Press Release

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TRIS Rating Assigns "A-/Stable" Rating to Subordinated Capital Debt Worth Up to Bt20,000 Million of "CPF"

TRIS Rating has assigned the rating of "A-" to the proposed issue of up to Bt20,000 million in unsecured and subordinated perpetual debentures (hybrid debentures) of Charoen Pokphand Foods PLC (CPF). At the same time, TRIS Rating has affirmed the company and ratings of the existing senior unsecured debenture of CPF at "A+". The outlook remains "stable".

The rating of CPF's hybrid debentures is two notches below the corporate credit rating of CPF. This rating differential reflects the subordinated nature of the hybrid debentures and the option of the issuer to defer coupons on a cumulative basis. If the interest deferral provision is exercised, CPF will be prohibited from making any dividend payments to any class of equity holders.

According to the terms and conditions of the hybrid debentures, TRIS Rating classifies the issue as having an "intermediate" equity content. Thus, TRIS Rating would treat 50% of the principal amount of the debentures as equity and the other 50% as debt when calculating CPF's financial ratios. The "intermediate" equity content will fall to "minimal" (or 0% equity treatment for this issue) at the end of the fifth year from the issuance date since the remaining effective tenor of the issue will be less than 20 years. Although the proposed hybrid debentures are perpetual, TRIS Rating bases the effective maturity date of the issue on the time when the interest spread steps up by 1% over the initial credit spread. The interest spread of the subordinated perpetual debentures will step up by 1% at the end of the 25th year. CPF also has a call option to redeem the issue after the five-year non-call period ends or if certain redemption events occur. Before the effective maturity date, except for certain events as specified in the terms and conditions, CPF intends, but is not obliged, to replace the redeemed or repurchased hybrid debentures with an instrument that has similar or higher equity content. TRIS Rating could lower the equity content of the proposed hybrid debentures as well as CPF's outstanding hybrid debentures to "minimal" from "intermediate" if we believe that the company has an intention to deviate from Replacement Capital Covenant (RCC).

The ratings of CPF and its existing issues continue to reflect the company's leading position in the Thai agribusiness and food industry, the geographic diversity of its operations, a diverse range of products and markets, efforts to create more branded food products, and high degree of financial flexibility. However, these strengths are partially offset by the inherent cyclicality of CPF's commodity-type products and the cost of grain, the exposure to disease outbreaks, and changes in regulations imposed by importing countries.

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. The rating upside hinges on the company's ability to significantly strengthen its capital structure, and demonstrate a material, sustainable improvement in debt serviceability. In contrast, the ratings would likely be downgraded should any debt-funded investments materially deteriorate the balance sheet and weaken cash flow protection.

CPF is the largest agribusiness and food conglomerate in Thailand. As of 26 August 2016, Charoen Pokphand Group Co., Ltd. (CPG) and its subsidiaries held 45.4% of CPF's shares. CPF's business is divided into two major categories, livestock and aquaculture. Each of these categories comprises feed, farm, and food products. Fully-integrated operations help CPF's products meet safety and traceability standards, which qualify its products for export to major importing countries, including the countries of the European Union (EU), Asian nations, and the United States (US).

CPF's revenue sources are geographically diverse. Its production bases locate in more than 13 countries. However, the major revenues came from the operations in Thailand, which accounted for 39% of total revenue in the first nine months of 2016. China operations contributed 22% of total revenue, followed by operations in Vietnam (17%). Sales of animal feed, which is a relatively stable source of revenue, is the largest product segment, comprised about 47% of total revenue during the first nine months of 2016. Sales of commodity-like farm products made up 41% of total sales, while revenue from the sales of food products accounted for 12%.

(Continue on page 2)

The company is striving to broaden its portfolio of branded products and develop distribution channels for both the domestic market and abroad. During 2016, CPF spent nearly Bt50,000 million for a series of acquisition. About 90% of transaction value was spent for acquiring food business in various countries. The major transaction in 2016 was to acquire 100% of Bellisio Parent, LLC (Bellisio), a leading producer of single serving frozen entrees in US and Canada with the investment value of approximately Bt38,161 million in December 2016. This investment will enlarge branded food portfolio. CPF plans to expand its branded products in the North America by utilizing Bellisio's distribution network. During the 12 months ended 11 September 2016, Bellisio posted adjusted revenue of US$668 million (approximately Bt23,713 million) and generated an adjusted EBITDA margin of 12.2%.

During the first nine months of 2016, CPF posted strong operating results. The major drivers came from a rise in swine prices, lower feed costs, improved livestock operations in overseas, and the gradual recovery of the shrimp segment after an outbreak of early mortality syndrome (EMS). Revenue grew by 10.6% year-on-year (y-o-y) to Bt344,839 million in the first nine months of 2016. The operating profit margin before depreciation and amortization rose noticeably, climbing to 9.5% during the first nine months of 2016, compared with a 5.2% during the same period a year earlier. Earnings before interest, tax, depreciation, and amortization (EBITDA) surged to Bt39,791 million, compared with Bt22,021 million in the first nine months of 2015.

Ongoing capital expenditures and several debt-funded acquisitions drove CPF's leverage higher. Total debt surged from Bt195,929 million in 2014 to Bt263,928 million as of September 2016. During the same period, the debt to capitalization ratio rose to 59.3%, from 54.4% in 2014. Despite a rise in leverage, higher operating profit lifted cash flow protection in the first nine months of 2016. The EBITDA interest coverage ratio was 5.3 times in the first nine months of 2016, compared with 3.8 times in 2014 and 3.5 times in 2015. The funds from operations (FFO) to total debt ratio was 13.0% (annualized, from the trailing 12 months) for the first nine months of 2016, compared with 11.7% in 2014 and 8.5% in 2015.

Looking forward, CPF's operating performance would be partially depressed by the drop in domestic prices of livestock in the short term. The fall in the feed cost will alleviate the impact somewhat. In the medium term, it will continue to benefit from the gradual recovery of domestic shrimp segment. In addition, cash flow is projected to increase from several recent acquisitions. Including the newly acquired companies, CPF's revenue is expected to grow to a range of Bt500,000-Bt570,000 million per year during 2017-2019 under TRIS Rating's base-case forecast. EBITDA is expected to hover around Bt45,000-Bt55,000 million per annum. However, leverage is expected to remain high. CPF has laid out plans for sizeable capital expenditures of about Bt20,000-Bt25,000 million per year, excluding acquisitions. The debt to capitalization ratio is expectedly managed below 60% during its growth pursuit strategy. The EBITDA interest coverage ratio will stay at around 4 times, and the FFO to total debt ratio will range between 10%-15%.

Charoen Pokphand Foods PLC (CPF)

Company Rating:	A+
Issue Ratings:	
CPF17NA: Bt5,000 million senior unsecured debentures due 2017	A+
CPF178A: Bt2,000 million senior unsecured debentures due 2017	A+
CPF185A: Bt6,000 million senior unsecured debentures due 2018	A+
CPF188A: Bt3,000 million senior unsecured debentures due 2018	A+
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+
CPF257A: Bt3,000 million senior unsecured debentures due 2025	A+

(Continue on page 3)

CPF277A: Bt2,000 million senior unsecured debentures due 2027	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+
Up to Bt20,000 million subordinated capital debentures	A-
Rating Outlook:	Stable

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