

Charoen Pokphand Foods Pcl (CPF TB) - BUY

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Earnings Preview

Double whammy

- Very weak core profits in 3Q21F, dragged by falling meat prices...
- ...and additional expenses related to Covid-19 outbreak.
- We expect bottom-line to be supported by FX and trading gains.
- 4Q is low season but we foresee sizable gains from Makro deal.

Hit by increasing supply and weak demand, meat prices have plunged almost across all CPF's key markets. This together with additional expenses to deal with Covid-19 infection in some of CPF's factories has led to very weak core profits in 3Q21. Supported by FX and trading gains, we forecast net profits of Bt2bn, down 73% y-y and 57% q-q. We see downsides to our profits forecast. That being said, share price downsides are likely to be cushioned by its share buyback scheme of up to 4.6% of total shares.

- In light of lockdowns in Thailand and Vietnam and rising meat supply from new capacities and panic selling of backyard farmers in response to falling product prices, Thailand pork prices slumped 9% q-q and 15% y-y in 3Q21 and a decline of respective 27% q-q and 37% y-y in Vietnam.
- China has not been hit by Covid. However, demand recovery has been quite slow while pork supply has already been resumed to pre-ASF level (over 50% increase)
- As for chicken, Thailand prices are now below break-even. As some of its operation was disrupted by Covid-19, chicken export was not as strong as it could have been.
- These are CPF's main meat markets and with mark-to-market loss of pork production and inventory, we expect loss at the farm business in 3Q21.
- Note that CPF's 51% subsidiary, CPP, having 75% shares in CP Vietnam and 36% shares in CTEI, integrated pork farm in China, has issued profits warning, guiding for a 75% y-y decline in 8M21 profits.
- Having said that we expect net profits to be supported by profits contribution of other overseas and improving contribution of CPALL. We; therefore, don't expect the company to make loss. Also, with benefit of weak baht and trading gains, we project net profits of Bt2bn, down 73% y-y and 57% q-q in 3Q21.
- Looking into 4Q21 when it is low season, we expect mild earnings recovery. However, CPF will be able to book non-cash investment gains from Lotus/Makro EBT deal scheduled to be completed in October 2021. The gains are estimated to be sizable as Makro's market prices is 18% higher than EBT's conversion prices of Bt43.5 per share. Also, CPF's carrying costs of Lotus is also lower than value of its investment in Makro.
- This is non-cash but will be realized through P&L. This will help shouldering CPF's net profits for this year.
- Thus far, CPF has announced many acquisitions and share buyback scheme. Total investments are c.Bt20bn, dividing into; 1) Bt10bn to acquire 100% stake in swine business in Russia; 2) 100% investment in seafood business in Poland of Bt101m; 3) 50% investment in plant based

Key Valuations

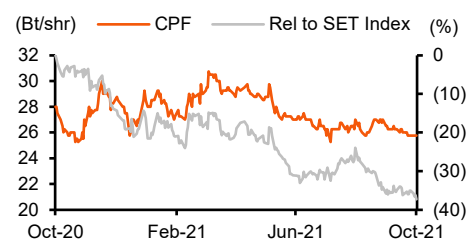
Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Revenue	589,713	488,249	508,144	532,194
Net profit	26,022	22,849	25,216	27,032
Norm net profit	21,119	21,962	25,216	27,032
Norm EPS (Bt)	2.5	2.6	2.9	3.1
Norm EPS gr (%)	14.4	4.0	14.8	7.2
Norm PE (x)	10.5	10.1	8.8	8.2
EV/EBITDA (x)	7.6	8.3	7.7	8.0
P/BV (x)	1.2	1.1	1.0	0.9
Div. yield (%)	3.9	3.6	4.0	4.3
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)	25.75
Target price (Bt)	29.00
Market cap (US\$ m)	6,562.9
Avg daily turnover (US\$ m)	25.4
12M H/L price (Bt)	30.75/25.25

Price Performance

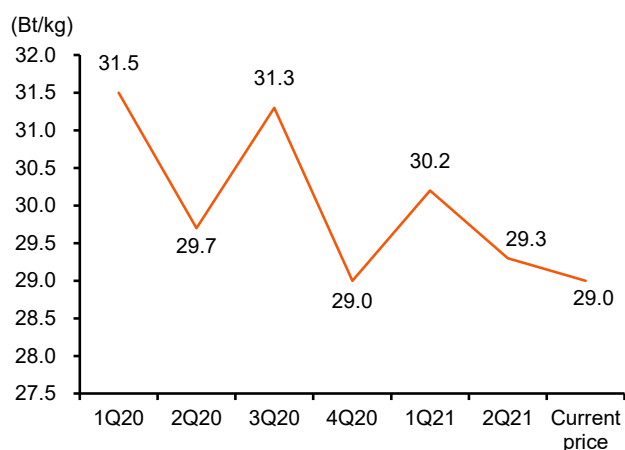


Source: Bloomberg

business in Poland of Bt170m; and Bt10bn budget for treasury program, purchase period from 15 October 2021 to 14 April 2022.

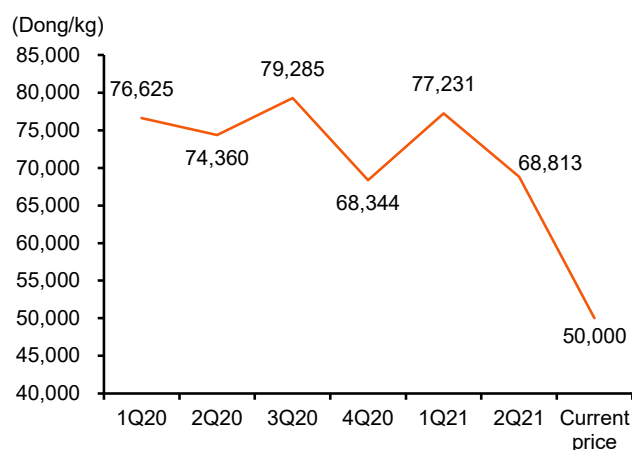
- These will be financed by internal cashflow and borrowing. Despite weakening operation, CPF believes it can maintain solid financial position having net D/E below its 2x covenant ratio.
- The company expects situation to be better next year. Meanwhile, the privatization of CPP from HKSE via CPF's acquisition of 25% shares from minority at HKD1.15 per share (total investment of around Bt10bn) would likely be completed in 2022.

Ex 1: Thailand's Broiler Price



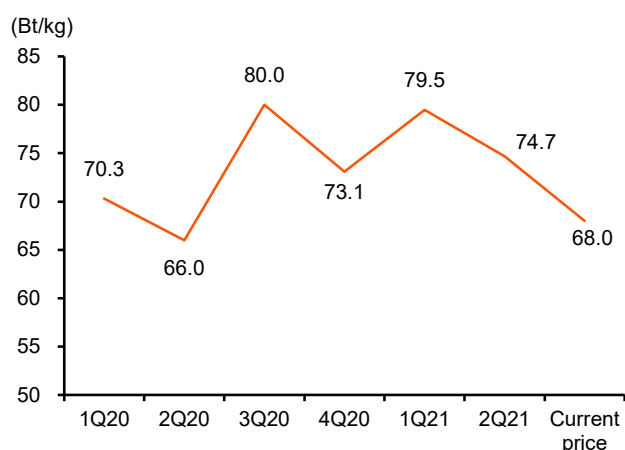
Source: Company data

Ex 2: Vietnam's Swine Price



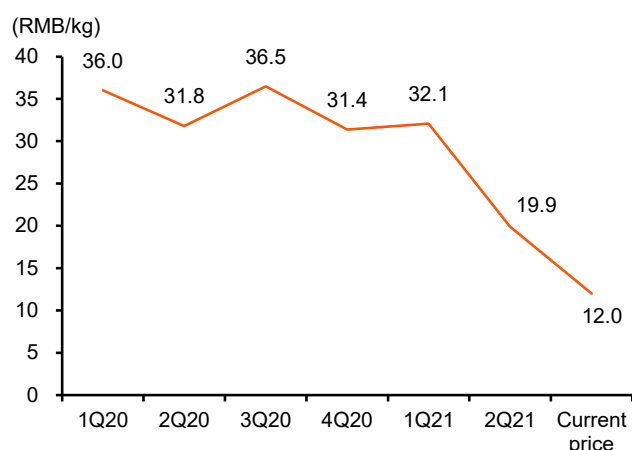
Source: Company data

Ex 2: Thailand's Swine Price



Source: Company data

Ex 3: China's Swine Price



Source: Company data

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