

Charoen Pokphand Foods Pcl (CPF TB) - BUY

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News update

To directly own MAKRO post-EBT of CPRH (Lotus supermarket)

- Entire business transfer (EBT) of CPRH to MAKRO.
- Post-EBT, CPF will hold 10.2% in MAKRO plus MTO of up to 1.13%.
- CPF will sell MAKRO through PO and end up holding c.8.3%.
- We see upside risks on potential divestment gains of MAKRO.

CPF, with its 20% ownership in C.P. Retail Holding (CPRH), along with CPALL and CP group (CPG) approved the entire business transfer of CPRH to MAKRO. CPRH, via its 99.99% in CP Retail Development (CPRD) is the owner of Lotus's stores in Thailand and Malaysia.

- EBT value on behalf of CPF's portion is set at Bt43.6bn (Bt218bn in total) and the transaction will be settled by share swap.
- MAKRO will issue new shares of 5,010 m shares (par value of Bt0.5) at Bt43.5 to settle the entire transaction.
- Post-EBT, CPF will be holding 10.21% in MAKRO. This along with its indirect holdings has triggered mandatory tender offer (MTO) of MAKRO minority shares along with CPG. CPF has right to MTO of up to 111m shares. The rest will belong to CPG.
- Post-EBT and MTO completion, MAKRO will be undergoing public offering of 1,316m new shares plus green shoe option, if any. CPF will sell their MAKRO shares of 181.6m along with the PO.
- So, net-net, CPF could end up holding around 8.3% in MAKRO.
- The transaction looks fair to us. According to MAKRO and Lotus's earnings performances in 2020, the EBT will almost double MAKRO's revenues i.e. from Bt218bn to Bt427bn with a jump in EBITDA from Bt12.5bn to Bt34.7bn.
- With CPRH's high debt level, net profits increase on a perma basis is only 25%, post-EBT. That being said, we see de-leveraging as one of main objective of this EBT. MAKRO is a net cash company and PO proceeds would be used to retire CPRH's debts and lower its cost of funds.
- As for business operation, the EBT will complete retail business value chain i.e. MAKRO to focus on B2B and Lotus is taking care of B2C. As the biggest meat supplier, CPF would reap benefits of stronger distribution channels in addition to its dominance market position in fresh markets.
- Major upsides to our earnings forecast would depend on the improving performance of Lotus post-EBT and pricing of MAKRO's PO.
- We re-iterate our BUY call on CPF to a Bt29 TP.

Key Valuations

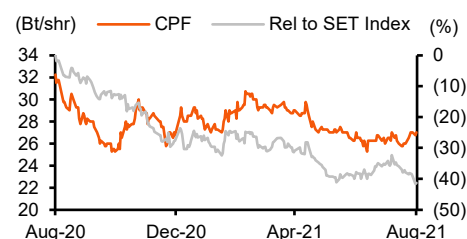
Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Revenue	589,713	488,249	508,144	532,194
Net profit	26,022	22,849	25,216	27,032
Norm net profit	21,119	21,962	25,216	27,032
Norm EPS (Bt)	2.5	2.6	2.9	3.1
Norm EPS gr (%)	14.4	4.0	14.8	7.2
Norm PE (x)	11.0	10.6	9.2	8.6
EV/EBITDA (x)	7.8	8.5	7.9	8.1
P/BV (x)	1.2	1.1	1.0	1.0
Div. yield (%)	3.7	3.4	3.8	4.1
ROE (%)	11.7	11.0	11.7	11.6
Net D/E (%)	124.4	112.1	96.9	88.3

Source: Thanachart estimates

Stock Data

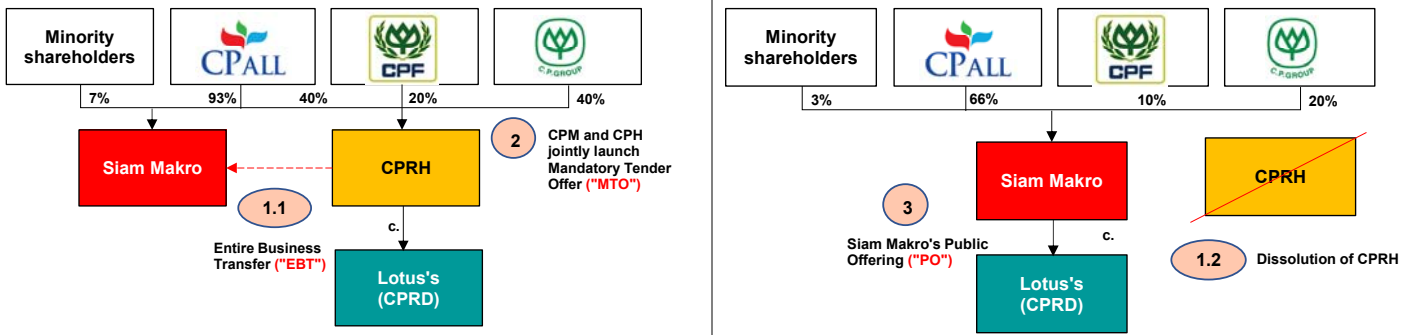
Closing price (Bt)	27.00
Target price (Bt)	29.00
Market cap (US\$ m)	7,211.6
Avg daily turnover (US\$ m)	31.0
12M H/L price (Bt)	32.25/25.25

Price Performance



Source: Bloomberg

Ex 1: Pre And Post Entire Business Transfer (EBT) of CPRH to MAKRO.



Source: Company data

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