

CPF (THAILAND) PLC

No. 48/2022
31 March 2022

CORPORATES

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

Last Review Date: 26/04/21

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on CPF (Thailand) PLC (CPFTH), and the ratings on CPFTH's senior unsecured debentures at "A+" with a "stable" outlook.

The ratings continue to reflect CPFTH's status as a core subsidiary of Charoen Pokphand Foods PLC (CPF; rated "A+/Stable" by TRIS Rating), the largest agribusiness and food conglomerate in Thailand. The ratings also take into consideration the high degree of operational integration CPFTH has with CPF and the support it receives from CPF.

KEY RATING CONSIDERATIONS

Core subsidiary of CPF

We assess CPFTH as a core subsidiary of CPF, in consideration of its high integration with CPF in terms of business and financial strategy.

CPFTH was founded to operate 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 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 through CPF's domestic and overseas distribution network. CPF also helps CPFTH secure raw materials. CPF has demonstrated strong financial supports 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, while CPFTH's earnings before interest, taxes, depreciation, and amortization (EBITDA) have accounted for 10%-17% of CPF's EBITDA.

Impact from change in CPF's group structure

In December 2020, CPF restructured its business group to eliminate the cross shareholding among affiliated companies and consolidate the food and distribution-related businesses under C.P. Merchandising Co., Ltd. (CPM). Thus, CPFTH had to spin-off three subsidiaries, comprising CPF Trading Co., Ltd., CPF Food and Beverage Co., Ltd., and CPF Restaurant and Food Chain Co., Ltd. in exchange for the 12.5% equity stakes in CPM.

Financially, the restructuring has resulted in a decrease in CPFTH's revenue and EBITDA because of the deconsolidation of the spun-off companies. CPFTH's revenue declined by around THB20 billion per year and operating profit declined by THB1 billion per year. Nonetheless, the drop in revenue and profit will be offset by the share of profit and dividend income from its 12.5% equity stake in CPM. CPFTH's reported share of profit from CPM was THB1.6 billion in 2021.

We hold the view that CPFTH's operating revenue and profit margin will be more volatile as a result of the restructuring, due to the higher revenue contribution from the farm business and lower contribution from the food business. Nevertheless, CPFTH expects that it will benefit from the high growth opportunities of CPM, which covers not only food companies and distribution channels, but also the retailers.

Operating results weaker than expected

CPFTH's operating results were weaker than projected. This was mainly due to sluggish operating performance in the second half of 2021 on the back of the heightened Coronavirus Disease 2019 (COVID-19) outbreak and the lockdown measures, combined with a steep rise in raw material costs. The supply chain disruptions following COVID-19 outbreaks in several food processing plants, as well as a drop in consumer demand resulted in a significant decline in livestock prices. Additionally, CPFTH also incurred extraordinary expenses from COVID-19 protection measures of about THB1 billion during this period. As a result, CPFTH's earnings before interest, taxes, depreciation, and amortization (EBITDA) plunged by 65% year-on-year (y-o-y) to THB5.1 billion in 2021. The EBITDA margin slipped to 3.9% in 2021, from 9.6% in 2020.

Weaker leverage and cash flow protection

Given sizable capital spendings and higher working capital needs for feed costs, the debt to capitalization ratio rose to 59.1% in 2021 from 57.5% in 2020. Cash flow protection also weakened as profits declined. The EBITDA interest coverage ratio was 1.6 times in 2021, compared with 4.6 times in 2020. The adjusted debt to EBITDA ratio surged to 18.4 times in 2021, compared with 6.3 times in 2020, while the ratio of funds from operations (FFO) to total debt was 1.9% in 2021 down from 12% in 2020.

As of December 2021, the company's adjusted debt amounted to THB93.2 billion, with debentures and long-term loans making up nearly 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 THB2 billion due in 2022, which are expected to be funded primarily by cash flow from operations. The company also has a significant liquidity buffer with cash on hand of around THB10 billion and numerous credit facilities from commercial banks.

RATING OUTLOOK AND SENSITIVITIES

The "stable" outlook is based on our expectation that CPFTH will remain a core subsidiary of CPF, responsible for the whole chain of CPF's livestock operations in Thailand. The company rating on CPFTH is aligned with CPF's credit profile. Any change in CPF's rating will affect CPFTH's rating accordingly.

COMPANY OVERVIEW

CPFTH is a nearly 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 2021, the farm segment was the largest, accounting for 64% of CPFTH's total revenues, followed by animal feed (23%) and food products (13%).

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 22% of the production of poultry and 18% 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

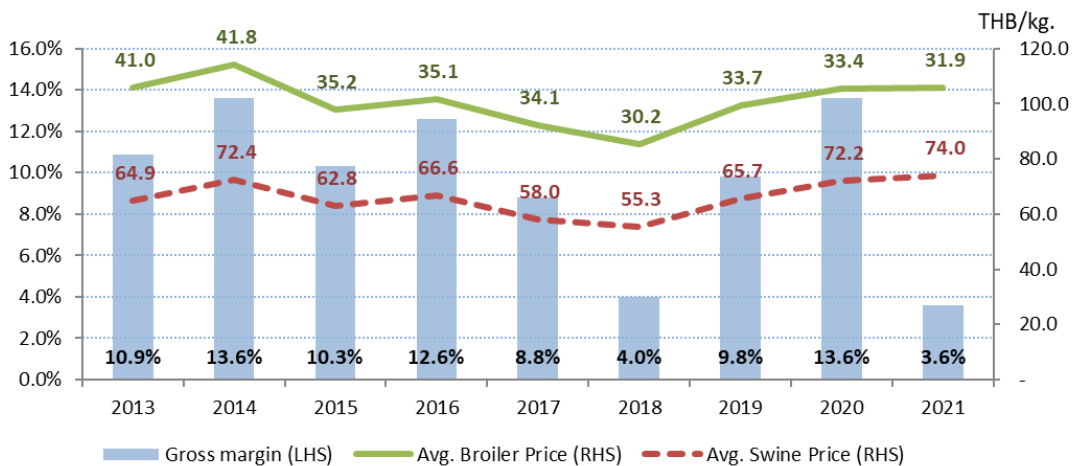
Table 1: CPFTH's Revenue Breakdown

Unit: %

By Product Segment	2017	2018	2019	2020	2021
Feed	25	25	18	17	23
Farm	49	50	55	59	64
Food	26	25	27	24	13
Total	100	100	100	100	100
Sales (mil. THB)	142,608	146,202	143,335	150,142	130,682

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 -----				
	2021	2020	2019	2018	2017
Total operating revenues	131,394	150,954	144,165	146,983	143,375
Earnings before interest and taxes (EBIT)	1,361	7,921	3,212	(1,865)	2,084
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,055	14,461	8,833	3,169	6,470
Funds from operations (FFO)	1,783	11,012	5,663	449	4,332
Adjusted interest expense	3,224	3,165	2,841	2,634	1,949
Capital expenditures	4,179	4,883	6,715	10,626	10,544
Total assets	179,897	193,335	150,769	139,628	122,974
Adjusted debt	93,205	91,505	80,596	78,257	68,755
Adjusted equity	64,503	67,545	60,141	50,480	44,003
Adjusted Ratios					
EBITDA margin (%)	3.85	9.58	6.13	2.16	4.51
Pretax return on permanent capital (%)	0.78	4.88	2.32	(1.52)	1.89
EBITDA interest coverage (times)	1.57	4.57	3.11	1.20	3.32
Debt to EBITDA (times)	18.44	6.33	9.12	24.70	10.63
FFO to debt (%)	1.91	12.03	7.03	0.57	6.30
Debt to capitalization (%)	59.10	57.53	57.27	60.79	60.98

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:	
CPFTH231A: THB2,150 million senior unsecured debentures due 2023	A+
CPFTH235A: THB4,000 million senior unsecured debentures due 2023	A+
CPFTH237A: THB3,300 million senior unsecured debentures due 2023	A+
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+
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+
CPFTH287A: THB1,100 million senior unsecured debentures due 2028	A+
CPFTH295A: THB4,000 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+
CPFTH328A: THB872.6 million senior unsecured debentures due 2032	A+
CPFTH335A: THB3,000 million senior unsecured debentures due 2033	A+
CPFTH339A: THB4,520 million senior unsecured debentures due 2033	A+
CPFTH358A: THB2,517.2 million senior unsecured debentures due 2035	A+
Up to THB35,000 million senior unsecured debentures due within 15 years	A+
Rating Outlook:	Stable

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