

Charoen Pokphand Food - CPF



Your Partner in Investment

2QCY12 results seen down y-y and q-q

Bloomberg | Reuters
CPF TB | CPF.BK

Thailand Equities Research
12 July 2012

Report type: Company Preview

Company Overview

CPF is a Thailand-based company engaged in agro-industrial and integrated food businesses for domestic sales and exports. The businesses are divided into two segments: livestock and aquaculture businesses.

- We expect CPF to post a 2QCY12 net profit of Bt3,803mn, down y-y and q-q as a result of slumping meat prices, rising raw materials costs and a q-q drop in operating performance from overseas operations.
- Even though meat prices are showing signs of recovery, more than 10% y-y fall in average selling prices prompts us to revise downwards our earnings estimates for CPF.
- CPF board approved acquisition of shares in Chester's Food for Bt450mn.
- We rate CPF shares a 'BUY' with a target price of Bt43/share.

What is the news?

We expect 2QCY12 net profit to be lower than 2QCY11 and 1QCY12 as a result of falling meat prices, rising costs of raw materials and weakening performance at overseas operations hit by sagging meat prices.

How do we view this?

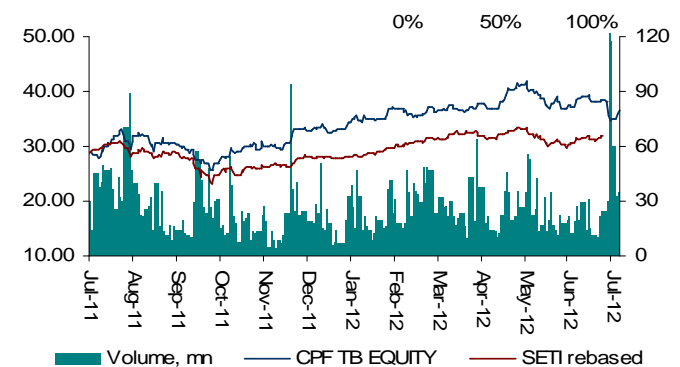
The y-y collapse in meat prices would hurt operating performance but the resumption of Thai chicken exports to the EU could help reduce supply in the industry and cause prices to recover in 2HCY12.

Investment Actions?

In our view, the recent share price decline has already discounted expectations 2QCY12 earnings would come in weaker than previously estimated. CPF stock is currently trading at a P/E multiple of 12.8x. Its current valuation looks cheap relative to its regional peers. We rate CPF shares a 'BUY' with a target price of Bt43/share.

Charoen Pokphand Foods

Rating	1.00	Buy
- Previous Rating	1.00	Buy
Target Price (Bt)	43	
- Previous Target Price (Bt)	48	
Closing Price (Bt)	36.50	
Expected Capital Gains (%)	17.81	
Expected Dividend Yield (%)	3.97	
Expected Total Return (%)	21.78	
Raw Beta (Past 2yrs weekly data)	0.66	
Market Cap. (USD mm)	8,918	
Enterprise Value (USD mm)	12,805	
Market Cap. (Bt mm)	282,617	
Enterprise Value (Bt mm)	402,365	
3M Average Daily T/O (mm)	27.6	
52 week range	24.5 - 42.25	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. Charoen Pokphand Group Co., Ltd.	25.0
2. Charoen Pokphand Holding Co., Ltd.	11.4
3. Orient Success Internal Limited	9.0

CG Rating - 2011



Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (Btmn)	189,049	206,099	321,528	373,265
Net Profit, adj. (Btmn)	11,887	14,403	13,587	17,639
EPS, adj. (Bt)	1.54	1.86	1.65	2.15
P/E (X), adj.	23.8	19.6	22.1	17.0
BVPS (Bt)	9.07	9.90	11.89	13.09
P/B (X)	4.0	3.7	3.1	2.8
DPS (Bt)	1.05	1.20	1.45	1.10
Div. Yield (%)	2.9	3.3	4.0	3.0

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

P/E12 (15x)

Analyst

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2QCY12 net profit to soften y-y and q-q

We expect CPF to post y-y and q-q weaker earnings performance on falling meat prices and y-y and q-q poorer operating performance in overseas business. We estimate quarterly sales to jump 50% y-y and 9% q-q to Bt79,845mn on the back of CPP's earnings consolidation. Gross margin is expected to drop 20% y-y on declining meat prices (chicken -28%, egg -14%, and pork -12% y-y) amid an increase in raw material cost with a 2% and 29% y-y rise in maize and soybean. Overseas business is expected to be negatively affected by slumping meat prices as well. However, an equity income from CPALL is expected to increase y-y and q-q and CPF will also book gain from sales on investment in CPALL. On this basis, we expect 2QCY12 net profit to decline 69% y-y and 22% q-q to Bt3,803mn.

CY12 net profit forecasts cut down 10%

A reduction of more than 20% y-y in meat prices, coupled with slower-than-expected recovery of the meat prices, prompts us to trim our CY12 earnings forecast by 10%, dragging our sales assumption to Bt321,528mn which represents a 56% y-y increase on the back of consolidation of CPP's earnings. Lower selling prices in spite of more than 10% rise in production cost would push gross margin lower, while gains on investment are expected to increase 10% on potentially growing profits from CPALL. On this basis, we revise downwardly our CY12 net profit forecast to Bt23,500mn, representing a 48% y-y increase.

To invest Bt450mn in Chester Food

CPF announced the company will invest Bt450 for acquiring shares in Chester Food from Charoen Pokphand International. Chester Food engages in local food and beverage with 160 locations. Up to 60% of which were franchised and Chester Food has a policy focusing on expanding its franchise. The acquisition deal is expected to close in 3QCY12 that we see no significant impact on CPF, considering its minimal investment of Bt35mn. Looking ahead, CPF will focus more on expanding food retail outlet where the company will combine all of its food chains to serve consumer as one-stop-service outlet.

Figure 1: Key Financial information of Chester

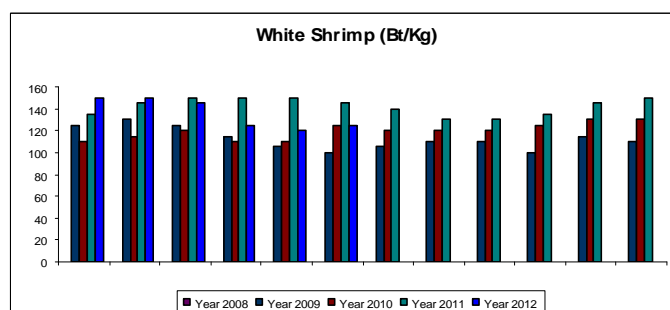
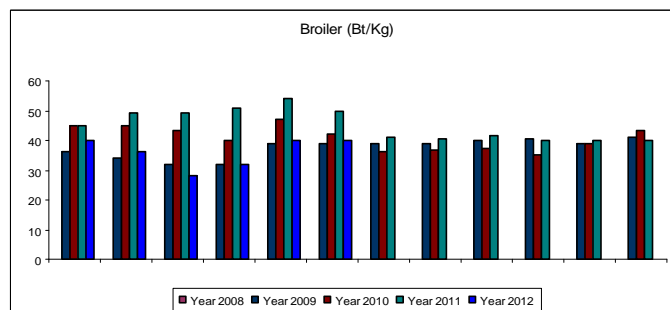
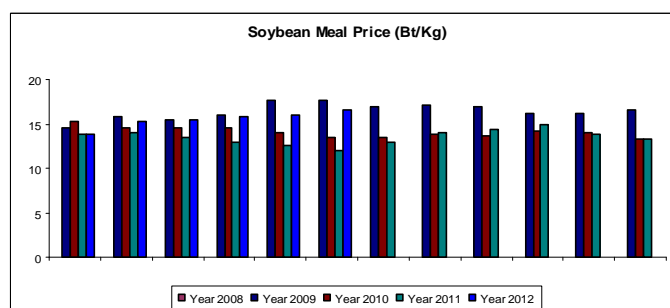
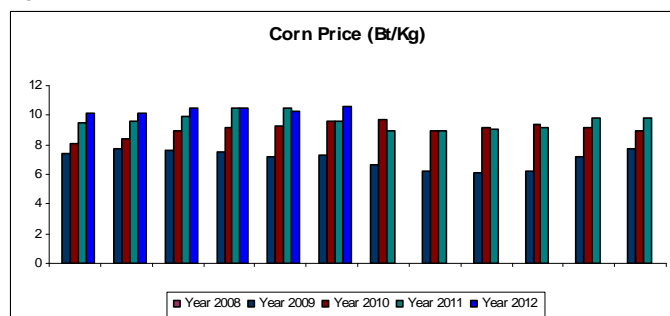
Bt mn	2009	2010	2011
Revenue	701	712	827
Net profits	17	16	35
Total Assets	315	338	280
Total Liabilities	203	210	193
Shareholders' Equities	112	128	87
Book value per share (Bt/share)	35	40	108
Number of shares (million shares)	3.2	3.2	0.8

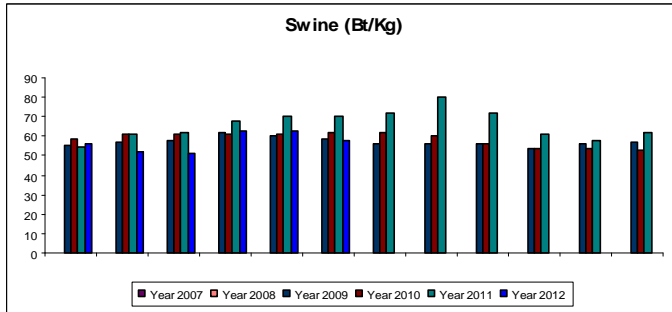
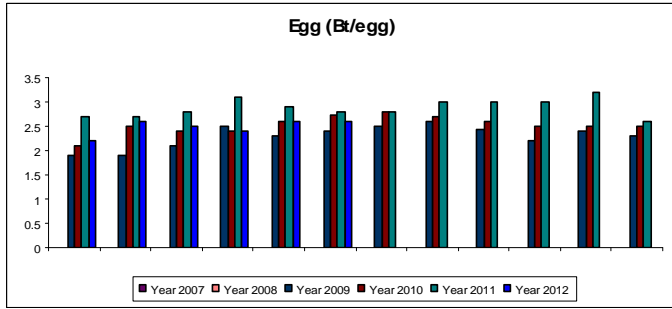
Source: Company

'BUY' maintained with target price of Bt43/share

Even though earnings in 2QCY12 are expected to soften, which would negatively affect share prices, we believe the market already priced in this factor. Therefore, we maintain a 'BUY' rating on CPF shares with a target price of Bt43/share.

Figure 2: Products price and Raw material price





Source: CPF

FYDec	CY09	CY10	CY11	CY12F	CY13F
Valuation Ratios					
P/E (X), adj.	25.1	23.8	19.6	22.1	17.0
P/B (X)	4.5	4.0	3.7	3.1	2.8
EV/EBITDA (X), adj.	24.8	23.0	20.3	17.4	13.8
Dividend Yield (%)	2.0	2.9	3.3	4.0	3.0
Per share data (Bt)					
EPS, reported	1.52	1.75	2.05	2.86	2.15
EPS, adj.	1.45	1.54	1.86	1.65	2.15
DPS	0.73	1.05	1.20	1.45	1.10
BVPS	8.18	9.07	9.90	11.89	13.09
Growth & Margins (%)					
Growth					
Revenue	5.6	14.5	9.0	56.0	16.1
EBITDA	90.4	8.0	13.3	16.5	26.6
EBIT	143.8	13.1	22.5	10.7	25.9
Net Income, adj.	241.8	22.0	21.2	-5.7	29.8
Margins					
EBITDA margin	9.8	9.3	9.6	7.2	7.8
EBIT margin	8.6	8.5	9.6	6.8	7.4
Net Profit Margin	5.9	6.3	7.0	4.2	4.7
Key Ratios					
ROE (%)	18.6	22.3	22.9	29.5	20.9
ROA (%)	8.4	9.5	9.4	12.9	9.5
Net Debt-Cash	33,320	38,953	45,173	58,530	58,824
Net Gearing(X)	0.6	0.6	0.7	0.8	0.7
Income Statement (Bt mn)					
Revenue	165,063	189,049	206,099	321,528	373,265
EBITDA	16,206	17,497	19,817	23,089	29,221
Depreciation & Amortisation	4,572	4,723	4,581	6,093	6,702
EBIT	14,235	16,099	19,720	21,838	27,499
Net Finance (Expense)/Income	(1,949)	(1,824)	(2,432)	(5,469)	(6,248)
Other items	1,536	1,409	1,111	1,222	1,283
Associates & JVs	1,592	2,511	3,657	4,023	4,425
Profit Before Tax	12,285	14,276	17,288	16,370	21,252
Taxation	2,539	2,388	2,885	2,783	3,613
Profit After Tax	9,747	11,887	14,403	13,587	17,639
Non-controlling Interest	(200)	(296)	(120)	(679)	(882)
Net Income, reported	10,190	13,563	15,837	23,500	17,677
Net Income, adj.	9,747	11,887	14,403	13,587	17,639

Source: PSR est.

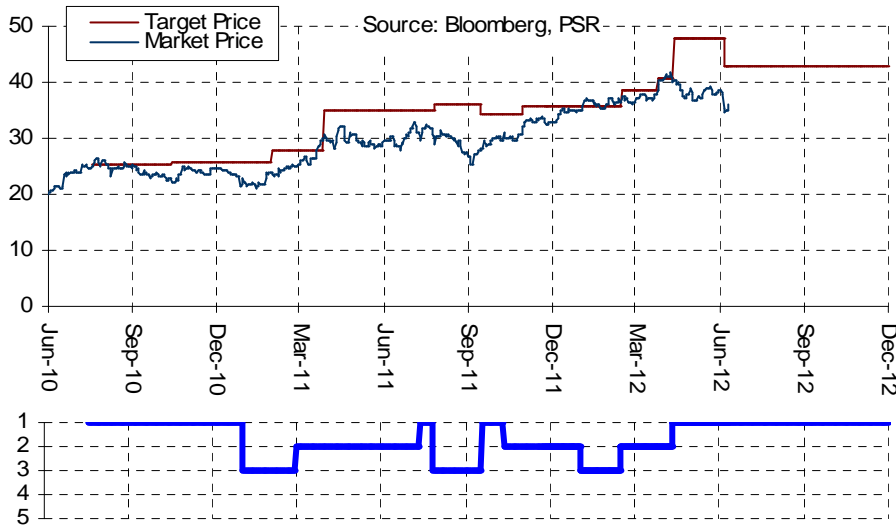
FYE Dec	CY09	CY10	CY11	CY12F	CY13F
Balance Sheet (Bt mn)					
Cash	10,523	7,761	24,341	11,449	4,828
ST Investments					
Accounts Receivables	14,361	15,385	15,692	23,784	26,589
Inventories	26,284	33,863	35,673	54,503	60,967
Others	2,010	1,962	2,721	2,993	3,292
Total current assets	53,434	58,971	78,427	92,730	95,676
PPE	46,422	47,142	52,025	55,639	58,595
Intangibles	884	872	895	886	886
Associates & JVs	11,946	15,446	24,326	25,056	25,807
Investments					
Others	480	534	525	630	757
Total non-current assets	62,264	67,121	81,476	85,785	89,504
Total Assets	115,698	126,092	159,904	178,515	185,180
Short term loans	16,039	18,139	28,584	31,338	36,541
Accounts Payables	9,106	9,707	11,733	18,168	20,903
Others	2,785	3,108	3,810	3,848	3,887
Total current liabilities	29,637	32,827	46,071	55,318	63,314
Long term loans	27,803	28,575	40,931	38,642	27,111
Others	2,880	3,747	6,383	6,785	7,108
Total liabilities	60,719	65,149	93,385	100,745	97,534
Non-controlling interest	3,095	3,088	2,922	2,951	2,980
Shareholder Equity	51,885	57,856	63,597	74,819	84,665

Cashflow Statements (Bt mn)

CFO					
PBT	10,390	13,859	15,957	24,180	18,559
Adjustments	4,633	4,798	4,739	6,093	6,702
Cash from ops before WC changes	17,672	19,580	21,257	25,331	30,867
WC changes	5,385	(8,124)	(793)	(5,284)	(14,803)
Cash generated from ops	25,007	13,279	22,896	25,516	22,311
Taxes paid, net	(718)	(1,874)	(2,906)	(2,483)	(3,313)
Interest paid	1,949	1,824	2,432	5,469	6,248
Cashflow from ops	22,340	9,581	17,558	17,564	12,751
CFI					
CAPEX, net	(4,180)	(6,355)	(10,315)	(8,014)	(8,022)
Dividends from associates & JVs					
Dividends/Interest from Investments					
Purchase/sale of investments	(1,133)	(3,968)	(5,397)	(73)	(75)
Investments in subs & associates					
Others					
Cashflow from investments	(4,917)	(7,995)	(14,049)	(6,295)	(6,139)
CFF					
Share issuance					
Purchase of treasury shares					
Loans, net of repayments	(5,436)	4,303	23,092	(4,510)	1,605
Dividends to minority interests					
Dividends to shareholders & capital reduction	(2,285)	(6,656)	(7,653)	(13,142)	(7,803)
Others					
Cashflow from financing	(10,143)	(4,399)	13,022	(23,490)	(12,878)
Net change in cash	7,280	(2,812)	16,532	(12,221)	(6,266)
Effects of exchange rates	(154)	51	(294)	(323)	(355)
CCE, end	10,516	7,755	23,993	11,449	4,828

Source: PSR est.

Ratings History



Phillip Group Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate/Trading Buy	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce/Trading Sell	4
> -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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Danai Tunyaphisitchai	Capital Market Investment #2375	66 2 635 1700 #481	Construction Materials, Property Development
Naree Apisawaittakan	Securities Investment #17971	66 2 635 1700 #484	Agro & Food, Electronics
Siam Tiyanont	Securities Investment #17970	66 2 635 170 0#483	Transportation, Media & Publishing
Preeyanun Tripetchchuporn	Securities Investment #17973	66 2 635 1700 #488	Petrochemicals, Commerce, Tourism
Ornmongkol Tantitanatorm	Securities Investment #34100	66 2 635 1700 #491	Securities, Automotive, Energy, Packaging
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Results Presentation

Score Range	Number of Logo
Less than 50	No logo given
50 - 59	
60 - 69	
70 - 79	
80 - 89	
90 - 100	

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