

# CHAROEN POKPHAND FOODS PLC

No. 76/2018

8 November 2018

## CORPORATES

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
Senior unsecured	A+
Hybrid	A-
<b>Outlook:</b>	Stable

### Company Rating History:

Date	Rating	Outlook/Alert
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 subordinated capital debentures (hybrid debentures) at "A-". The debt issue rating differential reflects the subordinated nature of the hybrid debentures and the option of the issuer to defer coupons on a cumulative basis. At the same time, TRIS Rating assigns "A+" rating to CPF's proposed issue of up to Bt25,000 million in senior unsecured debentures. The assigned issue rating replaces the rating on the proposed issue of up to Bt12,000 million and the additional greenshoe portion of up to Bt6,000 million announced on 31 October 2018 as the company decided to increase the bond size. The company will use the proceeds from the new debentures for its business operations and/or debt repayment and/or lending to CPF's subsidiaries.

The ratings continue to reflect the company's leading position in the Thai agribusiness and food industry, coupled with the geographic diversity of its operations, product offerings and markets served. The ratings also reflect the efforts to create more branded food products, as well as the financial flexibility the company gains from its strategic investments. However, these strengths are partially offset by the high leverage, inherent cyclical nature of commodity-type products and cost of grain, exposure to disease outbreaks, and regulatory risk pertaining to the importing countries.

During 2017 through the first half of 2018, CPF showed deteriorating operating results. The deterioration was caused by an excess supply of livestock. The prices of swine in Vietnam and Thailand fell sharply in 2017. Although the oversupply situation in Vietnam abated and the prices of swine in Vietnam rebounded in the first half of 2018, the prices of swine and chicken in Thailand stayed low through the first half of 2018.

CPF's recent financial results reflect the price drops. For example, the operating margin before depreciation and amortization fell from 9.9% in 2016 to 6.2% in 2017 and to 6.9% in the first half of 2018. Earnings before interest, taxes, depreciation, and amortization (EBITDA) dropped from Bt51.1 billion in 2016 to Bt35.6 billion in 2017 and to Bt21.7 billion in the first half of 2018.

Despite the recent weak operating results, TRIS Rating believes CPF's revenues and profitability will improve gradually. The prices of swine in Vietnam are on an uptrend and the prices of swine and chicken are moving up in Thailand as well. Additionally, CPF's operating performance will benefit from a number of investments CPF made in companies abroad during the past few years.

Leverage remains high in the wake of sizable capital expenditures. Adjusted debt (including 50% of the hybrid debentures, which are treated as debts) was Bt323 billion as of June 2018, rising from Bt300 billion in 2017. The debt to capitalization ratio was 59.3% at the end of June 2018, up from 57.8% in 2017.

Cash flow protection has weakened as profits dropped and debt rose. The EBITDA interest coverage ratio was 2.6 times in 2017 and 3.2 times in the first half of 2018, compared with 4.2 times in 2016. The ratio of funds from operations (FFO) to total debt was 7.2% in 2017 and the first half of 2018, down from 10.6% in 2016. However, CPF's liquidity profile is helped by the significant amount of financial flexibility from its holding of 34.2% stake in CP All PLC

**CreditUpdate**, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

(CPALL), the leading convenience store operator in Thailand. The market capitalization of CPALL for the portion held by CPF was approximately Bt225.5 billion as of 30 June 2018.

## RATING OUTLOOK

The “stable” outlook reflects TRIS Rating’s expectation that CPF will maintain its leading position in the dynamic agribusiness and food industry. The company’s diverse range of operations, products, and markets is expected to provide some insulation from the cyclical nature of commodity-like farm products and from disease epidemics.

Under TRIS Rating’s base case scenario, CPF’s revenue is forecasted to be in the range of Bt520-Bt620 billion in 2018-2020. EBITDA is expected to hover around Bt33-Bt58 billion per annum. Over the next three years, the EBITDA interest coverage ratio is expected to hold at 3-4 times. The debt to capitalization ratio is projected to stay below 60% over the next three years.

## RATING SENSITIVITIES

Any rating upside hinges on CPF’s ability to strengthen its capital structure significantly and demonstrate a material, sustainable improvement in debt serviceability. In contrast, the ratings would likely be downgraded should any debt-funded acquisitions materially deteriorate the balance sheet and weaken cash flow protection as well as the operating performance is much weaker than anticipated.

## Charoen Pokphand Foods PLC (CPF)

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
CPF198A: Bt6,000 million senior unsecured debentures due 2019	A+
CPF198B: Bt2,500 million senior unsecured debentures due 2019	A+
CPF204A: Bt3,060 million senior unsecured debentures due 2020	A+
CPF205A: Bt6,500 million senior unsecured debentures due 2020	A+
CPF218A: Bt3,000 million senior unsecured debentures due 2021	A+
CPF218B: Bt5,500 million senior unsecured debentures due 2021	A+
CPF228A: Bt4,000 million senior unsecured debentures due 2022	A+
CPF235A: Bt5,500 million senior unsecured debentures due 2023	A+
CPF237A: Bt1,940 million senior unsecured debentures due 2023	A+
CPF244A: Bt3,500 million senior unsecured debentures due 2024	A+
CPF251A: Bt5,460 million senior unsecured debentures due 2025	A+
CPF257A: Bt3,000 million senior unsecured debentures due 2025	A+
CPF277A: Bt2,000 million senior unsecured debentures due 2027	A+
CPF281A: Bt6,540 million senior unsecured debentures due 2028	A+
CPF314A: Bt2,500 million senior unsecured debentures due 2031	A+
CPF328A: Bt5,000 million senior unsecured debentures due 2032	A+
CPF418A: Bt4,000 million senior unsecured debentures due 2041	A+
CPF41DA: Bt6,000 million senior unsecured debentures due 2041	A+
CPF17PA: Bt15,000 million subordinated capital debentures	A-
Up to Bt25,000 million senior unsecured debentures due within 12 years	A+
<b>Rating Outlook:</b>	Stable

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