

CHAROEN POKPHAND FOODS PLC

No. 101/2021

7 December 2021

CORPORATES

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

Last Review Date: 27/08/21

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 existing senior unsecured debentures at “A+”, and its subordinated capital debentures (hybrid debentures) at “A-”, with a “stable” rating outlook. At the same time, TRIS Rating assigns the rating of “A-” to the CPF’s proposed issue of up to THB15 billion and an additional greenshoe portion of up to THB3 billion hybrid debentures. The ratings on CPF’s hybrid debentures are two notches below the company rating. This rating differential reflects the subordinated nature of the hybrid debentures and the option of the issuer to defer coupons on a cumulative basis.

The proceeds from the new debentures of up to THB15 billion are intended to be used to refinance CPF’s outstanding hybrid debentures. The proceeds from additional greenshoe portion of up to THB3 billion hybrid debentures are intended to be used for CPF’s general business operations and/or its business expansion and/or repayment of CPF’s debts and/or debts under the companies in the CPF Group.

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 partly offset by the inherent cyclicity of commodity-type products, exposure to disease outbreaks, changes in regulations imposed by importing countries, and the prolonged economic downturn.

CPF’s operating results deteriorated significantly during the third quarter of 2021. This was due mainly to the sharp decline in swine price in several countries, combined with a steep rise in raw material prices. The heightened COVID-19 situation and lockdown measures also materially curbed CPF’s operating profit and profit contribution from CP All PLC (CPALL). As a result, CPF’s earnings before interest, taxes, depreciation, and amortization (EBITDA) slumped by 26.5% year-on-year (y-o-y) to THB46.7 billion in the first nine months of 2021. The EBITDA margin slipped to 12.4% in the first nine months of 2021, from 14.1% in 2020.

Owing to weaker operations and ongoing expansions, CPF’s debt level against cash generation has heightened significantly. Adjusted debt was THB421.6 billion at the end of September 2021, compared with THB376.0 billion in 2020. The adjusted debt to EBITDA increased to 6.3 times in the first nine months of 2021, compared with 4.5 times in 2020. TRIS Rating views CPF’s leverage to continue to increase on the back of its sizable investments in the pipeline. Recently, the company announced the proposed privatization of C.P. Pokphand Co., Ltd. (CPP) and its share repurchase program that will cost about THB31 billion and THB10 billion, respectively. However, CPF intends to sell a portion of its shareholding in Siam Makro PLC. The proceeds from the share sale transaction are estimated to be THB3.4 billion. As a result, we project CPF’s debt to EBITDA ratio to hover around 6.7-7.2 times during 2021-2023.

As of September 2021, the company’s interest-bearing debt, excluding lease liabilities, was THB440 billion. About 80% of this was debentures and long-term loans, while the remainder was short-term loans to finance its working capital

needs. The major cash outflows are its scheduled debt repayments of approximately THB34 billion due over the next 12 months, which are expected to be funded primarily by cash flow from operations. During 2021-2023, CPF's funds from operations (FFO) are projected to hover around THB37-THB40 billion per year. The company also has a significant liquidity buffer with cash on hand of around THB53 billion and numerous credit lines from commercial banks.

The key financial covenant on the company's debentures requires maintenance of a net interest-bearing debt to equity ratio below 2 times. CPF's net debt to equity ratio at the end of September 2021 was 1.3 times. We expect the company to remain in compliance with the covenant over the forecast period of 2021-2023.

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 the risk of disease outbreaks.

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 forecast levels, or any debt-funded acquisitions materially weaken the company's balance sheet and cash flow protection, such that the ratio of adjusted debt to EBITDA rises above 8 times for a sustained period.

RELATED CRITERIA

- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

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+
CPF17PA: THB15,000 million subordinated capital debentures	A-
Up to THB12,000 million senior unsecured debentures due within 15 years	A+
Up to THB 15,000 million subordinated capital debentures and additional greenshoe portion of up to THB 3,000 million	A-
Rating Outlook:	Stable

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