

20 July 2012

# Charoen Pokphand Foods

Foods  
Neutral

## Higher SBM price—a modest impact on CPF in 2H12

**What's new?** A drought in the US Midwest has hit crop yields—particularly corn and soybean—and caused a grain prices to surge. The soybean price jumped to US\$15.96/bushel on July 18, up by 11% MTD and 32% YTD and a four-year high. The corn price rose to US\$7.73/bushel on July 18, up by 18% MTD and 20% YTD and an 11-month high.

**Tighter corn and soybean supplies:** Corn production in Argentina fell short of expectations. US corn output dropped to its lowest level in three years, while the 2011/12 US corn stocks-to-use ratio dived to near a record low. Global corn inventories are also short. The 2011/12 US soybean stocks-to-use ratio also near a record low, due to diminished South American production in the face of greater US demand.

**Modest risk of higher 2H12 SBM price:** Thailand is a soybean importer. The global soybean price uptrend will increase costs for livestock farms. CPF currently imports 70% of its SBM directly and buys the rest from domestic operators. It has locked in SBM at levels 5-10% below market prices (or Bt14.5-15/kg) through to YE12. The global corn price uptrend isn't of much concern at this stage, as CPF sources all its corn domestically. Also, the corn price will retreat during the third-quarter harvest season. In any case, CPF has stockpiled corn sufficient to last to YE12. Its overseas units source 90-95% of their raw materials locally.

**In line with assumptions:** We assume mean corn prices of Bt10.6/kg for FY12 (up 10%) and Bt11.1/kg for FY13 (up 5%) and average SBM prices of Bt15.8/kg for FY12 (up 17%) and Bt16.6/kg for FY13 (up 5%). Those assumptions are in line with the YTD prices of Bt10.4/kg for corn and Bt15.5/kg for SBM. Our sensitivity analysis suggests that Bt1/kg changes in the prices of corn and soybean would impact CPF's bottom-line by 4% and 2%, respectively.

**Action:** Despite the negative implications of higher raw material prices, we aren't very concerned at the moment—CPF has considerable stocks. In any case, we expect a meat price recovery in 4Q12. Our BUY rating stands.

## BUALUANG RESEARCH

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# BUY

 (maintained)

Target Price: Bt44.00  
Price (19/07/12): Bt35.25  
CPF TB / CPF.BK

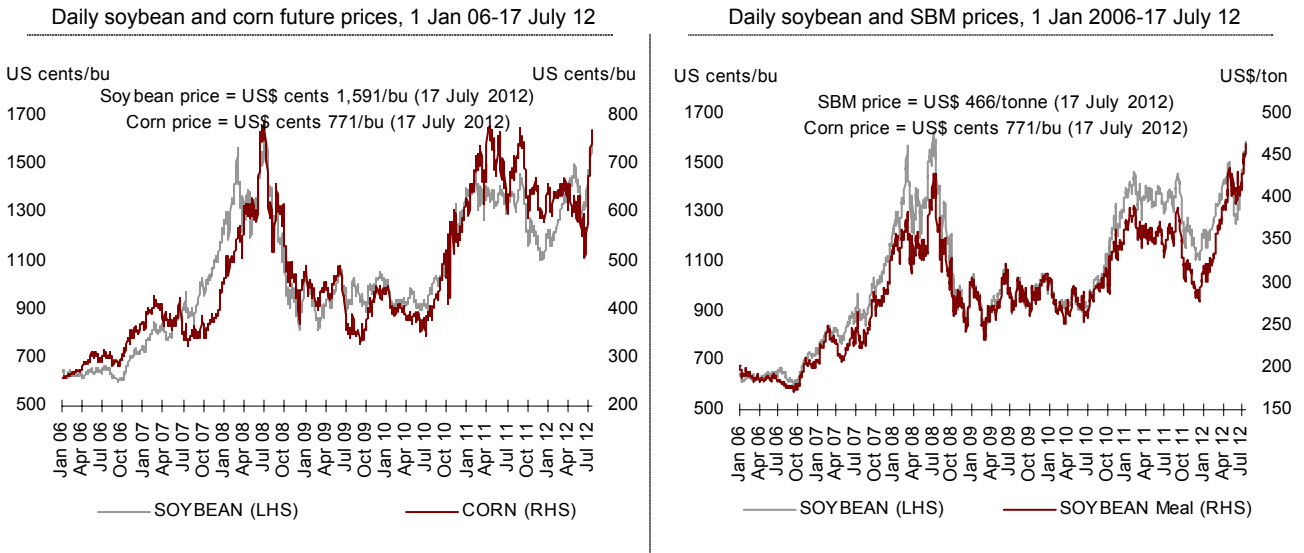
### Financial summary

FY Ended 31 Dec	2011	2012E	2013E	2014E
Revenues (Btm)	206,099	327,916	395,870	421,769
Net profit (Btm)	15,837	26,026	19,929	22,670
EPS (Bt)	2.38	3.44	2.57	2.93
BLS/Consensus (x)	n.a.	1.06	0.90	n.a.
EPS growth (%)	+16.8%	+44.5%	-25.1%	+13.8%
Core profit (Btm)	14,023	14,759	18,179	20,920
Core EPS (Bt)	2.11	1.95	2.35	2.70
Core EPS growth (%)	+21.0%	-7.5%	+20.4%	+15.1%
PER (x)	11.8	10.3	13.7	12.0
Core PER (x)	13.3	18.1	15.0	13.0
EV/EBITDA (x)	13.2	13.9	12.1	11.1
PBV (x)	3.1	2.7	2.4	2.2
Dividend (Bt)	1.20	1.72	1.47	1.67
Dividend yield (%)	4.3	4.9	4.2	4.7
ROE (%)	26.0	32.2	19.6	20.4
Net gearing (x)	0.7	0.6	0.6	0.5

CGRating - 2011

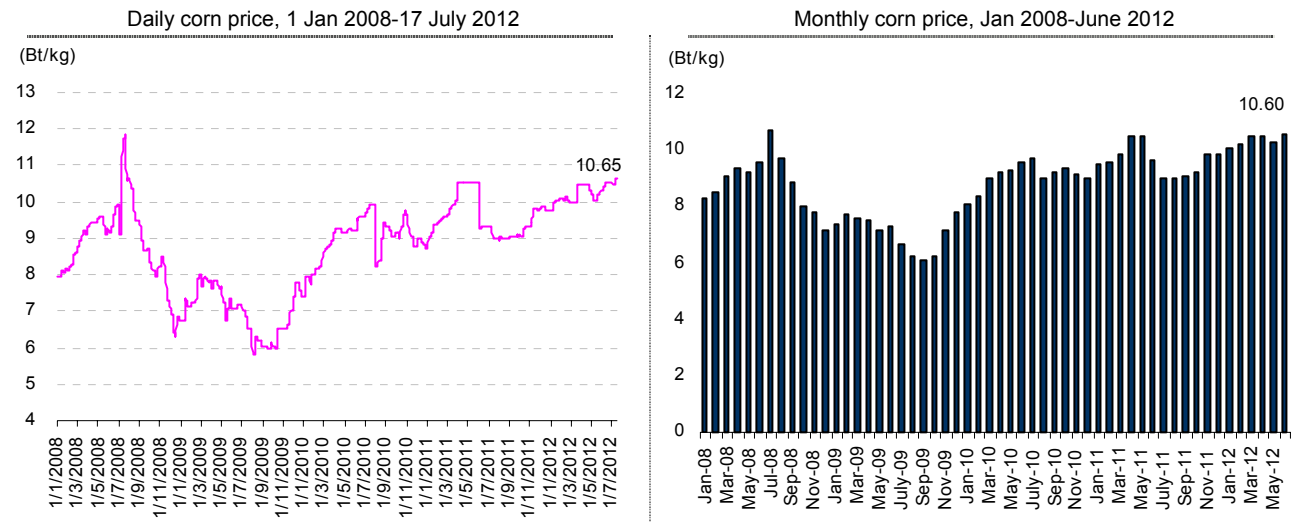


**Figure 1: Global soybean, soybean meal (SBM) and corn future prices**



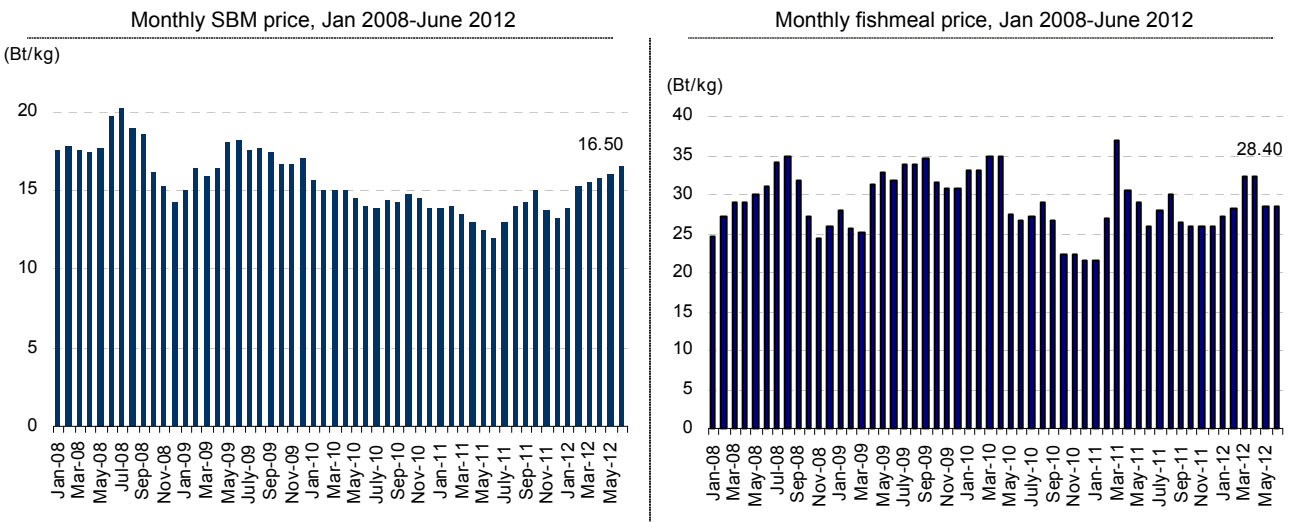
Source: Bloomberg

**Figure 2: Thailand monthly and daily corn prices**



Sources: Company data, [www.oae.go.th](http://www.oae.go.th)

**Figure 3: Thailand monthly soybean meal (SBM) prices**

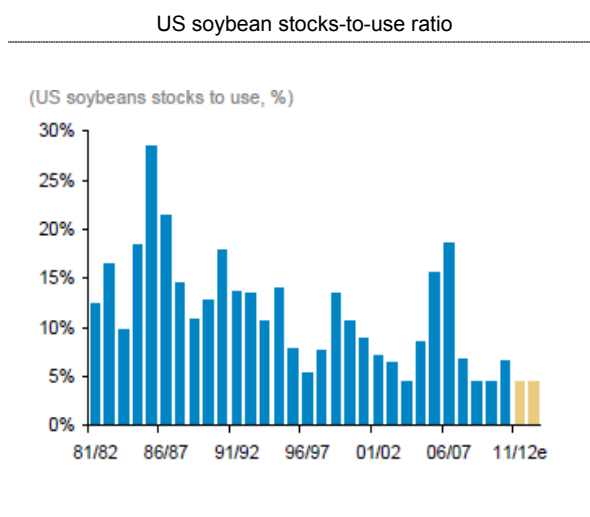


Sources: Company data, [www.oae.go.th](http://www.oae.go.th)

**Figure 4: Global soybean supply-demand balance versus US soybean stocks-to-use ratio**

Global soybean supply-demand balance

Supply-Demand Balance					
Global					
SUPPLY	10/11	11/12e	12/13e	11/12e	12/13e
Beginning Stocks (mln bu)	2,228	2,577	1,929	2,560	1,976
Area Harvested (mln acres)	254	252	265	252	264
Production (mln bu)	9,726	8,667	9,816	8,630	9,872
Yield (bu/acre)	38.2	34.4	37.0	34.2	37.3
Imports (mln bu)	3,263	3,311	3,489	3,332	3,485
<b>Total Supply (mln bu)</b>	<b>15,215</b>	<b>14,555</b>	<b>15,235</b>	<b>14,522</b>	<b>15,334</b>
DEMAND					
	10/11	11/12e	12/13e	11/12e	12/13e
Crush Consumption (mln bu)	8,128	8,226	8,539	8,233	8,525
Food Domestic Consumption	552	581	575	581	572
Seed and Residual (mln bu)	556	525	555	525	541
Total Dom. Consumption (mln bu)	9,234	9,312	9,669	9,319	9,638
Brazil	1,431	1,457	1,470	1,461	1,474
China	2,423	2,583	2,738	2,587	2,743
US	1,778	1,778	1,735	1,778	1,743
Exports (mln bu)	3,404	3,314	3,521	3,226	3,525
<b>Total Demand (mln bu)</b>	<b>12,638</b>	<b>12,625</b>	<b>13,190</b>	<b>12,545</b>	<b>13,163</b>
Ending Stock	2,577	1,929	2,045	1,976	2,171
World Stocks to Use %	27.9%	20.7%	21.2%	21.2%	22.5%
US Stocks to Use %	6.6%	5.4%	4.2%	4.4%	4.5%

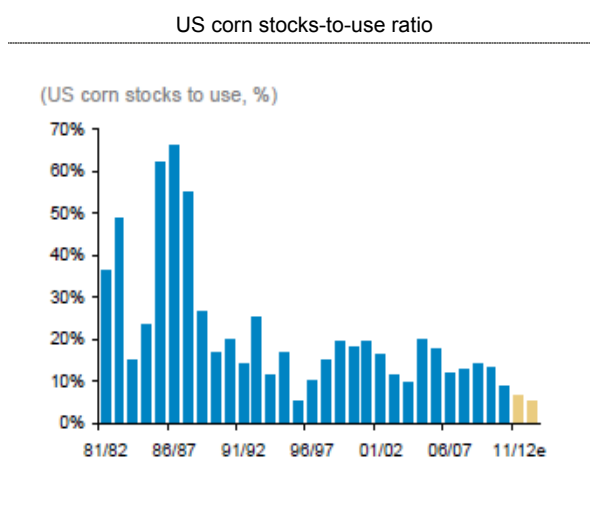


Sources: USDA and Morgan Stanley Commodity Research estimates

**Figure 5: US corn supply-demand balance versus US soybean stocks-to-use ratio**

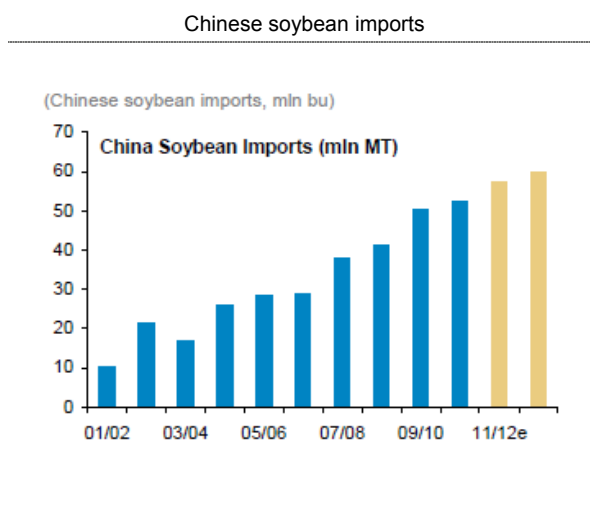
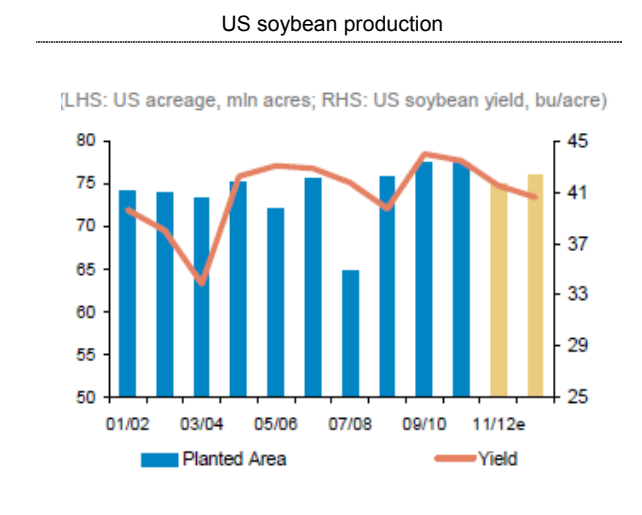
US corn supply-demand balance

Supply-Demand Balance				
United States				
SUPPLY	11/12e	12/13e	11/12e	12/13e
Beginning Stocks (mln bu)	1,128	903	1,128	796
Area Planted	92	96	92	96
Area Harvested (mln acres)	84	89	84	88
Production (mln bu)	12,358	12,970	12,358	12,485
Yield (bu/acre)	147.2	146.0	147.2	141.4
Imports (mln bu)	22	30	22	22
<b>Supply (mln bu)</b>	<b>13,508</b>	<b>13,903</b>	<b>13,508</b>	<b>13,304</b>
DEMAND				
	11/12e	12/13e	11/12e	12/13e
Consumption (mln bu)	11,005	11,120	11,132	11,355
Feed & Residual (mln bu)	4,550	4,800	4,673	5,075
FSI Consumption (mln bu)	6,455	6,320	6,458	6,280
Ethanol Use (mln bu)	5,050	4,900	5,052	4,899
Ethanol Production (mln gal)	13,635	13,230	13,640	13,228
MY Exports (mln bu)	1,800	1,800	1,580	1,300
<b>Total Demand (mln bu)</b>	<b>12,605</b>	<b>12,720</b>	<b>12,712</b>	<b>12,655</b>
Ending Stock	903	1,183	796	648
Stocks to Use %	7.2%	9.3%	6.3%	5.1%



Sources: USDA and Morgan Stanley Commodity Research estimates

**Figure 6: US soybean production versus Chinese soybean imports**



Sources: USDA and Morgan Stanley Commodity Research estimates

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

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### 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.