

4 July 2012

# Charoen Pokphand Foods

Foods  
Neutral

## 2Q12 core profit downgrade

**What's new?** We called CPF yesterday with regard to the 2Q12 earnings outlook. Company guidance was negative, so we have downgraded our 2Q12 net profit estimate.

**Weak 2Q12 earnings:** We now expect 2Q12 net earnings of Bt3.5bn-4bn, down by 20-25% YoY and 65-70% QoQ. Stripping out extra gains, we estimate a Bt3-3.5bn core profit, down 30-40% YoY but up 15-30% QoQ. The YoY core earnings tumble is due to weaker domestic and overseas operations (especially India, Malaysia and Turkey). The QoQ core profit rise is due to an improved domestic operation. The Turkish unit will post a net loss again in 2Q12 (against a 1Q12 net profit), while the Indian and Malaysian units will improve slightly QoQ. CPP's 2Q12 profit will be flat QoQ.

**Weaker than our previous 2Q12 estimate:** Our old 2Q12 net profit forecast was Bt4.2bn-4.4bn. The operations of overseas units, especially Turkish, Indian and Malaysian units, failed to achieve expectations. We estimate a Bt150-200m Turkish net loss for 2Q12, against a Bt300m net loss in 2Q11 and a Bt50m net profit in 1Q12. Turkish meat prices, surprisingly, appear to have softened again. We previously assumed that the profits of both the Malaysian and Indian units would bounce strongly QoQ.

**Very slim profit for 2Q12 domestic operations:** The mean domestic chicken price was Bt37/kg in 2Q12, down 28% YoY but up 8% QoQ. The mean pork price was Bt61/kg, down 12% YoY but up 16% QoQ. The mean corn price was Bt10.5/kg in 2Q12, up 2% both YoY and QoQ. The mean soybean meal price was Bt16.1/kg, up 29% YoY and 8% QoQ. We expect the domestic operation to post a very small profit for 2Q12, given a cost of production for chicken of Bt36-37/kg and for pork of Bt56-57/kg.

**Action:** We are likely to cut our FY12 net and core profit forecasts by 10-15% and our DDM-based YE12 target price after the 2Q12 preview meeting next week. However, we think that the expected weak 2Q12 earnings constitute just a one-time hit, as 2H12 numbers should improve on a rebound in domestic meat prices, overseas operational improvements and a new acquisition in 2H12. Our BUY rating stands.

## BUALUANG RESEARCH

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**BUY** (maintained)

Target Price: Bt48.00  
Price (03/07/12): Bt38.00  
CPF TB / CPF.BK

### Financial summary

FY Ended 31 Dec	2011	2012E	2013E	2014E
Revenues (Btm)	206,099	333,803	400,193	426,092
Net profit (Btm)	15,837	30,514	24,607	26,087
EPS (Bt)	2.38	4.03	3.18	3.37
BLS/Consensus (x)	n.a.	1.30	1.08	n.a.
EPS growth (%)	+16.8%	+69.4%	-21.2%	+6.0%
Core profit (Btm)	14,023	19,247	22,857	24,337
Core EPS (Bt)	2.11	2.54	2.95	3.14
Core EPS growth (%)	+21.0%	+20.7%	+16.1%	+6.5%
PER (x)	11.8	9.4	12.0	11.3
Core PER (x)	13.3	14.9	12.9	12.1
EV/EBITDA (x)	13.2	12.0	10.6	10.2
PBV (x)	3.1	2.8	2.5	2.3
Dividend (Bt)	1.20	2.02	1.81	1.92
Dividend yield (%)	4.3	5.3	4.8	5.1
ROE (%)	26.0	37.2	23.4	22.5
Net gearing (x)	0.7	0.6	0.5	0.4

CGRating - 2011



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80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

## BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

### STOCK RECOMMENDATIONS

**BUY:** Expected positive total returns of 15% or more over the next 12 months.

**HOLD:** Expected total returns of between -15% and +15% over the next 12 months.

**SELL:** Expected negative total returns of 15% or more over the next 12 months.

**TRADING BUY:** Expected positive total returns of 15% or more over the next 3 months.

### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.