

CPF (THAILAND) PLC

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CORPORATES

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

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating and the ratings of the existing senior unsecured debentures of CPF (Thailand) PLC (CPFTH) at “A+”. At the same time, TRIS Rating assigns the rating of “A+” to CPFTH’s proposed issue of up to Bt15,000 million in senior unsecured debentures. The proceeds from the new debentures will be used for CPFTH’s business operations and/or loan repayment and/or lending 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 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 2017, CPFTH generated sales of Bt142,608 million (28% of CPF’s total sales) and Bt7,196 million in earnings before interest, tax, depreciation and amortization (EBITDA) (20% 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 fully controls CPFTH’s business direction and operations. CPF selects CPFTH’s top management 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. CPFTH purchases grain from CPF through subsidiaries and from external suppliers which are recommended by CPF.

Fully-integrated operations in poultry and swine

CPFTH’s production process is fully vertically integrated. CPFTH produces feed, breeds, and raises animals as well as processes the meat. Given its own breeding, CPFTH has a competitive advantage. CPFTH can develop products to meet customer needs or adjust products to respond to changes in customer preferences. Moreover, CPFTH can control the quality and the costs throughout the production processes.

Leader in livestock products

CPFTH is the market leader in the livestock business in Thailand, with a market share of about one-third in the animal feed market. CPFTH’s combined market share in the poultry and swine industries accounts for about one-fourth of the production of poultry and swine in Thailand. As one of the nation’s largest producers, CPFTH benefits significantly from economies of scale.

Diverse product lines

CPFTH has a broad portfolio of products, covering animal feed, poultry, swine, and food products. The diverse range of products helps mitigate in part CPFTH’s operational risks. In 2017, sales of feed, poultry, swine, and food products each comprised about 25% of total revenue.

Focus on value-added products

To align with CPF’s strategy, CPFTH is focusing on value-added products, using

the “CP” brand for most of the packaged food products. CPFTH’s strategy of focusing on processed food products enables the company to avoid competing in the commodity-like markets of frozen and fresh products. CPFTH also develops its own distribution network. At the end of 2017, CPFTH and a subsidiary, CPF Trading Co., Ltd., owned 4,740 kiosks of Five-Star chicken, 425 CP Fresh Mart shops, and about 17 stores under the CP Kitchen and CP Food World brands.

Industry downturn hurts profits

CPFTH’s operating performance in 2017 was hurt by an excess supply of livestock in Thailand. Swine prices plummeted, cutting CPFTH’s operating margin before depreciation and amortization to 3.3% in 2017, from 7% in 2016. EBITDA was Bt7,196 million, down from Bt11,178 million in 2016.

Earnings will be under pressure for the remainder of this year. Prices of swine and poultry are forecast to stay low while costs are rising. Nevertheless, the prices of swine are expected to improve during the second half of the year. Moreover, chicken exports to Japan and several other countries are picking up. Under TRIS Rating’s base-case forecast, CPFTH’s revenue will range from Bt140,000-Bt160,000 million during 2018-2020. EBITDA will range from Bt6,000-Bt12,000 million per annum.

High leverage and weaker cash flow protection

Leverage remains high, despite an equity injection from CPFTH’s parent company. In 2017, CPFTH’s capital base expanded as a result of an equity injection from CPF of approximately Bt7,000 million. While, total debt remained quite flat in 2017. The total debt to capitalization ratio improved to 58.5% in 2017, down slightly from 62.3% in 2016. Because of the downturn in livestock industry, cash flow protection weakened in 2017. EBITDA interest coverage ratio declined from 9.1 times in 2016 to 4.6 times in 2017.

Looking forward, leverage is expected to remain high. The company plans capital expenditures of Bt8,000-Bt10,000 million per annum. Given the forecast levels of EBITDA and capital expenditures, the debt to capitalization ratio is expected to hover around 60% in 2018-2020. The EBITDA interest coverage ratio will stay at around 3-5 times during the same period.

RATING OUTLOOK AND SENSITIVITIES

The “stable” outlook is based on the expectation that CPFTH will remain a core subsidiary of CPF, responsible for the whole chain of livestock operations of CPF 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 (99.98%) owned 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 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 combined market share in the poultry and swine industries accounts for about one-fourth of the poultry and swine production in Thailand.

CPFTH’s business is divided into three segments: feed, farm, and food. In 2017, the farm segment was the largest, accounting for 49% of total revenues, followed by food products (26%) 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

Unit: %

By Product Segment	2013	2014	2015	2016	2017
Feed	30	28	28	24	25
Farm	46	48	47	51	49
Food	24	24	25	25	26
Total	100	100	100	100	100
Sales (Bt mil.)	132,430	140,833	135,975	142,190	142,608

Note: Consolidated basis

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				
	2017	2016	2015	2014	2013**
Sales and service revenues	142,608	142,190	135,975	140,833	125,255
Gross interest expense	1,564	1,233	1,588	1,361	1,789
Net income from operations	2,402	5,665	1,762	6,602	2,916
Funds from operations (FFO)	8,479	11,578	6,881	11,786	5,385
Total capital expenditures and investments	11,561	8,330	5,992	4,817	4,065
Total assets	122,974	118,587	79,656	75,328	71,992
Total debt	61,907	61,979	33,626	26,619	31,280
Shareholders' equity	44,003	37,572	20,165	21,415	21,796
Operating income before depreciation and amortization as % of sales	3.27	7.04	3.83	7.62	5.21
Pretax return on permanent capital (%)	3.68	10.68	7.08	19.24	9.65
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.60	9.07	3.92	8.54	4.15
FFO/total debt (%)	13.70	18.68	20.46	44.28	17.22
Total debt/capitalization (%)	58.45	62.26	62.51	55.42	58.93

* Consolidated financial statements

** Separated financial statements

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+
CPFTH231A: Bt2,150 million senior unsecured debentures due 2023	A+
CPFTH237A: Bt3,300 million senior unsecured debentures due 2023	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+
CPFTH317A: Bt2,200 million senior unsecured debentures due 2031	A+
Up to Bt15,000 million senior unsecured debentures due within 15 years	A+
Rating Outlook:	Stable

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