

CPF (THAILAND) PLC

No. 49/2024
1 April 2024

CORPORATES

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

Last Review Date: 14/09/23

Company Rating History:

Date	Rating	Outlook/Alert
14/09/23	A+	Negative
08/12/20	A+	Stable
31/03/20	A+	Alert Negative
04/11/15	A+	Stable

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RATIONALE

TRIS Rating downgrades the company rating on CPF (Thailand) PLC (CPFTH) and the ratings on CPFTH’s senior unsecured debentures to “A” from “A+” and revises the outlook to “stable” from “negative”. The rating action follows the revision of the rating and outlook on Charoen Pokphand Foods PLC (CPF, rated “A/Stable”), reflecting CPF’s weaker-than-expected operating performance, and its persistently high financial leverage. As a core subsidiary of CPF, the ratings and outlook on CPFTH are tied to those on CPF.

At the same time, TRIS Rating assigns a rating of “A” to CPFTH’s proposed issues of up to THB15 billion senior unsecured debentures due within 15 years. The proceeds of the new debenture issuances are intended to be used for the following purposes of the company or companies in the CPF Group: (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 or acquisition of shares of companies in the CPF Group.

KEY RATING CONSIDERATIONS

Core subsidiary of CPF

CPFTH was founded to run the domestic livestock operation for CPF. 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 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 domestic and overseas distribution networks. CPF also helps CPFTH secure raw materials. CPF has demonstrated its strong financial support in capital injections or loans to CPFTH on a timely basis.

CPFTH’s operating revenue has accounted for 25%-27% of CPF’s total operating revenue during the past three years. In the same period, CPFTH’s earnings before interest, taxes, depreciation, and amortization (EBITDA) has been reliant on domestic livestock prices that are highly volatile, accounting for 4%-32% of CPF’s EBITDA.

Turbulent livestock prices hurt performance

CPFTH’s operating results have been severely affected by the plummet in livestock prices combined with the surge in feed costs. Pork smuggling nationwide has caused a substantial decline in pork prices. Prices of chicken meat also dropped substantially as a pork substitution product amid the oversupply situation owing to lower export volumes.

Hog prices tumbled by 25.2% year-on-year (y-o-y) to THB72.8 per kilogram in 2023, while broiler prices slumped by 7.8% y-o-y to THB37.1 per kilogram. In 2023, CPFTH reported operating revenue of THB157.1 billion, down by 3.6% y-o-y. EBITDA plunged to THB1.7 billion, compared with THB5-THB20 billion in 2020-2022. The EBITDA margin was 1.1%, down from 3.8%-12.2% in 2020-2022.

We expect CPFTH to face several challenges in the coming years, including the threat of economic slowdown and volatility in agricultural product prices. However, we see the company benefiting from the recent drop in raw material costs. Also, we anticipate livestock prices, and the supply situation to gradually

improve following the authorities' crackdown on pork smuggling, as well as synergies and support from CPF and CPF's associated companies.

High leverage, weakened cash flow protection during industry downturn

CPFTH's leverage as measured by levels of debt against cash generation has increased significantly in 2023, owing to weakened cash generation during an industry downtrend. As of December 2023, CPFTH's net debt stood at THB135.7 billion, up from THB115.9 billion in 2022. The debt to EBITDA ratio spiked in 2023, from around 6 times in 2022. The ratio of funds from operations (FFO) to total debt turned negative in 2023, from 13.1% in 2022.

Tight but manageable liquidity expected

As of December 2023, the company's interest-bearing debt amounted to THB128.1 billion, with debentures and long-term loans making up more than 70% of total debt. The remainder comprised short-term loans to finance CPFTH's working capital needs. We assess CPFTH's liquidity to be tight but manageable over the next 12 months. The major cash outflows are its scheduled long-term debt repayments of around THB4 billion due in 2024 and capital expenditure of about THB7 billion per annum. CPFTH has a large portion of the short-term debt coming due in the next 12 months, which is expected to be refinanced. The company also has a liquidity buffer with cash on hand of around THB1.7 billion at the end of 2023. We view CPFTH's refinancing risk is manageable, given its strong access to capital markets and numerous credit facilities from commercial banks.

The key financial covenant on CPFTH's debentures requires maintenance of an interest-bearing debt to equity ratio below 2 times. The ratio was 1.5 times as of December 2023. We expect the company to comply with the covenant over the next few years.

RATING OUTLOOK

The "stable" outlook mirrors the outlook on CPF.

RATING SENSITIVITIES

As a core subsidiary of CPF, the ratings on CPFTH are tied to the ratings on CPF. Any change in the ratings on CPF, or CPFTH's group status, will affect the ratings on CPFTH accordingly.

COMPANY OVERVIEW

CPFTH is an almost 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 2023, the farm segment was the largest at 63% of CPFTH's total revenue, followed by animal feed (23%), and food products (14%).

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 20% of the production of poultry and 13% 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.

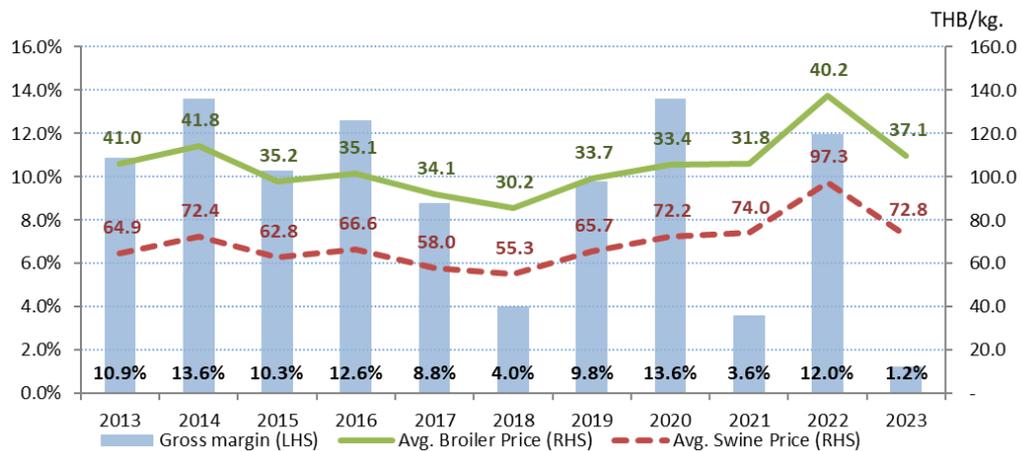
KEY OPERATING PERFORMANCE

Table 1: CPFTH's Revenue Breakdown

Unit: %					
By Product Segment	2019	2020	2021	2022	2023
Feed	18	17	23	21	23
Farm	55	59	64	66	63
Food	27	24	13	13	14
Total	100	100	100	100	100
Sales (Mil.. THB)	143,335	150,142	130,682	162,188	156,138

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 -----				
	2023	2022	2021	2020	2019
Total operating revenues	157,095	163,033	131,394	150,954	144,165
Earnings before interest and taxes (EBIT)	(551)	17,247	1,361	7,921	3,212
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,708	19,875	5,055	14,461	8,833
Funds from operations (FFO)	(2,957)	15,230	1,783	11,012	5,663
Adjusted interest expense	4,684	3,532	3,224	3,165	2,841
Capital expenditures	6,914	6,900	4,179	4,883	6,715
Total assets	239,577	230,479	181,710	193,335	150,769
Adjusted debt	135,722	115,946	93,205	91,505	80,596
Adjusted equity	84,087	91,970	65,953	67,545	60,141
Adjusted Ratios					
EBITDA margin (%)	1.1	12.2	3.8	9.6	6.1
Pretax return on permanent capital (%)	(0.3)	9.1	0.8	4.9	2.3
EBITDA interest coverage (times)	0.4	5.6	1.6	4.6	3.1
Debt to EBITDA (times)	79.5	5.8	18.4	6.3	9.1
FFO to debt (%)	(2.2)	13.1	1.9	12.0	7.0
Debt to capitalization (%)	61.7	55.8	58.6	57.5	57.3

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

CPF (Thailand) PLC (CPFTH)

Company Rating:	A
Issue Ratings:	
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
CPFTH259A: THB4,000 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
CPFTH279A: THB4,470 million senior unsecured debentures due 2027	A
CPFTH281A: THB3,050 million senior unsecured debentures due 2028	A
CPFTH281B: THB5,000 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
CPFTH295B: THB3,369.7 million senior unsecured debentures due 2029	A
CPFTH299A: THB6,010 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
CPFTH325A: THB1,449.2 million senior unsecured debentures due 2032	A
CPFTH328A: THB872.6 million senior unsecured debentures due 2032	A
CPFTH331A: THB5,000 million senior unsecured debentures due 2033	A
CPFTH335A: THB3,000 million senior unsecured debentures due 2033	A
CPFTH339A: THB4,520 million senior unsecured debentures due 2033	A
CPFTH345A: THB1,522.6 million senior unsecured debentures due 2034	A
CPFTH358A: THB2,517.2 million senior unsecured debentures due 2035	A
CPFTH375A: THB3,808.5 million senior unsecured debentures due 2037	A
Up to THB15,000 million senior unsecured debentures due within 15 years	A
Rating Outlook:	Stable

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