

CHAROEN POKPHAND FOODS PLC

No. 48/2024
1 April 2024

CORPORATES

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

Last Review Date: 14/09/23

Company Rating History:

Date	Rating	Outlook/Alert
14/09/23	A+	Negative
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 downgrades the company rating on Charoen Pokphand Foods PLC (CPF) and CPF's senior unsecured debentures to "A" from "A+" and also downgrades the ratings on CPF's subordinated capital debentures to "BBB+" from "A-". The outlook is revised to "stable" from "negative".

The downgrade reflects CPF's weakening operating performance resulting from the steep fall in agricultural product prices, coupled with its persistently high financial leverage from its continuing acquisitions and investments, and the delay in executing debt reduction. With the uncertain prospect of the pace of business recovery, we view that CPF will likely sustain high leverage over the next few years.

The ratings continue to reflect CPF's strong market position as a world leader in agribusiness, the geographic diversity of its operations, as well as the diverse range of product offerings and markets served. However, the ratings are constrained by its exposure to the fluctuating prices of commodity protein and earnings volatility with relatively low margins.

KEY RATING CONSIDERATIONS

Weaker-than-expected operating results

CPF's operating performance in 2023 fell significantly below our expectation. The company reported a total operating revenue of THB589.6 billion, down by 4.6% year-on-year (y-o-y) in 2023, due to weakened demand and a steep fall in the prices of livestock and shrimp globally.

CPF's pork prices plunged largely due to the sizable influx of smuggled meat in Thailand amid an oversupply situation in several countries, while poultry prices also slumped as a pork substitution due to lower export demand. The market condition for shrimp products was not much different, with a significant drop in shrimp prices owing to the oversupply globally induced by weakened economic conditions. Besides the sluggish prices of products, CPF's profitability was squeezed from prolonged rising feed costs. Major grain costs, comprising corn, soybean meal, and wheat, have risen during the past few years on the back of supply shortages.

As a result, CPF's earnings before interest, taxes, depreciation, and amortization (EBITDA) slumped by 32.0% y-o-y to THB41.7 billion, far below our previous forecast of THB52 billion in 2023. The EBITDA margin slipped to 7.1%, below our previous forecast of 8.4% and well below the 10%-14% the company achieved in 2019-2022.

Recovery of earnings remains challenging

We expect CPF's operating performance to gradually ramp up after hitting the bottom in 2023. The company should benefit from falling feed costs, together with efficiency improvements, as well as strong synergies from its affiliated companies, which are leading retailers in Thailand.

However, we anticipate ongoing challenges for the company's operations in coming years due to the uncertain pace of recovery in agricultural product prices, as well as the threats of global economic slowdown. The rise in interest rates also puts pressure on the company's financial profile as CPF has high levels of debts.

Under our base-case scenario, we project CPF's operating revenue will hover in the THB606-THB651 billion per annum range in 2024-2026. The EBITDA margin is projected to improve from 7.1% in 2023 to the level of 8.8%-9.6% in 2024-2026. EBITDA is projected to increase from THB41.7 billion in 2023 to THB53-THB62 billion per annum in 2024-2026.

Divestment of loss-making companies overseas

TRIS Rating expects the operating performance of CPF's subsidiary in China, as well as the company's associated swine products operations to better perform following the divestment of several loss-making companies in 2023.

In 2023, CPF divested its entire investments in four loss-making subsidiaries, operating integrated broiler companies in China. These four companies posted a net loss of about THB1.2 billion during the first nine months of 2023. Also, the company divested several associated companies operating in the integrated swine business in China and the United States (US). These decisions were made due to the sizable loss generation over the past few years, resulting from an excess supply of livestock, and low operational efficiency of these companies.

Delayed deleveraging, persistently high financial leverage

CPF's heightened leverage over the past few years was largely caused by its ongoing sizable investments and depressed earnings affected by sluggish agricultural product prices and higher feed costs. The adjusted debt stood at THB510.9 billion in 2023, from THB376 billion in 2020. As a result, the debt to EBITDA ratio was 12.3 times in 2023, up from 8 times in 2021-2022 and 5-7 times in 2018-2020. The debt to capitalization ratio also rose to 65.3% in 2023 from 59.6% in 2020.

Over the past few years, CPF intended to deleverage its capital structure by spinning-off its subsidiaries and associated companies through public offerings and listing of shares on the stock exchange in several countries. However, the deleverage plan was delayed owing to weakened operating results and unfavorable market sentiment following the global economic slowdown.

However, we expect CPF's leverage to gradually decrease as the company implements cost-cutting measures including streamlining production process and downsizing inefficient capacity, along with more disciplined capital expenditure and investment. CPF will scale down its capital expenditure to below THB20 billion in 2024, compared with THB22-THB25 billion annually during the past few years.

In absence of fresh capital from spinning-off subsidiaries, we project CPF's debt to EBITDA ratio to hover around 10 times in 2024 before recovering to 8 times during 2025-2026 in anticipation of higher meat prices, especially pork prices in Thailand and Vietnam, together with lower feed costs. The debt to capitalization ratio is projected to hover around 64%-65% in 2024-2026.

Manageable liquidity

We assess CPF's liquidity to be manageable over the next 12 months. A large portion of the debt maturing in the next 12 months is expected to be refinanced. About THB48 billion in debentures and long-term bank loans will come due in 2024. We forecast CPF's capital expenditures of about THB20 billion for maintenance and expansion. Meanwhile, sources of funds comprised cash on hand of about THB26 billion at the end of 2023 and expected funds from operations (FFO) of about THB26 billion in 2024. Given CPF's strong access to the capital markets, we view the refinancing risk as significantly mitigated.

Also, CPF has sizable equity investments in CP All PLC (CPALL) and CP Aextra PLC (CPAXT). Currently, CPF holds a 34.5% stake in CPALL and 8.9% in CPAXT. The market values of CPF's equity interest in CPALL and CPAXT were around THB173 billion and THB25 billion, respectively, as of 31 December 2023. As these equity investments are marketable securities, they should serve as a source of financial flexibility.

Geographic diversification, diverse product range

CPF's business risk is partly mitigated by the geographic diversity of its operations and markets. As of 31 December 2023, CPF had production bases in 17 countries on four continents. Operations in Thailand accounted for 38% of its total revenue in 2023, while operations abroad contributed 62%.

CPF's revenue sources are geographically diverse. Sales in Thailand comprised only 32% of its total sales in 2023. The Asian region, a growing market, has become the largest source of its sales, accounting for 49%. The European Union (EU) and the US accounted for only 14% and 5%, respectively. CPF's continued effort to broaden its geographic coverage also helps alleviate the impacts from disease outbreaks and trade barriers.

A diverse range of products further helps reduce the volatility of earnings. CPF is a fully integrated producer of livestock and shrimp products. The company's product portfolio includes animal feed, poultry, swine, and shrimp, as well as food products. In 2023, revenue from farm (poultry, swine, and shrimp) constituted the largest revenue contribution, accounting for 54% of its total revenue, followed by feed (24%), and food products (22%).

BASE-CASE ASSUMPTIONS

- Operating revenues to range from THB606-THB651 billion during 2024-2026.
- EBITDA of THB53-THB62 billion per annum during 2024-2026.
- Total capital spending of around THB20 billion per year during 2024-2026, excluding business acquisitions.

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 disease epidemics.

RATING SENSITIVITIES

The ratings and/or outlook on CPF could be revised upward if there is an improvement in operating performance and substantial reduction in financial leverage, such that the adjusted debt to EBITDA ratio falls comfortably below 8 times over a sustained period. Conversely, a rating downgrade scenario could emerge if CPF’s earnings is substantially weaker than expected, or if the company has sizable debt-funded investment and/or acquisitions.

COMPANY OVERVIEW

Founded in 1978, CPF is Thailand’s largest agribusiness and food conglomerate. As of March 2024, Charoen Pokphand Group held 50.1% of CPF’s shares. CPF’s business is divided into two segments, livestock, and aquaculture, with three types of operations in each segment: feed, farm, and food.

CPF’s strong business profile reflects its leading position in Thailand’s agribusiness and food industry. In the feed segment, it holds about half of the total market for shrimp feed, based on production volume, and more than one-third of the market for livestock feed. In the Thai poultry and swine segments, CPF accounts for 20% of the domestic production of poultry and 13% of swine in 2023. As one of the nation’s largest integrated food producers, CPF leverages its competitive advantage on economies of scale.

In September 2023, Chia Tai Investment Co., Ltd. (CTI), an associated company of CPF in China, withdrew an application for listing on the Shanghai Stock Exchange (SSE) submitted in 2021, owing to underperformance in operations caused by the lower than anticipated swine price in China.

KEY OPERATING PERFORMANCE

Table 1: CPF’s Revenue Breakdown

<i>Unit: %</i>					
By Product	2019	2020	2021	2022	2023
Feed	38	37	25	24	24
Farm	44	47	54	55	54
Food	18	16	21	21	22
Total	100	100	100	100	100
Sales (mil. THB)	532,573	589,713	512,704	614,197	585,844

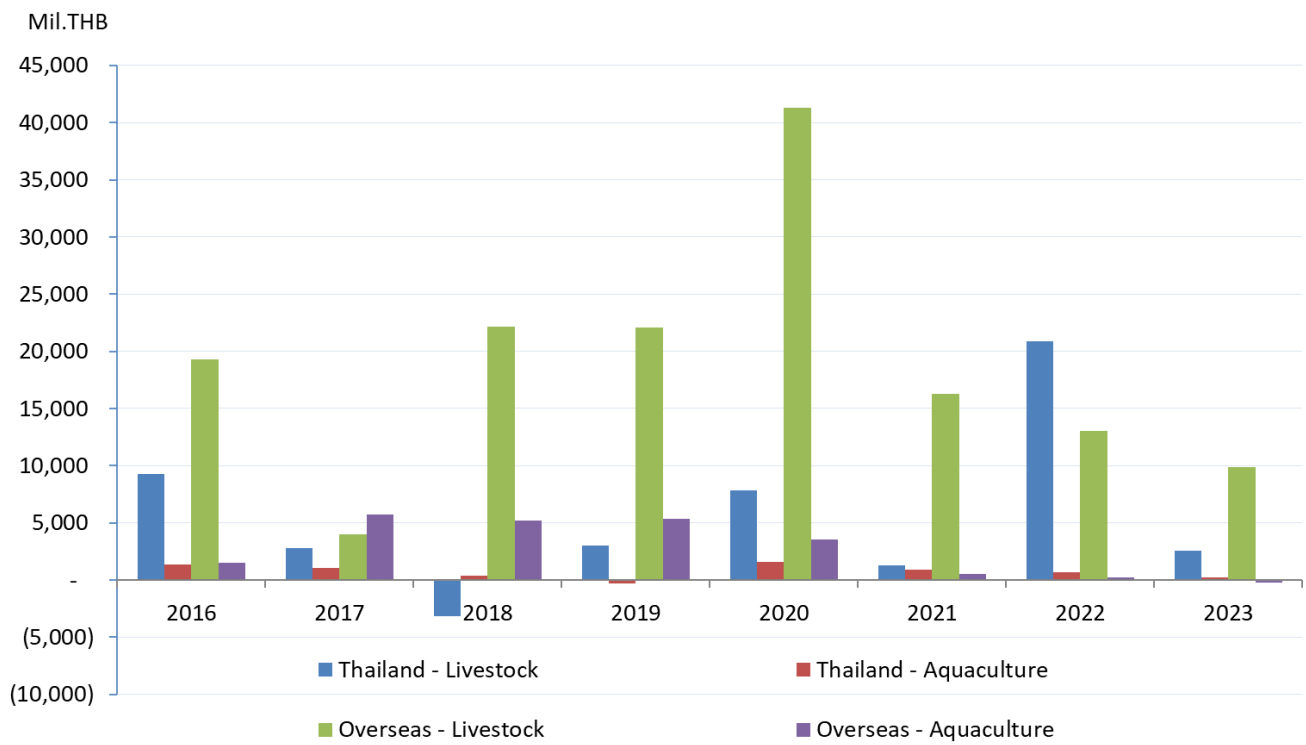
Source: CPF

Table 2: CPF’s Revenue Breakdown by Geography

<i>Unit: %</i>					
Country	2019	2020	2021	2022	2023
Thailand	27.0	25.7	31.2	31.1	31.8
EU	10.4	8.8	11.8	13.4	13.7
Asia	57.8	61.0	51.1	49.4	48.9
USA	4.6	4.3	5.6	5.8	5.4
Others	0.2	0.2	0.3	0.3	0.2
Total	100	100	100	100	100

Source: CPF

Chart 1: CPF's Operating Profit by Business Unit



Source: CPF

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total operating revenues	589,617	618,115	516,777	593,129	535,618
Earnings before interest and taxes (EBIT)	16,821	37,146	22,639	64,148	39,961
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	41,659	61,304	52,414	83,449	55,851
Funds from operations (FFO)	11,778	33,208	28,366	54,404	33,884
Adjusted interest expense	26,462	21,408	17,619	17,915	16,310
Capital expenditures	22,309	27,644	24,455	27,157	25,974
Total assets	887,218	926,987	845,244	761,719	634,051
Adjusted debt	510,885	501,546	442,877	376,042	346,934
Adjusted equity	271,567	292,344	281,852	254,679	211,372
Adjusted Ratios					
EBITDA margin (%)	7.1	10.0	10.1	14.1	10.4
Pretax return on permanent capital (%)	2.1	4.7	3.1	10.0	6.8
EBITDA interest coverage (times)	1.6	2.86	2.97	4.66	3.42
Debt to EBITDA (times)	12.3	8.2	8.5	4.5	6.2
FFO to debt (%)	2.3	6.6	6.4	14.5	9.8
Debt to capitalization (%)	65.3	63.2	61.1	59.6	62.1

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Hybrid Securities Rating Criteria, 28 June 2021

Charoen Pokphand Foods PLC (CPF)

Company Rating:	A
Issue Ratings:	
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
CPF25DA: THB2,000 million senior unsecured debentures due 2025	A
CPF261A: THB13,064.5 million senior unsecured debentures due 2026	A
CPF268A: THB4,989.1 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
CPF288A: THB3,079.7 million senior unsecured debentures due 2028	A
CPF28NA: THB3,200 million senior unsecured debentures due 2028	A
CPF292A: THB7,060 million senior unsecured debentures due 2029	A
CPF308A: THB3,806 million senior unsecured debentures due 2030	A
CPF30NA: THB5,300 million senior unsecured debentures due 2030	A
CPF311A: THB5,034.4 million senior unsecured debentures due 2031	A
CPF312A: THB2,190 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: THB3,845 million senior unsecured debentures due 2032	A
CPF331A: THB5,372.4 million senior unsecured debentures due 2033	A
CPF342A: THB2,750 million senior unsecured debentures due 2034	A
CPF356A: THB3,120 million senior unsecured debentures due 2035	A
CPF418A: THB2,465 million senior unsecured debentures due 2041	A
CPF41DA: THB3,580 million senior unsecured debentures due 2041	A
CPF22PA: THB15,000 million subordinated capital debentures	BBB+
CPF23PA: THB11,932 million subordinated capital debentures	BBB+
Rating Outlook:	Stable

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