

CHAROEN POKPHAND FOODS PLC

No. 47/2022
31 March 2022

CORPORATES

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

Last Review Date: 07/12/21

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 senior unsecured debentures at “A+”, and affirms the rating on its subordinated capital debentures (hybrid debentures) at “A-”. The outlook remains “stable”.

The ratings continue to reflect CPF’s strong market position as one of the world’s leaders in agribusiness industry, the geographic diversity of its operations, as well as diverse range of product offerings and markets served. The ratings also reflect the financial flexibility the company gains from its strategic investments. However, the ratings are constrained by its exposure to commodity protein price and earnings volatility with relatively low margins as well as periodical acquisitions and investments that constantly keep its financial leverage at high levels.

KEY RATING CONSIDERATIONS

Deteriorated operating results

CPF’s operating results deteriorated significantly in 2021, owing to the Coronavirus Disease 2019 (COVID-19) outbreaks, a drop in livestock prices, combined with a steep rise in raw material costs.

The heightened COVID-19 situation not only curbed consumer demand for food products, but also caused supply chain disruption and labor shortages in food processing plants. CPF incurred higher production costs and extraordinary expenses to cover COVID-19 protections in 2021. CPF’s overseas operations, particularly in Vietnam also experienced the negative impacts from the steep decline in swine prices following COVID-19 and the spread of African swine fever (ASF). The company’s operating profit was also hard hit by skyrocketing feed costs globally. In 2021, the average price of corn jumped by 12% year-on-year (y-o-y) in Thailand and 36% y-o-y in Vietnam, while the average price of soybean meal surged by 55% y-o-y in Thailand and 29% y-o-y in Vietnam.

As a result, CPF’s earnings before interest, taxes, depreciation, and amortization (EBITDA) dipped by 37.2% y-o-y to THB52.4 billion in 2021. The EBITDA margin slipped to 10.1% in 2021, from 14.1% in 2020.

We view that CPF’s operation will likely face several challenges in coming years. Rising feed costs and volatility of swine prices remain key issues, while freight cost, geopolitical risks, inflation, and uncertainty of global economic recovery also impact operating performance. However, we view CPF’s synergy with its affiliate companies, particularly major retailers in Thailand, as well as the company’s strategies that focus on technology adaptation for efficiency improvement and cost reduction, should help the company achieve acceptable performance over the next few years.

Exposures in Russia

CPF has expanded its business scope to invest in Russia for over 15 years. Its operations in Russia cover the feed, poultry, and swine businesses. CPF’s subsidiaries in Russia contribute around 3% of total CPF’s revenue in 2021. Most credit facilities for CPF’s subsidiaries in Russia were from local banks, 85% of which were fixed interest rate long-term loans.

We view the impact from the exposure in Russia on CPF’s performance to be limited, given the modest revenue contribution from the operation in Russia.

However, we expect the Russian-Ukraine conflict to push up raw material prices, which could have significant impact on the company's profit margin. Nevertheless, CPF expects to benefit from rising orders of broiler meat as Ukraine, the major poultry exporter in Europe, is experiencing disruption in its production lines arising from the war.

Debt serviceability weakened

Sizable investments and higher feed costs contributed to higher working capital needs and higher debt levels in 2021. CPF's adjusted debt rose to THB442.9 billion in 2021, from THB376 billion in 2020. The debt to capitalization ratio increased to 61.3% in 2021 from 59.6% in 2020. Given higher debt and weaker operating profit, CPF's debt to EBITDA ratio weakened to 8.4 times in 2021 from 4.5 times in 2020, while the ratio of funds from operations (FFO) to total debt was 6.4% in 2021 down from 14.5% in 2020.

Recently in January 2022, CPF withdrew the listing of the shares of C.P. Pokphand Co., Ltd. (CPP) from the Stock Exchange of Hong Kong Ltd, (HKEX). In relation to this transaction, CPF spent approximately THB30 billion for an additional 25% stake in CPP. As a result, CPF became the major shareholder with a 75% stake in CPP, while ITOCHU Corporation holds the remaining 25%.

We forecast CPF's leverage to stay at a high level following its sizable capital spending. However, its leverage ratio should improve gradually on the back of recovery in livestock prices and the COVID-19 situation. Additionally, CPF intends to improve its balance sheet by exploring deleveraging exercises to improve its capital structure. In our base-case scenario, CPF's capital expenditure is projected to be THB30 billion per annum, excluding any acquisitions. We project its debt to EBITDA ratio to hover around 8.8 times in 2022 as a result of the sizable investment in CPP and capital expenditures, but the ratio should improve to 7 times during 2023-2024 following its deleverage plan. The debt to capitalization ratio is projected to hover around 63% in 2022 and gradually improve to 57% in 2024.

Adequate liquidity

We assess CPF's liquidity to be at an adequate level over the next 12 months. Scheduled debt repayments of approximately THB39 billion are due in 2022. The primary source of repayment will come from cash flow from operations. We forecast CPF to generate FFO of about THB30 billion in 2022. The liquidity buffer is backed by cash on hand and short-term securities totaling THB39 billion at the end of 2021. Additionally, CPF has huge equity investments in CP All PLC (CPALL) and Siam Makro PLC (MAKRO). Currently, CPF holds a 34% stake in CPALL and 8.9% in MAKRO. The market values of CPF's equity interest in CPALL and MAKRO were approximately THB180 billion and THB39 billion, respectively, as of 31 December 2021. As these equity investments are marketable securities, it should serve as a source of financial flexibility for CPF should extraordinary liquidity is needed.

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 December 2021, CPF had production bases in 17 countries on four continents. Operations in Thailand accounted for 37% of its total revenue in 2021, while operations abroad contributed 63%.

CPF's revenue sources are geographically diverse. Sales in Thailand comprised only 31% of its total sales in 2021. The Asian region, a growing market, has become the largest source of its sales, accounting for 51%. The European Union (EU) and the United States (US) accounted for only 12% and 6%, respectively. CPF's continued effort to broaden its geographic coverage also helps alleviate the impacts from disease outbreaks and trade barriers.

A diverse range of products further 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 2021, revenue from farm (poultry, swine, and shrimp) constituted the largest revenue contribution, accounting for 54% of its total sales, followed by feed (25%), and food products (21%).

BASE-CASE ASSUMPTIONS

- Operating revenues to surge by 4%-5% per year in 2022-2024.
- EBITDA margin to stay at around 10%-11.5% in 2022-2024.
- Total capital spending of around THB30 billion per year during 2022-2024, excluding business acquisitions.

RATING OUTLOOK

The "stable" outlook reflects our expectation that CPF will maintain its leading position in the dynamic agribusiness and food industry. We expect the company's diverse range of operations, products, and markets to mitigate the volatile effects of commodity-like farm products and disease epidemics.

RATING SENSITIVITIES

A rating upgrade hinges primarily on CPF's ability to strengthen its capital structure significantly and demonstrate a material, sustainable improvement in debt servicing metrics.

In contrast, a rating downgrade scenario could emerge should CPF's operating performance fall significantly below the forecast levels or any debt-funded acquisitions materially weaken the company's balance sheet and cash flow protection, such that the adjusted debt to EBITDA ratio rises above 8 times on a sustained period.

COMPANY OVERVIEW

Founded in 1978, CPF is Thailand's largest agribusiness and food conglomerate. As of November 2021, Charoen Pokphand Group held 51.4% 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'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 more than 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 leverages its competitive advantage on economies of scale.

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 add new distribution channels through several acquisitions. The investments include an integrated pork producer in Canada, several food service suppliers in Europe, a shrimp farm in Brazil, as well as the integrated shrimp business in Malaysia.

KEY OPERATING PERFORMANCE

Table 1: CPF's Revenue Breakdown

Unit: %

By Product	2017	2018	2019	2020	2021
Feed	45	42	38	37	25
Farm	37	41	44	47	54
Food	18	17	18	16	21
Total	100	100	100	100	100
Sales (mil. THB)	501,507	541,937	532,573	589,713	512,704

Source: CPF

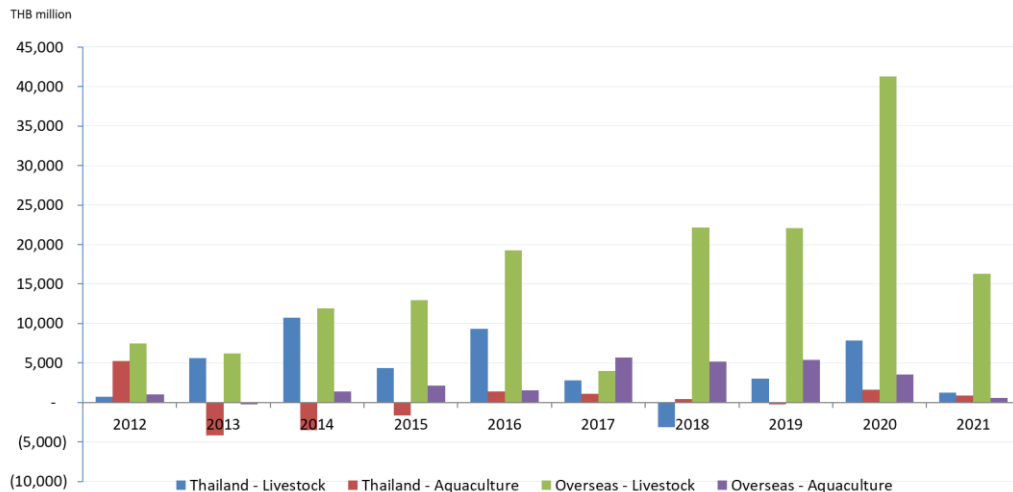
Table 2: CPF's Revenue Breakdown by Geography

Unit: %

Country	2017	2018	2019	2020	2021
Thailand	29.5	27.5	27.0	25.7	31.2
EU	10.2	10.0	10.4	8.8	11.8
Asia	54.7	57.8	57.8	61.0	51.1
USA	5.2	4.4	4.6	4.3	5.6
Others	0.4	0.3	0.2	0.2	0.3
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: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	516,777	593,129	535,618	545,068	503,734
Earnings before interest and taxes (EBIT)	22,639	64,148	39,961	32,411	21,258
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	52,414	83,449	55,851	47,881	35,564
Funds from operations (FFO)	28,366	54,404	33,884	28,575	17,162
Adjusted interest expense	17,619	17,915	16,310	14,011	13,850
Capital expenditures	24,455	27,157	25,974	29,009	30,639
Total assets	842,681	761,719	634,051	628,091	593,497
Adjusted debt	442,877	376,042	346,934	335,213	299,600
Adjusted equity	279,637	254,679	211,372	211,158	219,142
Adjusted Ratios					
EBITDA margin (%)	10.14	14.07	10.43	8.78	7.06
Pretax return on permanent capital (%)	3.12	10.01	6.82	5.76	3.94
EBITDA interest coverage (times)	2.97	4.66	3.42	3.42	2.57
Debt to EBITDA (times)	8.45	4.51	6.21	7.00	8.42
FFO to debt (%)	6.40	14.47	9.77	8.52	5.73
Debt to capitalization (%)	61.30	59.62	62.14	61.35	57.76

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:	
CPF225A: THB7,600 million senior unsecured debentures due 2022	A+
CPF228A: THB4,000 million senior unsecured debentures due 2022	A+
CPF231A: THB2,500 million senior unsecured debentures due 2023	A+
CPF235A: THB5,500 million senior unsecured debentures due 2023	A+
CPF237A: THB1,940 million senior unsecured debentures due 2023	A+
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+
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+
CPF28NA: THB3,200 million senior unsecured debentures due 2028	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 THB12,000 million senior unsecured debentures due within 15 years	A+
Rating Outlook:	Stable

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