	7.84	4.69	6.41	2.94
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.08	4.93	3.49	3.84	2.26
FFO/total debt (%)	8.65	11.57	8.51	11.69	4.31
Total debt/capitalization (%)	57.48	61.75	59.77	54.44	58.99

Note: All figures are adjusted with proportionate debt from the subordinated capital debentures (50% of the outstanding are treated as debts and the rest is treated as equity).

** Consolidated financial statements*

Charoen Pokphand Foods PLC (CPF)

Company Rating:	A+
Issue Ratings:	
CPF188A: Bt3,000 million senior unsecured debentures due 2018	A+
CPF198A: Bt6,000 million senior unsecured debentures due 2019	A+
CPF198B: Bt2,500 million senior unsecured debentures due 2019	A+
CPF204A: Bt3,060 million senior unsecured debentures due 2020	A+
CPF205A: Bt6,500 million senior unsecured debentures due 2020	A+
CPF218A: Bt3,000 million senior unsecured debentures due 2021	A+
CPF218B: Bt5,500 million senior unsecured debentures due 2021	A+
CPF228A: Bt4,000 million senior unsecured debentures due 2022	A+
CPF235A: Bt5,500 million senior unsecured debentures due 2023	A+
CPF237A: Bt1,940 million senior unsecured debentures due 2023	A+
CPF244A: Bt3,500 million senior unsecured debentures due 2024	A+
CPF251A: Bt5,460 million senior unsecured debentures due 2025	A+
CPF257A: Bt3,000 million senior unsecured debentures due 2025	A+
CPF277A: Bt2,000 million senior unsecured debentures due 2027	A+
CPF281A: Bt6,540 million senior unsecured debentures due 2028	A+
CPF314A: Bt2,500 million senior unsecured debentures due 2031	A+
CPF328A: Bt5,000 million senior unsecured debentures due 2032	A+
CPF418A: Bt4,000 million senior unsecured debentures due 2041	A+
CPF41DA: Bt6,000 million senior unsecured debentures due 2041	A+
CPF17PA: Bt15,000 million subordinated capital debentures	A-
Rating Outlook:	Stable

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