

CHAROEN POKPHAND FOODS PLC

No. 104/2023
14 September 2023

CORPORATES

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

Last Review Date: 28/04/23

Company Rating History:

Date	Rating	Outlook/Alert
08/12/20	A+	Stable
13/03/20	A+	Alert Negative
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 on Charoen Pokphand Foods PLC (CPF) and the ratings on its outstanding senior unsecured debentures at "A+", and affirms the rating on its subordinated capital debentures (hybrid debentures) at "A-". Meanwhile, we revise the rating outlook to "negative" from "stable".

The "negative" outlook reflects the company's weaker-than-expected operating performance, coupled with its high leverage due to unfavorable economic conditions, steep falling livestock prices, rising feed costs, and sluggish demand. We view the recovery in CPF's earnings before interest, taxes, depreciation, and amortization (EBITDA) and its margin profile to remain uncertain over the next 12 months.

TRIS Rating also assigns the rating of "A-" to the CPF's proposed issue of up to THB15 billion hybrid debentures. The ratings on CPF's hybrid debentures are two notches below the company rating. This rating differential reflects the subordinated nature of the hybrid debentures and the option of the issuer to defer coupons on a cumulative basis. The proceeds from the new debenture issuances are intended to be used by the company or companies under CPF Group for the following purposes: (1) general business operations and/or (2) business expansion and/or (3) investment in shares or assets and/or (4) repayment of debts and/or (5) lending to companies in the CPF Group or restructuring of shareholding structure in the CPF Group.

CPF's operating performance in the first half of 2023 weakened substantially. With the steep decline in livestock prices, rising grain costs, and significant weakened operating results from associated companies, CPF's EBITDA in the first half of 2023 slumped by 21.6% year-on-year (y-o-y) to THB25.7 billion, compared with our previous forecast of THB64 billion in 2023. The EBITDA margin slipped to 8.7%, significantly below our previous forecast of 10% and lower than the 10%-14%, that the company achieved in 2019-2022.

Adjusted debt increased to THB517.8 billion at the end of June 2023, from THB501.5 billion in 2022. The adjusted debt to EBITDA ratio increased to 9.6 times in the first half of 2023, from around 8 times in 2021-2022 and 5-6 times in 2019-2020.

We view that CPF's leverage is likely to stay at a high level following its sizable capital spending and investments. Based on our revised projection, CPF's debt to EBITDA ratio is forecasted to hover around 9-10 times in 2023 and improve to 7-8 times in 2024-2025 based on normalization of livestock prices together with CPF's deleverage plan. The debt to capitalization ratio is projected to hover around 64% in 2023 and gradually improve to below 60% in 2024-2025.

We assess CPF's liquidity as tight but should be manageable. Scheduled long-debt repayments of approximately THB60 billion are due in the next 12 months. The primary source of repayment will come from cash flow from operations. We forecast CPF to generate funds from operations (FFO) of about THB27 billion in 2023. The liquidity buffer is backed by cash and cash equivalents totaling THB24 billion plus THB41 billion in undrawn credit facilities from several banks as of June 2023.

Additionally, CPF has sizable equity investments in CP All PLC (CPALL) and CP Axtra PLC (CPAXT). At the end of June 2023, CPF held a 34% stake in CPALL and 8.9% in CPAXT. The market values of CPF’s equity interest in CPALL and CPAXT were around THB191 billion and THB33 billion, respectively. As these equity investments are marketable securities, they should serve as a source of financial flexibility.

RATING OUTLOOK

The “negative” outlook reflects our concerns over CPF’s weaker-than-expected operating performance and slower-than-expected deleveraging plan amid unfavourable market conditions.

RATING SENSITIVITIES

A rating downgrade could emerge if CPF’s operating results and/or financial position deteriorate from our forecast, such that the debt to EBITDA ratio exceeds 8 times, with no signs of improvement.

Conversely, the outlook could be revised to “stable” if CPF is able to improve its operating performance and financial profile, such that the debt to EBITDA ratio stays below 8 times, on a sustained basis.

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

Charoen Pokphand Foods PLC (CPF)

Company Rating:	A+
Issue Ratings:	
CPF244A: THB3,500 million senior unsecured debentures due 2024	A+
CPF246A: THB8,407.6 million senior unsecured debentures due 2024	A+
CPF246B: THB2,725 million senior unsecured debentures due 2024	A+
CPF24NA: THB2,200 million senior unsecured debentures due 2024	A+
CPF251A: THB5,460 million senior unsecured debentures due 2025	A+
CPF257A: THB3,000 million senior unsecured debentures due 2025	A+
CPF261A: THB13,064.5 million senior unsecured debentures due 2026	A+
CPF268A: THB4,989.1 million senior unsecured debentures due 2026	A+
CPF276A: THB7,164.4 million senior unsecured debentures due 2027	A+
CPF276B: THB2,643 million senior unsecured debentures due 2027	A+
CPF277A: THB2,000 million senior unsecured debentures due 2027	A+
CPF281A: THB6,540 million senior unsecured debentures due 2028	A+
CPF281B: THB4,028.7 million senior unsecured debentures due 2028	A+
CPF288A: THB3,079.7 million senior unsecured debentures due 2028	A+
CPF28NA: THB3,200 million senior unsecured debentures due 2028	A+
CPF308A: THB3,806 million senior unsecured debentures due 2030	A+
CPF30NA: THB5,300 million senior unsecured debentures due 2030	A+
CPF311A: THB5,034.4 million senior unsecured debentures due 2031	A+
CPF314A: THB2,500 million senior unsecured debentures due 2031	A+
CPF326A: THB940 million senior unsecured debentures due 2032	A+
CPF328A: THB5,000 million senior unsecured debentures due 2032	A+
CPF331A: THB5,372.4 million senior unsecured debentures due 2033	A+
CPF356A: THB3,120 million senior unsecured debentures due 2035	A+
CPF418A: THB4,000 million senior unsecured debentures due 2041	A+
CPF41DA: THB6,000 million senior unsecured debentures due 2041	A+
CPF22PA: THB15,000 million subordinated capital debentures	A-
Up to THB14,000 million senior unsecured debentures due within 15 years	A+
Up to THB15,000 million subordinated capital debentures	A-
Rating Outlook:	Negative

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