

CPF (THAILAND) PLC

No. 40/2020
31 March 2020

CORPORATES

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

Last Review Date: 08/05/19

Company Rating History:

Date	Rating	Outlook/Alert
04/11/15	A+	Stable

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RATIONALE

TRIS Rating affirms the company rating and all senior debenture ratings on CPF (Thailand) PLC (CPFTH) at “A+” with “negative” CreditAlert* implications, aligned with the ratings on Charoen Pokphand Foods PLC (CPF), its parent company.

CPFTH’s ratings continue to reflect its status as a core subsidiary of CPF, rated “A+” with “Negative” CreditAlert by TRIS Rating. The ratings also take into consideration the high degree of the operational integration CPFTH has with CPF and the support it receives from CPF.

KEY RATING CONSIDERATIONS

Core subsidiary of CPF

CPFTH is a core subsidiary of CPF for the domestic livestock operation. In 2019, CPFTH generated operating revenue of Bt144.2 billion (27% of CPF’s total operating revenue), and Bt8.8 billion in earnings before interest, tax, depreciation and amortization (EBITDA) (16% of CPF’s EBITDA).

CPFTH’s strong profile reflects a high degree of operational integration with CPF plus the support it receives from CPF. As CPF owns nearly all of the interest in CPFTH, it has full control of CPFTH’s business direction and operations. CPF broadens the reach of CPFTH’s distribution channels by marketing CPFTH’s products abroad. CPF also helps CPFTH secure raw materials.

Recovered profit margin

CPFTH’s operating results in 2019 recovered from a supply glut during 2017-2018. The outbreak of African swine fever (ASF) in several countries in 2019 caused a shortage of swine and soaring prices of swine and poultry. Thanks to higher selling prices, together with falling feed costs, CPFTH’s EBITDA rose to Bt8.8 billion in 2019, from Bt3-Bt6 billion in 2017-2018. EBITDA margin also shot up to 6.1% in 2019, compared with 2.2%-4.5% in 2017-2018.

TRIS Rating’s base case projection has incorporated the potential economic impact of the coronavirus (COVID-19) and global economic slowdown. However, we view the impact on CPFTH’s operating results is likely to be moderate, compared with other industries. Sales of CPFTH’s frozen packaged food will likely increase and partially offset the drop in sales from food service.

Improved leverage and cash flow protection

The debt to capitalization ratio improved to 57.3% in 2019 from 60.8% in 2018. Additional capital injection of Bt9.6 billion from its parent company helped bolster the company’s total debt to capitalization ratio. Cash flow protection also improved as profits grew. The EBITDA interest coverage ratio improved to 3.1 times in 2019, compared with 1.2 times in 2018. The company’s ratio of funds from operations (FFO) to total debt went up to 7.4% in 2019, from 2.0% in 2018.

As of December 2019, the company’s adjusted debt amounted to Bt80.6 billion, with debentures and long-term loans made up about 90% of total debt. The remainder was short-term loans to finance CPFTH’s working capital needs. We assess CPFTH to have adequate liquidity for the next 12 months.

The major cash outflows are its scheduled debt repayments of approximately Bt5 billion due in 2020, which are expected to be funded primarily by cash flow from operation. The company also has significant liquidity buffer with cash on hand of around Bt3.5 billion and numerous credit lines from commercial banks.

Market leader in livestock products

CPFTH is the market leader in the livestock industry in Thailand. CPFTH holds about one-third of the market for livestock feed. The company's market share accounts for about 22% of the production of poultry and 18% of the production of swine. As one of the nation's largest producers, CPFTH has the leverage on its economies of scale.

Focus on value-added products

CPFTH is focusing on value-added products that are consistent with CPF's strategy. CPFTH uses the "CP" brand for most of the packaged food products it produces. By focusing on processed food products, the company can avoid competing in the commodity-like markets of frozen and fresh products. As part of the value-added products strategy, CPFTH is developing its own distribution network. At the end of 2019, CPFTH and a subsidiary, CPF Trading Co., Ltd., owned 4,182 "Five-Star" chicken kiosks, 322 "CP Fresh Mart" shops, 31 stores under the "Pork Shop", 21 branches of "CP Food World" brand and a "CP Kitchen".

BASE-CASE ASSUMPTIONS

- Operating revenues to decline by 3% in 2020 and grow by 3%-5% per year in 2021-2022.
- EBITDA margin to stay at around 6%-7% in 2020-2022.
- Total capital spending to be around Bt10 billion per year during 2020-2022.

COMPANY OVERVIEW

CPFTH is a nearly wholly-owned (99.98%) 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 2019, the farm segment was the largest, accounting for 55% of CPFTH's total revenues, followed by food products (27%) and animal feed (18%). About 85% of CPFTH's products are sold in Thailand, while the rest is exported indirectly through CP Merchandising Co., Ltd., another subsidiary of CPF.

KEY OPERATING PERFORMANCE

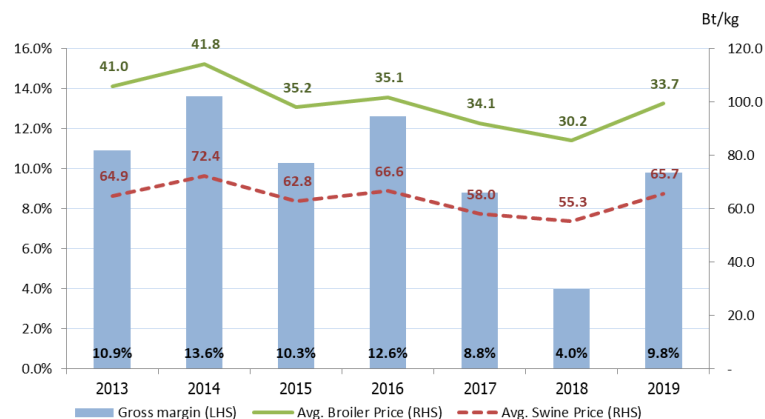
Table 1: CPFTH's Revenue Breakdown

Unit: %

By Product Segment	2015	2016	2017	2018	2019
Feed	28	24	25	25	18
Farm	47	51	49	50	55
Food	25	25	26	25	27
Total	100	100	100	100	100
Sales (Bt mil.)	135,975	142,190	142,608	146,202	143,335

Source: CPFTH

Chart 1: CPFTH's Gross Margin, and the Average Prices of Broiler and Swine, by Year



Sources: CPFTH and Thai Feed Mill Association

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Bt million

	----- Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Total operating revenues	144,165	146,983	143,375	142,903	136,697
Earnings before interest and taxes (EBIT)	3,212	(1,865)	2,084	8,700	3,878
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	8,833	3,169	6,470	12,766	7,422
Funds from operations (FFO)	5,956	1,572	4,585	9,724	5,024
Adjusted interest expense	2,841	2,634	1,949	1,635	1,966
Capital expenditures	6,715	10,626	10,544	8,353	6,060
Total assets	150,769	139,628	122,974	118,587	79,656
Adjusted debt	80,596	78,257	68,755	66,605	40,232
Adjusted equity	60,141	50,480	44,003	37,572	20,165
Adjusted Ratios					
EBITDA margin (%)	6.13	2.16	4.51	8.93	5.43
Pretax return on permanent capital (%)	2.32	(1.52)	1.89	10.37	6.68
EBITDA interest coverage (times)	3.11	1.20	3.32	7.81	3.78
Debt to EBITDA (times)	9.12	24.70	10.63	5.22	5.42
FFO to debt (%)	7.39	2.01	6.67	14.60	12.49
Debt to capitalization (%)	57.27	60.79	60.98	63.93	66.61

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

*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.*

CPF (Thailand) PLC (CPFTH)

Company Rating:	A+
Issue Ratings:	
CPFTH207A: Bt5,000 million senior unsecured debentures due 2020	A+
CPFTH211A: Bt7,450 million senior unsecured debentures due 2021	A+
CPFTH215A: Bt4,500 million senior unsecured debentures due 2021	A+
CPFTH231A: Bt2,150 million senior unsecured debentures due 2023	A+
CPFTH235A: Bt4,000 million senior unsecured debentures due 2023	A+
CPFTH237A: Bt3,300 million senior unsecured debentures due 2023	A+
CPFTH245A: Bt4,000 million senior unsecured debentures due 2024	A+
CPFTH255A: Bt2,000 million senior unsecured debentures due 2025	A+
CPFTH261A: Bt3,350 million senior unsecured debentures due 2026	A+
CPFTH267A: Bt1,400 million senior unsecured debentures due 2026	A+
CPFTH275A: Bt500 million senior unsecured debentures due 2027	A+
CPFTH281A: Bt3,050 million senior unsecured debentures due 2028	A+
CPFTH287A: Bt1,100 million senior unsecured debentures due 2028	A+
CPFTH295A: Bt4,000 million senior unsecured debentures due 2029	A+
CPFTH305A: Bt3,500 million senior unsecured debentures due 2030	A+
CPFTH315A: Bt6,500 million senior unsecured debentures due 2031	A+
CPFTH317A: Bt2,200 million senior unsecured debentures due 2031	A+
CPFTH335A: Bt3,000 million senior unsecured debentures due 2033	A+
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TRIS Rating Co., Ltd.

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