

Charoen Pokphand Foods Pcl (CPF TB) - BUY, Price Bt25.25, TP Bt29 | Results Comment

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Huge losses on a plunge of meat prices

- CPF reported net loss of Bt5.4bn in 3Q21 versus net profits of Bt7.4bn in 3Q20 and Bt4.7bn in 2Q21.
- The losses were due mainly very weak gross margin and mark-to-market (MTM) loss on pork inventory of its Vietnam and China operations. Stripped out MTM inventory loss estimated at Bt3.6bn and investment gains of Bt1.48bn, CPF's core loss was still high at Bt3.3bn.
- Gross margin (excl. MTM) narrowed to just 8.8% from 16% in 2Q21 and 19% in 3Q20. This was a result of weak meat prices especially for chicken in Thailand and pork in Vietnam.
- Another dragger to CPF's performance is from contribution from affiliates. CPALL's profits contribution was down 62% y-y and 32% q-q on higher SG&A expenses and lower sales.
- CTEI, an integrated pork operator in China, its operation was also hit by hard-landing pork prices and soft economy there. We estimate it to contribute Bt1.5bn equity loss to CPF of which around Bt343m was from the MTM loss on pork inventory.
- Going forward, we expect improving operation of Thailand as pork prices have recovered. China pork prices have also rebounded 63% from end-September prices of CNY10/kg. This is while pork prices in Vietnam are still not bouncing much from VND45k in September 2021.
- Despite expecting better 4Q21 profits, we see material downsides to our earnings projection. Supported by its share buy back program and potential gains from Lotus-MAKRO EBT deal, we see limited share price downsides and maintain BUY.

Income Statement (consolidated)					
Yr-end Dec (Bt m)	3Q20	4Q20	1Q21	2Q21	3Q21
Revenue	157,805	149,968	119,346	129,638	125,940
Gross profit	30,461	25,915	23,718	20,711	7,839
SG&A	15,891	18,293	11,674	12,297	13,127
Operating profit	14,570	7,622	12,044	8,413	(5,289)
EBITDA	20,106	13,590	17,328	13,899	471
Other income	906	1,270	741	1,381	3,439
Other expense	0	0	0	0	0
Interest expense	4,186	4,478	4,098	3,980	4,155
Profit before tax	11,291	4,414	8,687	5,814	(6,005)
Income tax	2,998	3,088	2,117	1,752	(1,266)
Equity & invest. income	2,028	2,963	2,043	753	(1,266)
Minority interests	(3,070)	(2,083)	(1,673)	(748)	468
Extraordinary items	225	4,202	6	670	163
Net profit	7,474	6,408	6,945	4,737	(5,374)
Normalized profit	7,250	2,206	6,940	4,068	(5,537)
EPS (Bt)	0.91	0.78	0.85	0.58	(0.66)
Normalized EPS (Bt)	0.89	0.27	0.85	0.50	(0.68)

Balance Sheet (consolidated)					
Yr-end Dec (Bt m)	3Q20	4Q20	1Q21	2Q21	3Q21
Cash & ST investment	93,761	57,035	47,961	43,067	52,799
A/C receivable	37,987	29,952	31,019	35,228	35,166
Inventory	63,272	52,136	57,309	63,598	67,917
Other current assets	54,475	55,546	58,970	62,561	69,096
Investment	141,900	251,757	256,243	253,045	255,253
Fixed assets	222,771	200,138	204,361	213,935	221,844
Other assets	159,831	115,154	118,604	120,789	129,268
Total assets	773,997	761,719	774,467	792,223	831,344
S-T debt	148,019	140,050	99,889	111,613	128,297
A/C payable	32,222	32,312	36,579	38,252	37,226
Other current liabilities	39,052	31,784	30,990	35,921	33,320
L-T debt	251,332	244,196	278,294	272,166	295,255
Other liabilities	54,608	51,197	51,799	51,497	53,038
Minority interest	59,957	70,242	72,952	72,931	74,353
Shareholders' equity	188,807	191,937	203,966	209,842	209,854
Working capital	69,037	49,776	51,749	60,574	65,857
Total debt	399,351	384,246	378,182	383,779	423,552
Net debt	305,590	327,211	330,221	340,712	370,753

Sources: Company data, Thanachart estimates

Income Statement					
(Bt m)	q-q%	y-y%	9M as		
			% 2021F	2021F	2022F
Revenue	(3)	(20)	77	488,249	508,144
Gross profit	(62)	(74)	59	89,137	88,692
SG&A	7	(17)	74	49,864	49,191
Operating profit	na	na	39	39,273	39,501
EBITDA	(97)	(98)	48	65,475	67,532
Other income	149	279	134	4,138	3,013
Other expense			na	0	0
Interest expense	4	(1)	74	16,513	15,517
Profit before tax	na	na	32	26,897	26,998
Income tax	na	na	40	6,455	6,614
Equity & invest. income	na	na	19	7,981	10,481
Minority interests	na	na	na	(6,461)	(5,648)
Extraordinary items	(76)	(28)	94	887	0
Net profit	na	na	28	22,849	25,216
Normalized profit	na	na	25	21,962	25,216
EPS (Bt)	na	na	29	2.65	2.93
Normalized EPS (Bt)	na	na	26	2.55	2.93

Financial Ratios					
(%)	3Q20	4Q20	1Q21	2Q21	3Q21
Sales grow th	19.0	6.5	(13.6)	(9.9)	(20.2)
Operating profit grow th	184.2	(5.9)	28.7	(37.2)	na
EBITDA grow th	115.2	8.5	17.6	(26.2)	(97.7)
Norm profit grow th	17.2	(40.5)	20.4	(31.7)	na
Norm EPS grow th	17.2	(40.5)	20.4	(31.7)	na
Gross margin	19.3	17.3	19.9	16.0	6.2
Operating margin	9.2	5.1	10.1	6.5	(4.2)
EBITDA margin	12.7	9.1	14.5	10.7	0.4
Norm net margin	4.6	1.5	5.8	3.1	(4.4)
D/E (x)	1.6	1.5	1.4	1.4	1.5
Net D/E (x)	1.2	1.2	1.2	1.2	1.3
Interest coverage (x)	4.8	3.0	4.2	3.5	0.1
Interest rate	4.2	4.6	4.3	4.2	4.1
Effective tax rate	26.6	70.0	24.4	30.1	21.1
ROA	3.8	1.1	3.6	2.1	(2.7)
ROE	15.5	4.6	14.0	7.9	(10.6)

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