

# CHAROEN POKPHAND FOODS PLC

No. 15/2012

14 March 2012

**Company Rating:** AA-

**Outlook:** Stable

**New Issue Rating:** AA-

**Rating History:**

Date	Company	Issue (Secured/ Unsecured)
19/05/11	AA-/Sta	-/AA-
30/04/10	A+/Pos	-/A+
22/06/06	A+/Sta	-/A+
20/05/05	A/Pos	-/A
12/07/04	A/Sta	-/A
28/05/04	A	-/A
01/03/01	A+	-/A+

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**Rating Rationale**

TRIS Rating affirms the company and current issue ratings of Charoen Pokphand Foods PLC (CPF) at "AA-". At the same time, TRIS Rating assigns the rating of "AA-" to CPF's proposed issue of up to Bt6,500 million in senior debentures. The proceeds from the new debentures will be used to repay CPF's debt and for planned capital expenditures. The ratings reflect the company's leading position in Thai agribusiness and food industry, its product and market diversification, a successful strategic shift towards branded food products, its overseas expansion efforts, and strengthened operating performance. The ratings also take into consideration CPF's relatively low operating profit margins, the inherent volatility of commodity products, and exposure to climate change.

CPF is the largest agribusiness and food conglomerate in Thailand. As of 21 December 2011, Charoen Pokphand Group Co., Ltd. (CPG) and related companies held 42.15% of CPF's shares. The company's business is divided into two major categories, livestock and aquaculture, each of which comprises feed, farm, and food products. Fully-integrated operations help its products meet safety and traceability standards, which qualify the products for export to major importing countries, including the countries of the European Union (EU), Asian countries, and the United States (US).

For 2011, revenue from the sale of farm products contributed 43% of the company's total sales, followed by animal feed (38%), and food products (19%). To reduce the commodity-like nature of its products and stabilize operating cash flow, CPF focuses on creating its own branded and value-added products and developing distribution channels for both the domestic and export markets. CPF aims to increase the contribution from food products to 20% of total sales by 2015, while reducing the proportion of sales from its commodity-like farm products. In addition to diversifying its product lines, the company aims to expand its operations into many countries. Revenue from overseas operations is planned to rise to 63% of total sales by 2015, compared with 25% in 2011. On 8 March 2012, CPF and its subsidiary acquired 74.18% in C.P. Pokphand Co., Ltd. (CPP) for a total consideration of US\$2,174 million. CPP is listed on the Stock Exchange of Hong Kong. It is a leading animal feed producer in China and fully integrated operator of livestock and aquaculture in Vietnam. Revenue from overseas operations will increase from 25% of total sales in 2011 to more than 50% after the acquisition. In terms of product segment, revenue from the sale of feed products will jump to almost 55% of the company's total sales, followed by farm products, and food products.

CPF's operating performance in 2011 was strong. Sales grew to Bt206,099 million, up by 9.0% from 2010. The gross margin for 2011 was considered healthy at 16.3% even though the massive flooding in Thailand pushed down the meat

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prices in the fourth quarter of 2011. In 2011, earnings before interest, tax, depreciation and amortization (EBITDA) grew 17.3% to Bt24,450 million. Net profit, excluding gains on the sale of investments and foreign exchange, was favorable at Bt14,283 million, rising by 23.2% from 2010, due mainly to relatively high meat prices and efficient cost control. As of December 2011, CPF's total debt to capitalization ratio jumped to 51.1% from 43.4% in 2010 due to the pre-funding for CPP acquisition. Nevertheless, the total debt to capitalization ratio is expected to improve after the full realization of CPP's contribution.

### Rating Outlook

The "stable" outlook reflects the expectation of TRIS Rating that CPF will be able to maintain its leading position in the dynamic global food market. The company's diverse range of products and markets, along with economies of scale, are expected to help improve credit protection and stabilize profits. The focus on food products should offset the fluctuations in the prices of its commodity-like farm products.

### Charoen Pokphand Foods PLC (CPF)

<b>Company Rating:</b>	AA-
<b>Issue Ratings:</b>	
CPF120A: Bt2,500 million senior debentures due 2012	AA-
CPF138A: Bt3,000 million senior debentures due 2013	AA-
CPF13NA: Bt2,200 million senior debentures due 2013	AA-
CPF14NA: Bt3,200 million senior debentures due 2014	AA-
CPF14NB: Bt3,000 million senior debentures due 2014	AA-
CPF15NA: Bt3,000 million senior debentures due 2015	AA-
CPF17NA: Bt5,000 million senior debentures due 2017	AA-
CPF188A: Bt3,000 million senior debentures due 2018	AA-
CPF218A: Bt3,000 million senior debentures due 2021	AA-
CPF418A: Bt4,000 million senior debentures due 2041	AA-
CPF41DA: Bt6,000 million senior debentures due 2041	AA-
Up to Bt6,500 million senior debentures due within 2016	AA-
<b>Rating Outlook:</b>	Stable

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