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CHAROEN POKPHAND FOODS PLC

No. 80/2017 | 12 December 2017

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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Rating Rationale

TRIS Rating affirms the company rating of Charoen Pokphand Foods PLC (CPF) and the ratings of CPF's existing senior unsecured debentures at "A+", and also affirms the rating of CPF's unsecured subordinated perpetual debentures (hybrid debentures) at "A-". At the same time, TRIS Rating assigns the rating of "A+" to CPF's proposed issue of up to Bt12,000 million in senior unsecured debentures.

The ratings of CPF and its existing issues continue to reflect the company's leading position in the Thai agribusiness and food industry, geographic diversity of its operations, diverse range of products and markets, efforts to create more branded food products, and high degree of financial flexibility. However, these strengths are partially offset by aggressive expansion plan, inherent cyclicality of CPF's commodity-type products and the cost of grain, exposure to disease outbreaks, and changes in regulations imposed by importing countries.

CPF is the largest agribusiness and food conglomerate in Thailand. At the end of August 2017, Charoen Pokphand Group Co., Ltd. (CPG) and its subsidiaries held 48.5% of CPF's shares. CPF is a fully integrated producer of livestock and shrimp products. Fully integrated operations help CPF's products meet safety and traceability standards, which qualify its products for export to major importing countries, including the countries of the European Union (EU), Asian nations, and the United States (US).

CPF's revenue sources are geographically diverse. Its production bases are located in 17 countries. However, the operations in Thailand, which accounted for 36% of total revenue in the first nine months of 2017, are the major source of revenue. The operations in China contributed 24% of total revenue, followed by the operations in Vietnam (13%). Animal feed, which is a relatively stable source of revenue, is the largest product segment, comprising about 46% of total revenue during the first nine months of 2017. Commodity-like farm products made up 36% of total sales, while revenue from the sales of food products accounted for 18%.

During the first nine months of 2017, CPF's operating results softened. The sluggish operating performance primarily was due to a slump in livestock prices in Thailand and Vietnam, and a stagnant recovery in domestic shrimp business. CPF benefited from the improvement in overseas aquaculture business but it was not sufficient to offset the plunge in livestock prices in Thailand and overseas. During the first nine months of 2017, the operating profit before depreciation and amortization was 5.7%, down from 9.5% during the same period a year earlier. Earnings before interest, tax, depreciation, and amortization (EBITDA) dropped by 26.1% y-o-y to Bt29,422 million in the first nine months of 2017.

CPF's balance sheet slightly improved as a result of a capital increase. During the first nine months of 2017, CPF raised approximately Bt20,000 million in new equity capital. Part of the proceeds from the new equity were used to repay debt. As a result, CPF's total debt declined to Bt285,324 million as of September 2017, from Bt312,728 million at the end of 2016. As of September 2017, CPF's debt to capitalization ratio improved to 55.8%, from 61.8% at the end of 2016.

Thanks to the capital increase, the EBITDA interest coverage ratio and cash flow protection remains acceptable despite weakened operating results. The ratio of funds from operations (FFO) to total debt was 10% (annualized, from the trailing

12 months) for the first nine months of 2017, compared with 11.6% in 2016 and 8.5% in 2015. The EBITDA interest coverage ratio was 3.5 times during the first nine months of 2017, down modestly from 4.9 times in 2016.

Looking forward, CPF's short-term operating performance will suffer due to low level of livestock prices. However, the swine prices in Vietnam and Thailand are expected to recover gradually along the normal cycle of livestock. Demand for poultry in export markets is expected to remain strong and feed costs remains under control. CPF will continue to benefit from gradual recovery of the shrimp segment in Thailand. These favorable environments will uplift the operating performance of livestock business in Thailand and overseas. Over the next three years, CPF's revenue will range between Bt500,000-Bt590,000 million, according to TRIS Rating's base-case forecast. FFO is expected to hover around Bt30,000-Bt35,000 million per annum. However, leverage is expected to remain high. CPF has laid out plans for sizeable capital expenditures of about Bt25,000 million per year, excluding acquisitions. The debt to capitalization ratio is expected to be managed to stay below 60% during aggressive expansion. The EBITDA interest coverage ratio will stay at around 3-4 times, and the FFO to total debt ratio will hover around 10%.

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. The rating upside hinges on the company's ability to significantly strengthen its capital structure 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.

Charoen Pokphand Foods PLC (CPF)

Company Rating:	A+
Issue Ratings:	
CPF185A: Bt6,000 million senior unsecured debentures due 2018	A+
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+
CPF257A: Bt3,000 million senior unsecured debentures due 2025	A+
CPF277A: Bt2,000 million senior unsecured debentures due 2027	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-
Up to Bt12,000 million senior unsecured debentures due within 10 years	A+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Sep 2017		2016	2015	2014	2013	2012
			------------------------ Year Ended 31 December ----------------------				
Sales and service revenues	372,024		464,465	421,355	426,039	389,251	357,175
Gross interest expense	8,499		10,141	8,624	8,241	7,568	6,283
Net income from operations	5,284		13,437	960	6,101	(1,475)	3,448
Funds from operations (FFO)	21,113		36,198	21,975	22,909	8,027	9,486
Total capital expenditures and investments	33,355		73,218	66,341	42,341	38,010	74,510
Total assets	583,584		582,179	494,263	416,764	365,003	310,544
Total debt	285,324		312,728	258,151	195,929	186,405	146,203
Shareholders' equity	225,644		193,706	173,725	163,966	129,573	120,781
Operating income before depreciation and amortization as % of sales	5.67		8.60	5.15	5.58	2.59	4.30
Pretax return on permanent capital (%)	5.15	**	7.84	4.69	6.41	2.94	7.25
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.46		4.93	3.49	3.84	2.26	3.50
FFO/total debt (%)	10.03	**	11.57	8.51	11.69	4.31	6.49
Total debt/capitalization (%)	55.84		61.75	59.77	54.44	58.99	54.76

* *Consolidated financial statements*

** *Annualized with trailing 12 months*

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