

A short-term hiccup

**Bank of America
Merrill Lynch**



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Lowering forecasts and PO; maintain Buy

Our pre-ex net profit estimates are cut by 32% in 2012, 9.5% in 2013, and 0.2% in 2014. Our revenue assumptions have actually increased due to stronger-than-expected growth from the newly acquired China operations. However, due to weak meat prices, our gross margin assumptions are lowered to 14.3%, 15.5%, and 15.8% over 2012-2014. As a result, our PO is lowered to Bt40/share from Bt45/share. Despite expected lower margins ahead, we believe strong revenue growth will drive its core profit up by 81% in 2013 as margins begin to recover. We maintain our Buy rating on the stock.

Livestock margins to remain under pressure

We expect CPF's margins to remain under pressure for the rest of 2012 and 1H13. Even if prices start to recover, CPF's livestock margins will likely remain subdued as the company will have to replenish its grain stock at higher prices. With breakeven prices expected to increase by ~10% in 2013, chicken and pork price will not only have to rebound to 2011 levels, but will have to surpass it in order for CPF's livestock margin to return to 17%-18% seen in 2009-2011. Our new forecasts are based on the assumption that CPF's livestock margin will recover to 13% in 2013 and 15% in 2014 (from 10% in 1H12), which would drive its overall gross margin up to 15.5% in 2013 and 15.8% in 2014.

Come on, Japan...

Over the past few months, several countries have followed the EU in lifting import bans on Thai uncooked poultry. Thus far, Iran and the Philippines have begun to re-allow imports of Thai uncooked poultry. However, given the magnitude of supply increase, with an expected additional 400,000 tons of exportable meat by the end of 2012, domestic chicken price is unlikely to rebound until the Japanese market reopens. Nevertheless, the trend is positive, and we believe it is only a matter of time before Japan follows suit.

Estimates (Dec)

(Bt)	2010A	2011A	2012E	2013E	2014E
Net Income (Adjusted - mn)	11,592	14,283	11,207	20,302	24,325
EPS	1.74	2.15	1.50	2.62	3.14
EPS Change (YoY)	22.4%	23.2%	-30.1%	74.8%	19.8%
Dividend / Share	1.05	1.20	1.20	1.31	1.57
Free Cash Flow / Share	0.469	1.09	(9.09)	0.262	1.28

Valuation (Dec)

	2010A	2011A	2012E	2013E	2014E
P/E	19.09x	15.49x	22.17x	12.68x	10.58x
Dividend Yield	3.16%	3.61%	3.61%	3.94%	4.72%
EV / EBITDA*	19.17x	17.25x	13.93x	10.57x	9.27x
Free Cash Flow Yield*	1.26%	2.93%	-27.35%	0.817%	3.98%

* For full definitions of *iQmethod*SM measures, see page 10.

Stock Data

Price	Bt33.25
Price Objective	Bt40.00
Date Established	13-Sep-2012
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Bt24.50-Bt42.25
Mrkt Val / Shares Out (mn)	US\$8,003 / 7,471.3
Market Value (mn)	Bt248,419
Average Daily Volume	22,635,790
BofAML Ticker / Exchange	CHPFF / SET
Bloomberg / Reuters	CPF TB / CPF.BK
ROE (2012E)	13.6%
Net Dbt to Eqty (Dec-2010A)	67.8%
Est. 5-Yr EPS / DPS Growth	11.1% / 10.9%
Free Float	47.7%

Key Changes

(Bt)	Previous	Current
Price Obj.	45.00	40.00
2012E Rev (m)	324,288.7	331,560.7
2013E Rev (m)	382,914.8	405,111.9
2014E Rev (m)	411,381.1	449,516.5
2012E EPS	2.21	1.50
2013E EPS	2.90	2.62
2014E EPS	3.15	3.14

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Refer to important disclosures on page 11 to 13. Analyst Certification on Page 8. Price Objective Basis/Risk on page 8. Link to Definitions on page 8. 11203018

iQprofileSM Charoen Pokphand Foods

Key Income Statement Data (Dec)

(Bt Millions)	2010A	2011A	2012E	2013E	2014E
Sales	189,049	206,099	331,561	405,112	449,517
Gross Profit	32,698	33,612	47,398	62,592	70,977
Sell General & Admin Expense	(19,923)	(18,376)	(29,840)	(37,473)	(41,580)
Operating Profit	14,150	16,310	19,287	27,232	31,742
Net Interest & Other Income	(415)	(1,126)	6,957	(6,890)	(7,335)
Associates	2,511	3,657	4,389	5,925	7,999
Pretax Income	16,247	18,842	30,634	26,268	32,406
Tax (expense) / Benefit	(2,388)	(2,885)	(4,595)	(3,940)	(5,833)
Net Income (Adjusted)	11,592	14,283	11,207	20,302	24,325
Average Fully Diluted Shares Outstanding	6,656	6,656	7,471	7,743	7,743

Key Cash Flow Statement Data

Net Income	13,563	15,837	24,381	20,302	24,325
Depreciation & Amortization	4,798	4,739	6,785	7,121	7,457
Change in Working Capital	(9,999)	(3,699)	(10,371)	(10,371)	(6,261)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	1,219	681	(18,736)	(7,022)	(7,636)
Cash Flow from Operations	9,581	17,558	2,060	10,030	17,885
Capital Expenditure	(6,460)	(10,287)	(70,000)	(8,000)	(8,000)
(Acquisition) / Disposal of Investments	(4,590)	(6,966)	0	0	0
Other Cash Inflow / (Outflow)	3,055	3,205	0	0	0
Cash Flow from Investing	(7,995)	(14,049)	(70,000)	(8,000)	(8,000)
Shares Issue / (Repurchase)	0	0	20,832	0	0
Cost of Dividends Paid	(6,656)	(7,653)	(7,552)	(6,489)	(9,743)
Cash Flow from Financing	(4,399)	13,022	57,306	8,663	(4,286)
Free Cash Flow	3,122	7,271	(67,940)	2,030	9,885
Net Debt	38,888	45,108	99,768	104,227	104,085
Change in Net Debt	7,061	6,851	54,660	4,459	(142)

Key Balance Sheet Data

Property, Plant & Equipment	47,142	52,025	115,240	116,118	116,661
Other Non-Current Assets	20,207	29,451	60,207	72,936	85,042
Trade Receivables	15,385	15,692	21,551	26,332	29,219
Cash & Equivalents	7,761	24,341	13,707	24,400	29,999
Other Current Assets	35,825	38,394	53,865	65,814	73,028
Total Assets	126,320	159,904	264,570	305,600	333,949
Long-Term Debt	28,511	40,866	73,687	80,013	80,142
Other Non-Current Liabilities	3,880	6,448	10,444	12,761	14,160
Short-Term Debt	18,139	28,584	39,787	48,613	53,942
Other Current Liabilities	14,688	17,487	34,814	42,537	47,199
Total Liabilities	65,217	93,385	158,733	183,925	195,443
Total Equity	61,103	66,519	105,838	121,676	138,506
Total Equity & Liabilities	126,320	159,904	264,570	305,600	333,949

iQmethodSM - Bus Performance*

Return On Capital Employed	11.4%	11.1%	9.0%	9.6%	9.7%
Return On Equity	21.1%	23.5%	13.6%	18.8%	19.9%
Operating Margin	7.5%	7.9%	5.8%	6.7%	7.1%
EBITDA Margin	10.0%	10.2%	7.9%	8.5%	8.7%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	0.8x	1.2x	0.2x	0.5x	0.7x
Asset Replacement Ratio	1.3x	2.2x	10.3x	1.1x	1.1x
Tax Rate (Reported)	14.7%	15.3%	15.0%	15.0%	18.0%
Net Debt-to-Equity Ratio	63.6%	67.8%	94.3%	85.7%	75.1%
Interest Cover	7.8x	6.7x	3.3x	4.2x	4.6x

Key Metrics

* For full definitions of iQmethodSM measures, see page 10.

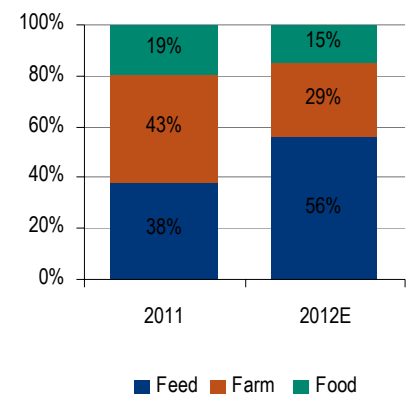
Company Description

CPF is the leading agri-food company in Thailand and the listed flagship of the CP Group. CPF is vertically integrated with operations spanning feed, farming, processing, distribution, retail and marketing. In addition to feed, farm, and food production operations, the company has its own retail distribution channels. CPF operates over 600 retail outlets under CP Fresh Mart and CP Food Market brand and over 4,000 food kiosks under Five Stars brand throughout Thailand.

Investment Thesis

CPF is transforming itself into a global agri-food player with >60% of revenue coming from overseas and ops in 12 countries covering more than 3bn people in the emerging world. Earnings growth will be boosted by fast-growing meat consumption demand in China driven by rising income. Earnings will also grow more stable as revenue contribution from volatile farm business is lowered.

Chart 1: CPF's revenue breakdown



Source: Company, Phatra Securities estimates

Stock Data

Price to Book Value

2.5x

Lowering forecasts and PO

Following a weak 1H12 and expected weak 3Q12, we are lowering our forecast assumptions for CPF once more. Our pre-ex net profit estimates are lowered by 32% (to Bt11.2bn) in 2012, 9.5% (to Bt20.3bn) in 2013, and 0.2% (to Bt24.3bn) in 2014. Our revenue assumptions have actually increased due to stronger-than-expected growth from the newly acquired China operations. Revenue from China feed business alone grew by 35% to US\$1,526mn in 1H12, up from US\$1,133mn in 1H11.

However, weak meat prices are forcing down our margin assumptions. Our gross margin assumption for 2012 are lowered to 14.3%, down from 15.7% previously. CPF's gross margin in 1H12 is at 14%, down from 17.3% in 1H11 (see Table 6 below).

While things are expected to improve in 2013, we still do not expect CPF's gross margin to go back to the levels seen in 2009-2011. As such, our gross margin assumptions for 2013-14 are also lowered to 15.5% and 15.8% respectively (from 16.2% and 16.1% previously).

Table 1: Forecast adjustments

(Bt mn)	2010A	2011A	2012E	2013E	2014E
Revenue					
Previous forecast	192,542	209,013	326,429	385,442	414,096
Revised forecast	192,542	209,013	346,922	407,785	452,483
% revision	0.0%	0.0%	6.3%	5.8%	9.3%
Pre-ex net profit					
Previous forecast	11,592	14,283	16,528	22,423	24,365
Revised forecast	11,592	14,283	11,207	20,302	24,325
% revision	0.0%	0.0%	-32.2%	-9.5%	-0.2%
Pre-ex EPS (Bt)					
Previous forecast	1.74	2.15	2.21	2.90	3.15
Revised forecast	1.74	2.15	1.50	2.62	3.14
% revision	0.0%	0.0%	-32.2%	-9.5%	-0.2%
Revenue growth					
Previous forecast	15%	9%	56%	18%	7%
Revised forecast	15%	9%	66%	18%	11%
Pre-ex net profit growth					
Previous forecast	14%	23%	16%	36%	9%
Revised forecast	14%	23%	-22%	81%	20%
Pre-ex EPS growth					
Previous forecast	15%	23%	3%	31%	9%
Revised forecast	15%	23%	-30%	75%	20%
Gross margin					
Previous forecast	17.2%	16.3%	15.7%	16.2%	16.1%
Revised forecast	17.2%	16.3%	14.3%	15.5%	15.8%

Source: Company, Phatra Securities estimates

Based on our new valuation, our new PO is lowered to Bt40/share, down from Bt45/share previously. We still value the company's share price using sum-of-the-parts valuation, valuing its feed, farm, and food businesses separately while adding CPF's stake in CPALL.

However, our valuation for CPF's stake in CPALL has been adjusted. We now value CPALL by applying a target PER of 22x to the company's 2013 expected EPS of Bt1.31/share.

As such, valuation from CPF's core operations alone is Bt30/share (implied PER of 13.83) while its stake in CPALL contributes another Bt10/share. At our new PO of Bt40/share, CPF's implied target PER is 15.37x.

Table 2: CPF's valuation

Sum-of-parts Valuation		2013E
Adjusted core EPS (Bt)		2.62
Equity income		
Equity income (Bt mn)		5,924.93
Equity income from CPALL (Bt mn)		3,544.80
Equity income from CPALL per share (Bt)		0.46
Adjusted EPS less CPALL (Bt)		2.14
Income from core businesses		
Feed EPS (Bt)	58.0%	1.26
Farm EPS (Bt)	24.8%	0.54
Food EPS (Bt)	17.5%	0.38
Implied feed PE (X)		15.00
Implied farm PE (X)		8.00
Implied food PE (X)		18.00
Valuation for core businesses		
Implied price per share - core only (Bt)		29.92
Implied PE - core only (x)		13.83
Valuation for stake in CPALL		
% stake in CPALL		31.00%
CPALL EPS (Bt)		1.31
CPALL PE (x)		22.00
CPALL share price (Bt)		28.82
# of CPALL shares (mn)		8,986.30
CPALL market value (Bt mn)		258,985
CPF's stake in CPALL (Bt mn)		80,285
CPF's stake in CPALL per share (Bt)		10.37
Total price		
Implied price per share (Bt)		40.29
Implied core PE (x)		15.37

Source: Phatra Securities estimates

Livestock margins remain under pressure

Domestic chicken price weakened to Bt35/kg after increasing to Bt40/kg in May and down from the 2Q12 average of Bt37/kg. Pork price has also recently lowered to Bt55.5/kg, down from the 2Q12 average of Bt61/kg. Meanwhile, raw material cost for animal feed has been rising due to the US drought. Corn price increased to Bt11.8/kg in August but has since lowered to 10.55/kg, still 9% higher than the 2011 average of Bt9.64/kg. Soybean price has posted an even stronger increase and is now Bt21.5/kg, up almost 60% from the 2011 average of Bt13.5/kg.

As such, we expect CPF's margins to remain under pressure for at least the rest of 2012. Even if chicken prices start to increase, CPF's livestock margins will likely remain under pressure as the company would be forced to replenish its grain stock at higher prices. With breakeven prices expected to increase by ~10% in 2013, chicken and pork prices will not only have to rebound to 2011 levels, but will have to also surpass it in order for the company's livestock margin to return to 17%-18% seen in 2009-2011.

We do not expect CPF's margins to reach 2009-2011 levels anytime soon. Our new forecast is based on a relatively conservative assumption that CPF's livestock margin will recover to 13% in 2013 and 15% in 2014, which will drive its overall gross margin up to 15.45% in 2013 and 15.8% in 2014, respectively.

Table 3: CPF's gross margin breakdown

GM Breakdown	2009	2010	2011	2012E	2013E	2014E
Livestock	18.04%	17.43%	17.72%	10.50%	13.00%	15.00%
Aquaculture	20.18%	21.64%	21.85%	24.00%	24.00%	22.00%
Overseas Livestock	14.57%	11.47%	6.23%	14.00%	15.00%	15.00%
Overseas Aqua	14.31%	18.36%	17.79%	10.00%	14.00%	14.00%
Total	17.83%	17.19%	16.28%	14.30%	15.45%	15.79%

Source:Company, Phatra Securities estimates

Table 4: Thailand agricultural prices

(Bt/kg)	2008	2009	2010	2011	1Q12	2Q12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Current*
Raw material												
Corn	8.86	7.09	9.08	9.64	10.27	10.47	10.50	10.30	10.60	10.80	11.80	10.55
Soybean meal	17.07	16.41	14.07	13.51	14.87	16.08	15.75	16.00	16.50	19.70	21.15	21.50
Fishmeal	29.08	30.83	28.25	27.78	29.27	29.73	32.40	28.40	28.40	33.40	33.40	31.50
Meat												
Chicken	38.00	37.54	40.73	45.08	34.67	37.00	32.00	40.00	39.00	36.00	36.00	35.00
Pork	54.38	57.25	58.67	65.88	53.00	61.33	63.00	63.00	58.00	56.00	58.50	55.50
Shrimp (60 piece/kg)	112.33	112.70	119.58	142.08	148.33	121.67	125.00	120.00	120.00	130.00	145.00	150.00
Calculated spread												
Chicken	72.5%	75.6%	76.3%	78.2%	69.4%	70.0%	65.5%	72.6%	71.0%	65.6%	62.7%	63.5%
Pork	85.7%	87.7%	88.2%	89.5%	85.8%	87.0%	87.5%	87.5%	86.0%	83.7%	83.1%	82.7%

Source:Company, MoC

EU, Iran, the Philippines... but still waiting for Japan

Several countries have since lifted bans on Thai uncooked poultry following the EU's lead. Over the past few months after the EU, we have seen announcements from the governments of Iran and the Philippines lifting their bans. However, given the magnitude of supply increase, with an expected additional 400,000 tons of exportable meat by the end of 2012, domestic chicken price is unlikely to rebound until the Japanese market reopens.

EU has an import quota for only 92,000 tons/year, the Philippines imports around 130,000 tons/year, and Iran imports ~50,000 tons/year. Even after adding all these three markets together, additional demand is still lower than supply increase. This is also assuming that Thailand can capture all of the Philippines and Iran's poultry import market, which is unlikely.

Japan alone imports more than 800,000 tons/year and used to import 200,000 tons/year from Thailand before the bird flu outbreak in 2004. Thus, only when Japan lifts its ban on Thai uncooked poultry will we see Thai poultry price start to post any material rebound.

Table 5: Thailand's expected poultry capacity increase

	2011	Jun-12	Increase (Tons)	Increase (%)	Dec-12	Total Increase (Tons)	Total Increase (%)
Number of chickens processed per day	3,000,000	3,504,350	NA	17%	4,153,350	NA	38%
Total chicken meat (MT)	1,310,400	1,530,700	220,300	17%	1,814,183	503,783	38%
Total exportable meat (MT)	1,048,320	1,224,560	176,240	17%	1,451,347	403,027	38%
Total exportable white meat to EU (MT)	393,120	459,210	66,090	17%	544,255	151,135	38%

Source:Phatra Securities estimates

*Assumption: 1.2kg of meat per chicken, 1kg of exportable meat per chicken, 0.36kg of white meat per chicken

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Table 6: CPF's 2Q12 result & breakdown

(Bt mn)	2Q12	1Q12	2Q11	%YoY	%QoQ	1H12	1H11	%YoY
Income Statement								
<i>Revenues</i>								
Revenue from sale of goods	92,255	73,480	53,230	73%	26%	165,735	98,974	67%
Interest & dividend income	109	68	87	26%	61%	176	121	45%
Net foreign exchange gain	-	-	-	NA	NA	-	23	-100%
Negative goodwill arising from business comb	-	-	-	NA	NA	-	-	NA
Gain on sale/disposal of investment	1,316	1,094	-	NA	20%	2,410	693	248%
Gain on changes in fair value adj.	-	8,673	-	NA	-100%	8,673	-	NA
Other income	919	359	222	314%	156%	1,277	498	157%
Total revenues	94,599	83,674	53,538	77%	13%	178,273	100,309	78%
<i>Expenses</i>								
COGS	79,692	63,464	43,578	83%	26%	143,156	81,935	75%
SG&A	8,449	6,832	4,444	90%	24%	15,281	9,025	69%
Loss (gain) on chgs in fair value of bio assets	(188)	55	-	NA	NA	-	-	NA
Net forex loss	6	12	-	NA	-55%	-	-	NA
Lost on sale of investments	-	-	-	NA	NA	-	-	NA
Lost on impairment of assets	-	-	-	NA	NA	-	-	NA
Loss on net monetary position	-	-	30	-100%	NA	-	30	-100%
Total expenses	87,959	70,363	48,053	83%	25%	158,437	90,991	74%
Profit from associates	1,085	990	1,139	-5%	10%	2,076	1,853	12%
NI before interest and tax	7,725	14,301	6,625	17%	-46%	21,911	11,171	96%
Interest expense	1,650	1,175	673	145%	40%	2,825	1,078	162%
NI before tax	6,075	13,126	5,951	2%	-54%	19,086	10,093	89%
Income tax expense	1,493	587	1,042	43%	154%	2,079	1,665	25%
Net income before extraordinary item	4,582	12,539	4,910	-7%	-63%	17,006	8,428	102%
Extraordinary item net of tax	-	-	-	NA	NA	-	-	NA
Net income	4,582	12,539	4,910	-7%	-63%	17,006	8,428	102%
Minority Interest	(547)	(426)	(40)	-1261%	28%	(973)	(80)	1113%
Net profit to shareholders	4,035	12,113	4,869	-17%	-67%	16,033	8,348	92%
Exceptional Income	1,316	1,094	(30)	NA	20%	2,410	686	251%
Pre-exceptional Income	2,720	11,018	4,899	-44%	-75%	13,623	7,662	78%
Extraordinary Income	-	8,673	-	NA	-100%	8,673	-	NA
Pre-extraordinary Income	2,720	2,345	4,899	-44%	16%	5,065	7,662	-34%
Sales Breakdown								
Livestock	28,164	28,106	28,926	-3%	0%	56,270	55,147	2%
Aquaculture	11,603	9,560	10,567	10%	21%	21,163	18,399	15%
Overseas Livestock	44,650	32,642	10,144	340%	37%	77,292	19,732	292%
Overseas Aquaculture	7,838	3,172	3,593	118%	147%	11,010	5,697	93%
Total	92,255	73,480	53,230	73%	26%	165,735	98,975	67%
Overseas Revenue Breakdown								
Turkey	4,679	4,231	4,127	13%	11%	8,910	7,823	14%
India	2,667	1,679	2,670	0%	59%	4,346	4,515	-4%
Malaysia	1,294	1,117	1,248	4%	16%	2,411	2,389	1%
China	26,520	15,848	NA	NA	67%	42,368	NA	NA
Vietnam	11,841	7,487	NA	NA	58%	19,328	-	NA
Taiwan	4,354	4,387	4,346	0%	-1%	8,741	8,418	4%
Laos	273	266	NA	NA	3%	539	NA	NA
Others	991	668	1,346	-26%	48%	1,659	2,284	-27%
Total	52,619	35,683	13,737	283%	47%	88,302	25,429	247%
GM Breakdown								
Livestock	10.0%	10.0%	22.0%	-55%	0%	10.0%	19.6%	-49%
Aquaculture	24.0%	24.0%	20.0%	20%	0%	24.0%	20.9%	15%
Overseas Livestock	14.0%	14.0%	5.0%	180%	0%	14.0%	6.5%	117%
Overseas Aquaculture	10.0%	10.0%	20.0%	-50%	0%	10.0%	20.7%	-52%
Total	14.0%	14.0%	18.0%	-22%	0%	14.0%	17.3%	-19%
Gross Profit Breakdown								
Livestock	2,816	2,811	6,364	-56%	0%	5,627	10,821	-48%
Aquaculture	2,785	2,294	2,113	32%	21%	5,079	3,836	32%
Overseas Livestock	6,251	4,570	507	1132%	37%	10,821	1,274	749%
Overseas Aquaculture	784	317	719	9%	147%	1,101	1,182	-7%
Total	12,636	9,992	9,703	30%	26%	22,628	17,113	32%

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Table 6: CPF's 2Q12 result & breakdown

(Bt mn)	2Q12	1Q12	2Q11	%YoY	%QoQ	1H12	1H11	%YoY
Feed Farm Food Breakdown								
<i>Domestic livestock</i>								
Feed	8,921	8,885	7,655	17%	0%	17,806	14,558	22%
Farm	11,884	11,809	13,673	-13%	1%	23,693	26,196	-10%
Food	4,098	3,957	3,699	11%	4%	8,054	7,096	14%
<i>Export livestock</i>								
Feed	20	24	605	-97%	-14%	44	738	-94%
Farm	295	318	97	205%	-7%	613	232	164%
Food	3,073	3,222	3,265	-6%	-5%	6,295	6,288	0%
<i>Domestic aqua</i>								
Feed	5,674	4,784	5,104	11%	19%	10,458	8,923	17%
Farm	1,776	1,764	1,865	-5%	1%	3,540	3,238	9%
Food	213	122	114	86%	74%	336	219	53%
<i>Export aqua</i>								
Feed	55	48	67	-19%	13%	103	151	-32%
Farm	1,665	1,129	1,513	10%	48%	2,794	2,638	6%
Food	1,962	1,735	1,836	7%	13%	3,697	3,239	14%
<i>Overseas livestock</i>								
Feed	32,113	22,316	4,386	632%	44%	54,429	8,644	530%
Farm	12,040	9,601	5,272	128%	25%	21,641	10,190	112%
Food	627	594	486	29%	6%	1,221	952	28%
<i>Overseas aqua</i>								
Feed	6,654	2,207	2,576	158%	201%	8,861	3,884	128%
Farm	1,047	835	788	33%	25%	1,882	1,389	35%
Food	138	130	229	-40%	6%	268	370	-28%

Source: Company, Phatra Securities estimates

Price objective basis & risk

Charoen Pokphand Foods (CHPFF)

We calculate fair value of CPFs share price by valuing the companys three business segments (feed, farm, food) separately and summing them up. Our target PE is 8X earnings for farm operation, 15X earnings for feed business, and 18X P/E for earnings from food. As the farm business is the main source of CPFs earnings volatility, it deserves to trade at a lower P/E than the other two. Feed and food businesses are accorded a higher PE multiple due to their stable profit margin. Based on comparable analysis, feed companies usually trade at PER of around 14X-16X while food companies typically trade at PER of 16X-18X. Farm companies are more volatile and tend to trade at lower PE multiple of 7X-9X.

Due to the companys large stake in CPALL, we are also taking into account such value by valuing its per share stake in CPALL separately from CPFs core businesses. We arrive at our 12-month price objective of Bt40/share by summing CPFs value from core businesses to value from its stake in CPALL.

Risks are delay in lifting of Thai uncooked poultry import bans, government intervention in agricultural prices, widespread livestock and aquaculture disease outbreak, and further supply increase by Thai livestock producers.

Link to Definitions

Consumer & Retail

Click [here](#) for definitions of commonly used terms.

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ASEAN - Consumer Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	BEC World	XBJHF	BEC TB	Thitithep Nophaket
	Central Plaza Hotel	XWTFD	CENDEL TB	Charti Phrawphraikul
	Charoen Pokphand Foods	CHPFF	CPF TB	Charti Phrawphraikul
	First Resources	XUOEF	FR SP	Jeffrey Ng
	Genting Bhd	GEBHF	GENT MK	Melvyn Boey, CFA
	Genting Malaysia	GMALF	GENM MK	Melvyn Boey, CFA
	Golden Agri	GARPF	GGR SP	Jeffrey Ng
	Holcim Indonesia	PTHIF	SMCB IJ	Swati Chopra
	IHH Healthcare Berhad	XFAAF	IHH MK	Swati Chopra
	IHH Healthcare Bhd	XFAHF	IHH SP	Swati Chopra
	Indocement	PITPF	INTP IJ	Swati Chopra
	Indofood	PIFMF	INDF IJ	Swati Chopra
	Jardine Cycle & Carriage	JCYCF	JCNC SP	Swati Chopra
	Kalbe	PTKFF	KLBF IJ	Swati Chopra
	Kuala Lumpur Kep	KLKBF	KLK MK	Jeffrey Ng
	Major Cineplex	MCGRF	MAJOR TB	Thitithep Nophaket
	MCOT PCL	XPSQF	MCOT TB	Thitithep Nophaket
	Media Nusantara Citra	PTMEF	MNCN IJ	Swati Chopra
	Minor International	XMNRF	MINT TB	Charti Phrawphraikul
	Noble Group Ltd	NOBGF	NOBL SP	Jeffrey Ng
	Puregold Price Club, Inc.	XZWOF	PGOLD PM	Joe-an Alitagtag
	Salim Ivomas Pratama	XLMFF	SIMP IJ	Jeffrey Ng
	Semen Gresik	PSGTF	SMGR IJ	Swati Chopra
	Siam Makro	SMKOF	MAKRO TB	Sirichai Chalokepunrat
	Thai Beverage	TBVPF	THBEV SP	Thitithep Nophaket
	Thai Union Frozen	TUFPF	TUF TB	Charti Phrawphraikul
	The Erawan Group	XCZVF	ERW TB	Charti Phrawphraikul
	Top Glove Corporation Berhad	TPGVF	TOPG MK	Melvyn Boey, CFA
NEUTRAL				
	Astra International	PTAIF	ASII IJ	Swati Chopra
	Genting Singapore PLC	GIGNF	GENS SP	Melvyn Boey, CFA
	Gudang Garam International	GGNPF	GGRM IJ	Swati Chopra
	Indofood CBP sukses makmur Tbk	XDINF	ICBP IJ	Swati Chopra
	IOI Corp	IOIOF	IOI MK	Jeffrey Ng
	London Sumatra	PPLFF	LSIP IJ	Jeffrey Ng
	Sime Darby	SMEBF	SIME MK	Jeffrey Ng
UNDERPERFORM				
	Berjaya Sports Toto	BJSFAF	BST MK	Melvyn Boey, CFA
	CP All	XSFBF	CPALL TB	Sirichai Chalokepunrat
	Felda Global Venture Holdings	XFGVF	FGV MK	Jeffrey Ng
	Indofood Agri Resources Limited	INDFF	IFAR SP	Jeffrey Ng
	Olam Intl	OLMIF	OLAM SP	Jeffrey Ng
	PT Astra Agro Lestari Tbk	PTABF	AALI IJ	Jeffrey Ng
	Unilever Indonesia Tbk PT	UNLRF	UNVR IJ	Swati Chopra
	Wilmar Internat	WLMIF	WIL SP	Jeffrey Ng

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***iQmethod*SM Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A

Quality of Earnings

Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense

Valuation Toolkit

Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

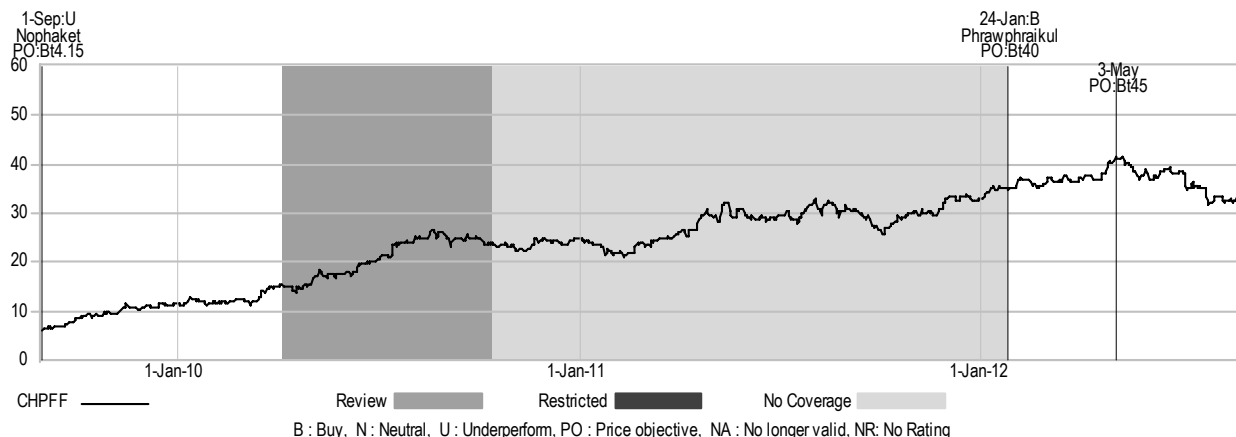
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CHPFF Price Chart



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Investment Rating Distribution: Food Group (as of 01 Jul 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	29	39.73%	Buy	18	66.67%
Neutral	18	24.66%	Neutral	12	75.00%
Sell	26	35.62%	Sell	15	65.22%

Investment Rating Distribution: Global Group (as of 01 Jul 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1913	50.14%	Buy	1294	73.40%
Neutral	994	26.06%	Neutral	628	70.09%
Sell	908	23.80%	Sell	513	60.71%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Underperform	N/A	≥ 20%

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