

CPF GLOBAL FOOD SOLUTION PLC

No. 81/2024
16 May 2024

CORPORATES

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

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RATIONALE

TRIS Rating assigns a company rating of “A” to CPF Global Food Solution PLC (CPFGS) with a “stable” rating outlook. The rating incorporates our view on the company’s status as a core subsidiary of Charoen Pokphand Foods PLC (CPF, rated “A/Stable”), the largest agribusiness and food conglomerate in Thailand.

At the same time, TRIS Rating assigns a rating of “A” to CPFGS’s proposed issues of up to THB5 billion senior unsecured debentures due within 15 years. The proceeds of the new debenture issuances are intended to be used for the following purposes: (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 in the CPF Group and/or (6) acquisition of shares of companies in the CPF Group.

As we assess CPFGS as a ‘core’ subsidiary of CPF, the rating and outlook on CPFGS are tied to those on CPF. CPFGS’s assessed group status reflects its position as an exclusive distributor of food products from CPF’s production facilities in Thailand, as well as its business integration and significant earnings contribution to CPF.

KEY RATING CONSIDERATIONS

Core subsidiary of CPF

CPF is holding directly and indirectly 99.99% of the shares of CPFGS. CPFGS’s business direction and strategy align with CPF’s as most of the company’s board members and top management have been seconded from CPF. The company receives support from its parent in terms of know-how and resources, and benefits from utilizing CPF’s production facilities as distribution points and sharing logistics services with other companies in the group. The high degree of linkage is also reflected in the shared service supports (e.g., human resources, legal, treasury functions, and others) from CPF.

CPFGS contributes significant earnings to CPF’s overall performance. During the past three years, CPFGS contributed around 28% of CPF’s total revenue, while CPFGS’s earnings before interest, taxes, depreciation, and amortization (EBITDA) averaged at 16% of CPF’s EBITDA.

Exclusive distributor and exporter of CPF operations in Thailand

CPFGS’s business profile is underpinned by its status as an exclusive distributor and exporter of products from CPF’s food production facilities in Thailand. About 80% of CPFGS’s products are procured from CPF and subsidiaries. The remainder (20%) are sourced from diversified suppliers globally.

With CPF’s business strengths as the nation’s largest agribusiness and food conglomerate, CPFGS’s competitive edges are fortified by CPF’s well-known brand, quality, diversified products, and ongoing research and developments to serve the differentiated demands of customers.

Nationwide distribution network, diversified customer base

CPFGS has geographically diversified sources of revenue. Domestic sales represented 63% of its total sales in 2023, while exports accounted for 37% of total sales. Major markets comprise the EU (22% of total sales), followed by Asian countries excluding Thailand (9%), the US (5%), and others (1%).

CPFSG's strong market presence is also supported by its extensive distribution network covering more than 21,000 modern trade stores, more than 24,000 traditional trade shops, and more than 3,000 food service professional operators at the end of 2023. About 25%-30% of CPFSG's revenue is generated from CPF and affiliates, mainly leading retailers and wholesalers in Thailand (7-Eleven, Makro, Lotus's). CPFSG's market expansion together with its continued efforts to broaden geographic coverage also help alleviate the impacts from disease outbreaks and trade barriers.

Contributions from restaurant chains and the pet snack business remain minimal

Apart from the trading business (95% of total revenue), CPFSG also operates restaurant chain and pet snack businesses. As a subsidiary of CPF, CPFSG gains further advantage from sourcing reliable and quality raw material, especially chicken meat, and pork from its parent.

The restaurant business, accounting for 4% of CPFSG's total revenue, includes more than 4,500 franchised branches of Five-Star chicken, 201 stores under Chester's brand, and 23 stores under the CP Food World brand at the end of 2023. The company focuses on new store expansions and new product offerings to pursue a growth strategy in this business.

The pet snack business contributes 1% of CPFSG's total revenue. The company has focused on branded snack products comprising several well-known brands such as "Jerhigh" and "Jinny". Despite minimal contribution, we expect the company's pet snack segment to grow moderately in 2024-2025, on the back of rising export volumes, driven by the company's market expansion plans and the rising trend in raising pets globally.

Relatively steady operating margin

With the cost-plus pricing nature of the trading business, combined with efficient cost management and support from the parent, CPFSG's profit margin is relatively steady, despite periods of tumbling prices for livestock and aquaculture products.

Although there are some laggards in cost-plus pricing and an imbalance between the demand and supply of agricultural products, CPFSG's profit margin is less volatile than CPF. CPFSG's gross margin ranged between 9%-10% in 2020-2022, before edging up to 11.7% in 2023. This recent improvement was mainly driven by price adjustments in the overseas market and a substantial reduction in sea-freight expenses. EBITDA margin hovered around the 3%-5% range in 2020-2022, before edging up to 5.6% in 2023.

EBITDA also grew to THB8.9 billion in 2022 and THB9.8 billion in 2023, from THB3.4 billion in 2020. This substantial increase was mainly attributed to the product price adjustments, as well as CPFSG's market expansion and synergy gains from related companies, leading retailers in Thailand.

Low capital expenditure, low leverage expected

During 2022-2023, CPFSG's capital structure changed owing to the completion of business restructuring and significant dividend payments to existing shareholders. Its adjusted debt surged to THB11.6 billion at the end of 2023, up from THB5 billion in 2021. The ratio of debt to capitalization rose to 60.3%, compared to 43.7% in 2021. However, given its strong cash flow generation, its debt to EBITDA ratio hovered around 1.1-1.2 times in 2021-2023.

Looking ahead, based on the high level of cash generation and low capital expenditures as is the typical asset light nature of the trading business, we expect CPFSG's debt to capitalization ratio to gradually decline to 52% in 2024 and below 50% in 2025, respectively. Its debt to EBITDA ratio is expected to maintain below 1.5 times.

Adequate liquidity profile

We assess CPFSG's liquidity to be sufficient over the next 12 months. At the end of 2023, the company has a liquidity buffer with cash on hand of THB3 billion and funds from operations (FFO) of around THB 5 billion in 2024. Its uses of funds include the capital spending and interest expense of around THB2 billion and scheduled long term debt repayment of about THB150 million. Most of CPFSG's debt comprised short-term loan, which is expected to rollover. Its dividend payment is expected to be around THB2 billion in 2024.

Debt Structure

As of December 2023, CPFSG's total outstanding debt, excluding financial leases, was THB13 billion, most of which was unsecured short-term debt at subsidiary level. As a result, its priority debt to total debt ratio was above our 50% threshold. However, given CPFSG's significant cashflow generated at the company level, we consider the senior unsecured debenture holders of CPFSG are not significantly disadvantaged compared to the unsecured debt holders at subsidiary level. As a result, the issue rating is the same as the company rating.

BASE-CASE ASSUMPTIONS

CPFGS will remain a core subsidiary of CPF.

RATING OUTLOOK

The “stable” outlook mirrors the outlook on CPF.

RATING SENSITIVITIES

As a core subsidiary of CPF, the rating on CPFGS is tied to the rating on CPF. Any change in the rating on CPF, or CPFGS’s group status, will affect the rating on CPFGS accordingly.

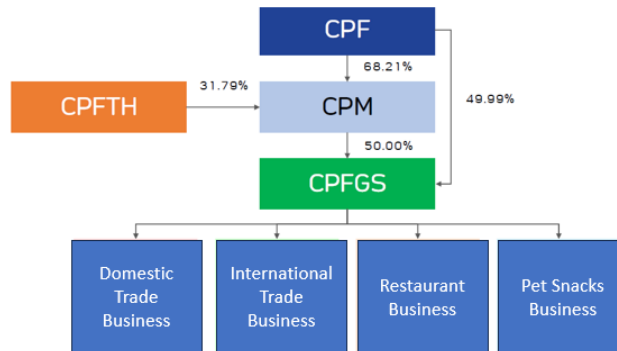
COMPANY OVERVIEW

CPFGS, formerly CPF Trading Co., Ltd., is one of the leading global food solutions providers of the CPF Group. During late-2022, under the group business restructuring, CPFGS was transferred CPF’s subsidiaries operating in the food trading, restaurant operations, and pet snack businesses.

The company has three business segments: the trading business contributing 95% of revenue in 2023, followed by the restaurant business (4%) and the pet snack business (1%). In terms of revenue destination, revenue from Thailand comprised 63% of CPFGS’s revenue in 2023, followed by the EU (22%), Asia excluding Thailand (9%), the US (5%), and others (1%).

KEY OPERATING PERFORMANCE

Chart 1: Group Shareholding Structure



Source: CPFGS

Table 1: CPFGS's Revenue Breakdown

Unit: %

By Product	2020	2021	2022	2023
Thailand	59	60	61	63
Fresh Meat	41	42	45	46
Processed Food	12	12	11	12
Restaurant Business	4	4	4	4
Pet Snack	1	1	1	1
Others	1	1	0	0
Overseas	41	40	39	37
Fresh Meat	14	13	13	12
Processed Food	25	24	23	22
Pet Snack	0	0	0	0
Others	2	3	3	3
Total	100	100	100	100
Sales (mil. THB)	121,834	137,754	170,830	171,770

Source: CPFGS

Table 2: CPFGS's Revenue Breakdown by Geography

Unit: %

By Geographical Area	2020	2021	2022	2023
Thailand	60	62	62	63
Europe	22	23	23	22
Asia (excluding Thailand)	12	10	9	9
United States	5	5	5	5
Others	1	1	1	1
Total	100	100	100	100

Source: CPFGS

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----			
	2023	2022	2021	2020
Total operating revenues	172,892	171,847	138,845	122,644
Earnings before interest and taxes (EBIT)	8,766	7,961	3,626	2,350
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	9,750	8,923	4,674	3,385
Funds from operations (FFO)	7,479	6,997	3,742	2,613
Adjusted interest expense	651	246	248	260
Capital expenditures	727	650	885	1,080
Total assets	39,405	44,237	33,403	32,581
Adjusted debt	11,550	10,839	5,149	7,881
Adjusted equity	7,588	8,297	6,628	6,695
Adjusted Ratios				
EBITDA margin (%)	5.6	5.2	3.4	2.8
Pretax return on permanent capital (%)	35.9	39.0	22.3	23.9
EBITDA interest coverage (times)	15.0	36.3	18.8	13.0
Debt to EBITDA (times)	1.2	1.2	1.1	2.3
FFO to debt (%)	64.8	64.6	72.7	33.2
Debt to capitalization (%)	60.4	56.6	43.7	54.1

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 Global Food Solution PLC (CPFGS)

Company Rating:	A
Issue Rating:	
Up to THB5,000 million senior unsecured debentures due within 15 years	A
Rating Outlook:	Stable

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