CHAROEN POKPHAND FOODS PLC

No. 39/2020
31 March 2020

CORPORATES

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

Last Review Date: 13/03/20

Company Rating History:

Date	Rating	Outlook/Alert
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 senior unsecured debentures at "A+", and subordinated capital debentures (hybrid debentures) at "A-".

At the same time, TRIS Rating assigns "A+" rating to CPF's proposed issue of up to Bt25 billion in senior unsecured debentures. The company intends to use the proceeds from the new debentures for working capital and/or investment and/or repayment of its existing debts and/or lending to CPF's subsidiaries.

The company rating and all issue ratings on CPF were announced in TRIS Rating's CreditALert* with "negative" implications on 13 March 2020, following CPF's announcement to acquire 20% of the total issued shares in Tesco Stores (Thailand) Ltd. and Tesco Stores (Malaysia) Sdn. Bhd., collectively referred to as "Tesco Asia Group". TRIS Rating expects to resolve the CreditAlert upon the completion of the acquisition, or the impact of the acquisition transaction on CPF's creditworthiness has been thoroughly analyzed.

The ratings continue to reflect CPF'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 financial flexibility the company gains from its strategic investments. However, these strengths are weighed down by its high leverage, the inherent cyclicality of commodity-type products, exposure to disease outbreaks, changes in regulations imposed by importing countries, and the prolonged economic downturn.

CREDITALERT

TRIS Rating has placed CreditAlert with a "negative" implication on the company rating and all issue ratings on CPF since 13 March 2020. The CreditAlert follows CPF's announcement that its wholly-owned subsidiary has entered into an agreement to acquire up to 20% of the equity interest in the Tesco Asia Group. CPF expects to complete the transaction by end of 2020, subjecting to the conditions precedent in the agreement which include the approval of the relevant regulators.

CPF's ratings could be downgraded or remain unchanged from the current level, depending on the results of further analysis on the impact. Although the acquisition strengthens CPF's distribution channels and markets through the acquired leading hypermarket stores in Thailand and Malaysia, the debt financing intended for the acquisition will elevate CPF's leverage significantly and materially impact its financial risk profile.

KEY RATING CONSIDERATIONS

Returning to satisfactory profitability

CPF posted satisfactory operating results in 2019. The improvement was mainly driven by livestock business, while aquaculture business showed a slight decline in margin. Supply shortage from the African swine fever (ASF) outbreak in several countries caused the rocketing swine prices in Thailand and Vietnam. Prices of chicken also escalated from the rising demand as meat substitution, whereas feed costs declined. As a result, earnings before interest, tax, depreciation, and amortization (EBITDA) rose to Bt55.8 billion in 2019, from Bt36-Bt48 billion in 2017-2018. EBITDA margin also shot up to 10.4% in 2019, compared with 7%-9% in 2017-2018.

Going forward, TRIS Rating expects CPF will continue to benefit from the rise in swine prices, together with low feed costs. The rising demand of chicken for exports, particularly to China, will also be a driver. Additionally, the company will benefit from its recent acquisition of a Canadian premium pork processor, Hylife.

TRIS Rating's base case scenario takes into account the potential economic impact of the coronavirus (COVID-19) and global economic slowdown. TRIS Rating views that the impact to CPF's operating performance is likely to be moderate, compared with other industries. Sales volume of food service will likely decline, while the frozen packaged food will likely benefit during the pandemic.

High leverage with sizable investment plan

Ongoing sizable expansionary capital expenditures and acquisitions have pushed up the leverage. The adjusted debt rose to Bt346.9 billion in 2019 from Bt335.2 billion in 2018. The debt to capitalization ratio rose to 62.1% in 2019 from 61.4% in 2018.

TRIS Rating views CPF's leverage will likely continue on the rise. To pursue its growth strategy, CPF has laid out plans for sizable capital expenditures, approximately Bt25 billion a year, excluding business acquisitions. CPF will continue to seek for investment opportunities, aligning with its core business.

Furthermore, the recent debt-funded acquisition of the Tesco Asia Group, if successfully completed, will push up CPF's leverage significantly and materially weaken its financial risk profile. We view the transaction could raise CPF's total debt to capitalization ratio to around 65%. At the same time, the debt to EBITDA could jump to around 8 times.

Cash flow protection improves

Cash flow protection has improved as profits increased. The ratio of funds from operations (FFO) to total debt was 9.8% in 2019, up from 8.3% in 2018. CPF's liquidity and financial flexibility are at acceptable levels. Scheduled debt repayments of approximately Bt43 billion are due in 2020. Primary source of repayment will be from the cash flow from operation. Liquidity buffer is backed by cash on hand and short-term securities totaling Bt34 billion at the end of 2019. Additionally, CPF has a considerably large investment in CP All PLC (CPALL), the leading convenience store operator in Thailand. Currently, CPF holds a 33.9% stake in CPALL. The market capitalization of CPALL, for the portion of interest held by CPF, was approximately Bt183 billion as of 30 March 2020.

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 the feed segment, it holds about half of the total market for shrimp feed, based on production volume, and about one-third of the market for livestock feed. In the Thai poultry and swine segments, CPF accounts for 22% of the domestic production of poultry and 18% of swine. As one of the nation's largest integrated food producers, CPF has the leverage on its economies of scale.

Geographic diversification and diverse range of products

CPF's operational risk is partly mitigated by the geographic diversity of its operations and markets. As of 31 March 2020, CPF had production bases in 17 countries on five continents. The operations in Thailand accounted for 33% of total revenue in 2019, while the operations abroad contributed 67%. China operations contributed 24% of total revenue, followed by Vietnam (16%). The other major sources of revenue were the United Kingdom (UK), Taiwan, India, the United States (US), Cambodia, Russia, and Turkey. Sales in each of these nations accounted for 2%-4% of total revenue in 2019.

CPF's revenue sources are geographically diverse. Sales in Thailand comprised only 27% of total sales in 2019. The Asian region, a growing market, has become the largest source of sales, accounting for 58%. The European Union (EU) nations and the US accounted for only 10% and 5%, respectively. CPF's continued effort to broaden its geographic coverage is also targeted to alleviate the impact from disease outbreaks and trade barriers.

A diverse range of products also helps reduce the volatility of earnings. CPF is a fully integrated producer of livestock and shrimp products. The company's product portfolio includes animal feed, poultry, swine, and shrimp, as well as food products. In 2019, revenue from farm (poultry, swine, and shrimp) was the largest revenue contributor, accounting for 44% of total sales, followed by feed (38%), and food products (18%).

BASE-CASE ASSUMPTIONS

- Operating revenues to decline by 1% in 2020 and grow by 3%-4% per year in 2021-2022.
- EBITDA margin to stay at around 9%-10% in 2020-2022.
- Total capital spending of around Bt25 billion per year during 2020 -2022, excluding business acquisitions.

COMPANY OVERVIEW

Founded in 1978, CPF is Thailand's largest agribusiness and food conglomerate. As of 9 March 2020, Charoen Pokphand Group held 53.4% 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.

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 major markets such as EU countries, Japan, and the US.

In order to insulate itself from the price fluctuations inherent in commodity-type products, CPF is pursuing a long-term strategy of focusing on value-added products. CPF has continued to broaden its portfolio of products and markets as well as adding new distribution channels through several acquisitions. The investments include an integrated pork producer in Canada, plus several food service suppliers in Europe, shrimp farm in Brazil, as well as restaurants in Thailand and Vietnam.

KEY OPERATING PERFORMANCE

Table 1: CPF's Revenue Breakdown

Unit: %

By Product	2015	2016	2017	2018	2019
Feed	52	48	45	42	38
Farm	36	40	37	41	44
Food	12	12	18	17	18
Total	100	100	100	100	100
Sales (Bt mil.)	**421,355**	**464,465**	**501,507**	**541,937**	**532,573**

Source: CPF

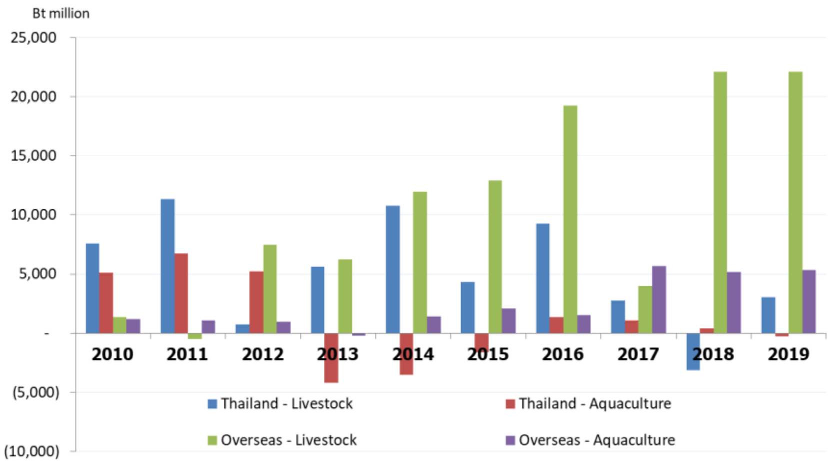
Table 2: CPF's Revenue Breakdown by Geography

Unit: %

Country	2015	2016	2017	2018	2019
Thailand	33.4	32.3	29.5	27.5	27.0
EU	7.9	9.4	10.2	10.0	10.4
Asia	57.3	57.2	54.7	57.8	57.8
USA	1.0	0.8	5.2	4.4	4.6
Others	0.4	0.3	0.4	0.3	0.2
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 --------------------				
	2019	**2018**	**2017**	**2016**	**2015**
Total operating revenues	535,614	545,068	503,734	466,792	424,768
Earnings before interest and taxes (EBIT)	39,956	32,411	21,258	38,039	23,699
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	55,846	47,881	35,564	51,102	35,026
Funds from operations (FFO)	34,090	27,659	21,463	31,623	20,337
Adjusted interest expense	16,310	14,011	13,850	12,267	11,035
Capital expenditures	25,974	29,009	30,639	22,576	25,725
Total assets	634,050	628,091	593,497	582,179	494,262
Adjusted debt	346,934	335,213	299,600	299,378	239,252
Adjusted equity	211,372	211,158	219,142	193,706	173,725
Adjusted Ratios					
EBITDA margin (%)	10.43	8.78	7.06	10.95	8.25
Pretax return on permanent capital (%)	6.82	5.76	3.94	7.68	5.65
EBITDA interest coverage (times)	3.42	3.42	2.57	4.17	3.17
Debt to EBITDA (times)	6.21	7.00	8.42	5.86	6.83
FFO to debt (%)	9.83	8.25	7.16	10.56	8.50
Debt to capitalization (%)	62.14	61.35	57.76	60.72	57.93

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Hybrid Securities Rating Criteria, 12 September 2018
- Key Financial Ratios and Adjustments, 5 September 2018

*Note: * CreditAlert, as part of TRIS Rating's monitoring process as a public warning when there is insufficient information to fully assess and reconsider a debt instrument's current rating or when significant events have occurred that may affect the company's rating already assigned by TRIS Rating. Credit Alert designations may be "positive" or "negative" or "developing", depending on the likely impact of a particular situation. The existing rating continues unchanged for the present. Monitoring is done until the debt instrument matures or the company's rating contract expires.*

Charoen Pokphand Foods PLC (CPF)

Company Rating:	A+
Issue Ratings:	
CPF204A: Bt3,060 million senior unsecured debentures due 2020	A+
CPF20NA: Bt6,700 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+
CPF225A: Bt7,600 million senior unsecured debentures due 2022	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+
CPF24NA: Bt2,200 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+
CPF28NA: Bt3,200 million senior unsecured debentures due 2028	A+
CPF30NA: Bt5,300 million senior unsecured debentures due 2030	A+
CPF314A: Bt2,500 million senior unsecured debentures due 2031	A+
CPF328A: Bt5,000 million senior unsecured debentures due 2032	A+
CPF41DA: Bt6,000 million senior unsecured debentures due 2041	A+
CPF418A: Bt4,000 million senior unsecured debentures due 2041	A+
CPF17PA: Bt15,000 million subordinated capital debentures	A-
Up to Bt25,000 million in senior unsecured debentures due within 15 years	A+
CREDITALERT:	Negative

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