BUY (Unchanged)

Change in Numbers

TP: Bt 27.25 (From: Bt 27.50)

Upside : 12.1%

4 APRIL 2022

Charoen Pokphand Foods (CPF TB)

Prolonged China trough

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Thanachart Securities

Despite the government increasing state reserves, China pork prices have continued heading south. We now foresee a pork price recovery delay from 2Q22F to 2H22F. To reflect a larger China operation loss in 1H22F, we cut our earnings by 8% in 2022F, but as CPF's earnings turnaround story still looks intact, we reaffirm our BUY call.

Delay to pork price recovery in China

Despite the China's government starting to purchase and stockpile frozen pork since February, pork prices have continued heading south. Average pork prices came down from CNY16/kg in January and CNY14.5/kg in February to CNY13.35/kg in March. The government plans to continue its stockpiling but with new pork supply increasing going into June amid falling demand after the Spring Festival, we expect the China pork market to reach a supply/demand balance between the second half of this year and early next year. The recovery in China pork prices is slower than we had assumed earlier so we expect another loss-making year for Chia Tai Investment (CTI), CPF's integrated pork producer affiliate in China.

First chicken export order to Saudi Arabia

After an 18-year ban, CPF's five poultry factories can now export to Saudi Arabia. The company already exported 100 tonnes of processed chicken in late March. CPF sees good export opportunities in Saudi Arabia and targets to export up to 6,000 tonnes of processed chicken or an export value of c.Bt500m by end 2022. As Saudi Arabia is one of the world's key chicken importers, CPF hopes to ramp up chicken export volume to 60,000 tonnes or Bt4.2bn in export value over the next five years. The increasing import demand is not only boosting CPF's exports but also acting as good cushion against domestic chicken prices.

Cutting our earnings in 2022F

Dragged by larger losses of CTI in which CPF raised its economic interest from 18.3% to 27% on 18 January, we estimate a net loss of Bt2.4bn in 1Q22F. We now foresee a loss contribution from CTI of Bt410m in 2022F (from our previous assumption of a Bt819m profit), rising to profits of Bt546m in 2023F and Bt601m in 2024F. Along with this, we also incorporate higher chicken export sales to reflect growing import demand from Saudi Arabia. As a result, we cut our earnings by 8% for 2022F and by an average of 1.7% over 2023-26F.

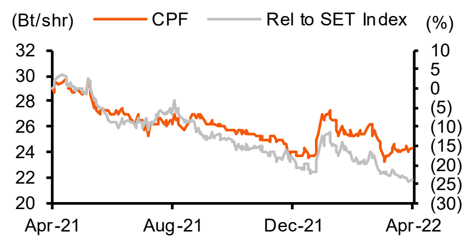
Reaffirming our BUY call

We trim our SOTP-based TP for CPF to Bt27.25 to reflect our earnings cut. Despite expecting a 1Q22F loss, we reaffirm our BUY call on CPF. 1) CPF is still a turnaround stock, in our view. Backed by rising meat prices in Thailand and Vietnam, we expect normalized profit growth of 252% this year. 2) After the two-year slump in China pork prices, we see limited potential downside and expect a good turnaround year for its China operations in 2023F. 3) CPF's share buyback program is ongoing and ends on 14 April. This could offer support against share price downside and CPF still looks inexpensive to us on a 2022F core PE of 1.2x.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	512,704	573,407	607,471	645,858
Net profit	13,028	14,204	18,518	22,141
Consensus NP	—	15,069	17,365	19,417
Diff frm cons (%)	—	*(5.7)*	*6.6*	*14.0*
Norm profit	4,041	14,204	18,518	22,141
Prev. Norm profit	—	15,401	18,858	22,524
Chg frm prev (%)	—	*(7.8)*	*(1.8)*	*(1.7)*
Norm EPS (Bt)	0.5	1.6	2.2	2.6
Norm EPS grw (%)	(80.9)	251.5	30.4	19.6
Norm PE (x)	51.8	14.7	11.3	9.5
EV/EBITDA (x)	17.1	11.8	10.9	10.4
P/BV (x)	1.0	0.9	0.9	0.8
Div yield (%)	2.7	2.7	3.5	4.2
ROE (%)	2.0	6.5	8.1	9.1
Net D/E (%)	137.2	145.4	131.9	125.3

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 4-Apr-22 (Bt)	24.30
Market Cap (US$ m)	6,243.9
Listed Shares (m shares)	8,611.2
Free Float (%)	45.5
Avg Daily Turnover (US$ m)	20.5
12M Price H/L (Bt)	29.75/23.20
Sector	FOOD
Major Shareholder	CP Group 35.3%

Sources: Bloomberg, Company data, Thanachart estimates

Cutting our earnings in 2022F

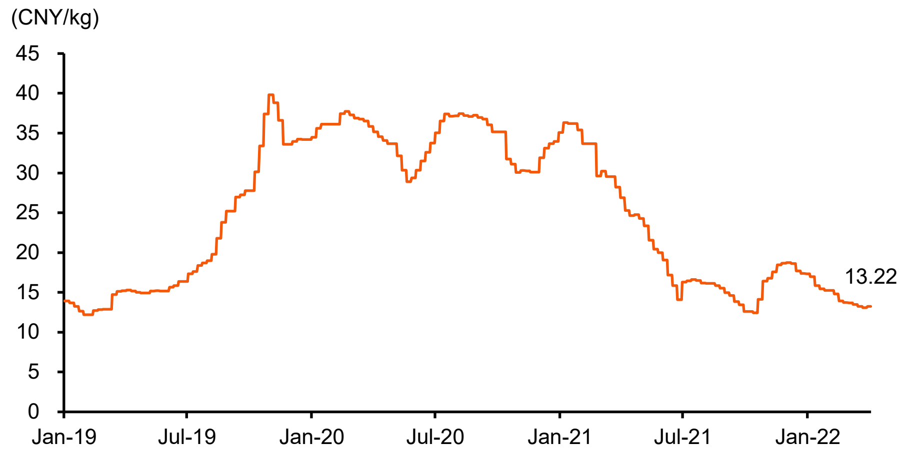
Prolonged trough in China pork business

Charoen Pokphand Foods Pcl (CPF) completed the privatization of CP Pokphand (CPP) on 18 January this year. This means it increased its economic interest in CPP to 75%, CP Vietnam to 82% and Chia Tai Investment (CTI) to 27%.

While Vietnam pork prices have recovered from 4Q21, Chinese pork prices have continued heading south. This is despite the China government's purchasing and stockpiling of frozen pork since February.

According to information from the ministry's animal husbandry and veterinary services bureau, China's live hog stock stood 449m at the end of 2021, increasing by 10.5% y-y. These hogs are to be slaughtered gradually from January to June, so supply in the first half of this year should be at a high level. The government plans to continue its stockpiling. But with new pork supply still increasing amid declining demand after the Spring Festival, pork prices in China will likely continue to fall going into this month, but at a slower pace than before. We expect the China pork market to reach a balance of supply and demand between the second half of this year and early next year.

Ex 1: China's Pork Price



Source: Bloomberg

We previously expected China pork prices to bottom at CNY13/kg and start to recover in 2Q22. The recovery in pork prices looks to be slower than we had assumed earlier. We therefore expect a loss contribution from CTI of Bt410m in 2022 (from our previous assumption of Bt819m in profits). We also cut our profit estimates for CTI by an average of 39% in 2023-24F.

Factoring in a brighter chicken export outlook

That being said, CPF's chicken export prospects look brighter. After an 18-year ban, CPF's five poultry factories are now allowed to export chicken to Saudi Arabia. The company already exported 100 tonnes of processed chicken in late March. CPF sees good export opportunities to Saudi Arabia and targets to export up to 6,000 tonnes of processed chicken or Bt500m in export value by end 2022. As Saudi Arabia is one of the world's key chicken importers, CPF plans to ramp up chicken export volume to 60,000 tonnes or a Bt4.2bn export value over the next five years. The increasing import demand is not only boosting CPF's export sales but also acting as a good cushion against domestic chicken prices.

Ex 2: Earnings Revisions

	2020A	2021A	2022F	2023F	2024F
Normalized profits (Bt bn)					
- New	21.12	4.04	14.20	18.52	22.14
- Old			15.40	18.86	22.52
- Change (%)			*(7.77)*	*(1.80)*	*(1.70)*
CTI's profits (Bt bn)					
- New	1.13	(5.40)	(1.50)	2.00	2.20
- Old			3.00	3.30	3.63
- Change (%)			*na*	*(39.39)*	*(39.39)*
Export sales (Bt bn)					
- New	29.08	29.04	31.79	34.12	36.48
- Old			31.35	33.76	36.22
- Change (%)			*1.41*	*1.05*	*0.70*

Sources: Company data, Thanachart estimates

Cutting our earnings but turnaround looks intact

Net-net, we lower our earnings estimate by 8% this year and by an average of 1.7% over 2023-26F. Given our earnings cut, we trim our DCF-derived SOTP-based 12-month TP, using a 2022F base year, to Bt27.25/share from Bt27.5 previously. The smaller reduction in our TP is because we make no change to our valuation of CPF's subsidiary CP All Pcl (CPALL TB, Bt65.75, BUY) of Bt25.2 per CPF share.

Ex 3: 12-month DCF-derived SOTP-based TP Calculation Using A Base Year Of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA excl. depre from right of use	54,489	57,126	60,065	63,889	67,727	71,847	76,295	81,127	86,404	92,197	98,588	—
Free cash flow	(21,707)	34,303	11,186	13,977	16,707	19,588	22,648	25,920	29,442	33,259	37,260	711,705
PV of free cash flow	(21,707)	30,267	9,269	10,701	11,966	13,123	14,191	15,193	16,144	17,060	18,342	350,361

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.8
WACC (%)	6.5
Terminal growth (%)	2.0
Enterprise value	**484,910**
Net debt (end-2021)	394,031
Minority interest	73,120
Equity value	17,759
# of shares (m)	8,611
Equity value/share (Bt)	**2.1**
Investment:	
CPALL @ Bt75 TP	25.2
SOTP (Bt)	**27.25**

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 4: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth 22F (%)	EPS growth 23F (%)	PE 22F (x)	PE 23F (x)	P/BV 22F (x)	P/BV 23F (x)	EV/EBITDA 22F (x)	EV/EBITDA 23F (x)	Div yield 22F (%)	Div yield 23F (%)
Austevoll Seafood ASA	AUSS NO	Norway	18.3	9.4	12.6	11.5	1.9	1.8	7.4	6.9	3.2	3.8
Leroy Seafood Group ASA	LSG NO	Norway	7.5	9.8	17.7	16.1	2.5	2.4	11.1	10.3	3.2	3.7
Mowi ASA	MOWI NO	Norway	27.4	5.8	20.4	19.3	3.8	3.6	12.6	12.2	3.7	4.3
Conagra Brands	CAG US	USA	(9.2)	8.3	14.1	13.0	1.8	1.7	11.9	11.2	3.6	3.7
Danone	DANOY US	USA	na	8.0	17.5	16.2	2.0	1.9	10.8	10.1	3.6	3.7
Nestle	NSRGY US	USA	na	8.6	28.3	26.0	7.5	7.5	19.6	18.3	2.2	2.4
Tyson Foods	TSN US	USA	1.2	(7.2)	10.7	11.5	1.7	1.6	7.0	7.4	2.0	2.2
Average			**9.1**	**6.1**	**17.3**	**16.2**	**3.0**	**2.9**	**11.5**	**10.9**	**3.1**	**3.4**
Feed Mills												
Japfa Comfeed	JPFA IJ	Indonesia	(3.2)	13.0	9.9	8.7	1.4	1.3	6.1	5.7	3.5	3.7
Charoen Pok Indo	CPIN IJ	Indonesia	22.4	18.0	20.0	16.9	3.4	3.0	12.9	11.3	1.8	2.2
Universal Robina	URC PM	Philippines	(53.0)	11.8	24.5	21.9	2.4	2.3	12.6	11.3	2.6	2.8
Average			**(11.2)**	**14.3**	**18.1**	**15.8**	**2.4**	**2.2**	**10.5**	**9.4**	**2.6**	**2.9**
Thailand												
Charoen Pokphand Foods *	CPF TB	Thailand	251.5	30.4	14.7	11.3	0.9	0.9	11.8	10.9	2.7	3.5
GFPT	GFPT TB	Thailand	391.8	26.2	15.4	12.2	1.1	1.0	8.8	7.9	1.7	2.2
Thai Union Group *	TU TB	Thailand	(0.3)	10.5	11.0	9.9	1.7	1.5	11.1	10.4	5.4	6.0
Average			**214.3**	**22.4**	**13.7**	**11.2**	**1.2**	**1.1**	**10.5**	**9.7**	**3.3**	**3.9**
Average - All			**59.5**	**11.7**	**16.7**	**15.0**	**2.5**	**2.3**	**11.0**	**10.3**	**3.0**	**3.4**

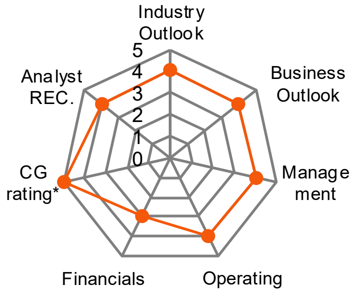
Source: Bloomberg
Note: * Thanachart estimates, using Thanachart normalized EPS
Based on 4 Apr 2022 closing prices

COMPANY DESCRIPTION

Charoen Pokphand Foods Pcl (CPF) is the flagship firm of Charoen Pokphand's agro-industrial business in Thailand and overseas, operating an agro-industrial business related to animal farming and manufacturing food products from meat. Fully integrated operations in Thailand operated by CPF and its subsidiaries are raw material sourcing for animal feed production and distribution, animal breeding and farming, meat processing, and the manufacture of ready-to-eat cooked meat products. The company has many subsidiaries with businesses abroad, i.e., in China, Vietnam, Turkey, India, etc.

Source: Thanachart

COMPANY RATING



Rating Scale	
Excellent	**5**
Good	**4**
Fair	**3**
Weak	**2**
Very Weak	**1**
None	**0**

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Fully integrated food producer.
- Economies of scale.
- Well-recognized and well-received brands.
- Expertise and know-how in running its food business.

W — Weakness

- Around 36% of CPF's business is from farming, which is subject to many unexpected events as it is cyclical in nature.
- CPF sources some raw materials, i.e., soybean meal from overseas where prices can be volatile.

O — Opportunity

- Overseas expansion.
- Growth potential in the ready-to-eat food market.

T — Threat

- Slowing economic momentum.
- Oversupply of domestic meat.
- Unexpected disease outbreaks.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	30.17	27.25	-10%
Net profit 22F (Bt m)	15,069	14,204	-6%
Net profit 23F (Bt m)	17,365	18,518	7%
Consensus REC	**BUY: 16**	**HOLD: 5**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- We believe we are ahead of the Bloomberg consensus in factoring in a prolonged trough of CPF's China pork business, leading our 2022F earnings being lower.
- Our DCF-derived SOTP-based TP is also lower, which we attribute to us having a more conservative view than the consensus regarding medium- to long-term earnings growth.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- The key downside risk to our call would be if meat prices are not over the worst and if CPF needs to book an impairment loss for its Russia operation.
- A secondary downside risk surrounds CPF's strong operations abroad, particularly in Vietnam and China. If CPF were to encounter greater problems in those markets, this could lead to downside risk to our earnings forecasts.
- As exports and overseas sales make up over 60% of CPF's total sales, the company is exposed to forex risk.

Source: Thanachart

Improving margin

Rising debts to finance acquisitions

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	589,713	512,704	573,407	607,471	645,858
Cost of sales	482,739	449,196	490,614	520,247	553,853
Gross profit	**106,974**	**63,508**	**82,793**	**87,223**	**92,004**
% gross margin	18.1%	12.4%	14.4%	14.4%	14.2%
Selling & administration expenses	62,021	50,602	52,627	55,567	58,672
Operating profit	**44,952**	**12,906**	**30,167**	**31,657**	**33,333**
% operating margin	7.6%	2.5%	5.3%	5.2%	5.2%
Depreciation & amortization	26,964	22,439	24,322	25,469	26,732
EBITDA	**71,917**	**35,345**	**54,489**	**57,126**	**60,065**
% EBITDA margin	12.2%	6.9%	9.5%	9.4%	9.3%
Non-operating income	5,513	7,268	4,451	4,476	4,745
Non-operating expenses	0	0	0	0	0
Interest expense	(16,818)	(16,596)	(18,856)	(19,242)	(19,419)
Pre-tax profit	**33,647**	**3,578**	**15,762**	**16,891**	**18,659**
Income tax	11,001	2,654	4,729	5,067	5,598
After-tax profit	**22,646**	**925**	**11,033**	**11,824**	**13,061**
% net margin	3.8%	0.2%	1.9%	1.9%	2.0%
Shares in affiliates' Earnings	9,254	4,167	6,511	10,323	13,034
Minority interests	(10,780)	(1,050)	(3,340)	(3,629)	(3,954)
Extraordinary items	4,903	8,987	0	0	0
NET PROFIT	**26,022**	**13,028**	**14,204**	**18,518**	**22,141**
Normalized profit	**21,119**	**4,041**	**14,204**	**18,518**	**22,141**
EPS (Bt)	3.0	1.5	1.6	2.2	2.6
Normalized EPS (Bt)	2.5	0.5	1.6	2.2	2.6

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	194,670	216,550	203,065	173,635	184,316
Cash & cash equivalent	57,997	36,686	10,000	10,000	10,000
Account receivables	29,952	38,471	42,416	31,622	33,620
Inventories	52,136	73,431	80,649	57,013	60,696
Others	54,585	67,962	70,000	75,000	80,000
Investments & loans	251,757	267,867	307,867	317,867	328,367
Net fixed assets	200,138	230,507	227,440	228,288	227,938
Other assets	115,154	127,756	133,156	138,556	143,956
Total assets	**761,719**	**842,681**	**871,528**	**858,346**	**884,578**
LIABILITIES:					
Current liabilities:	204,147	203,928	212,168	194,264	197,925
Account payables	32,312	44,372	48,389	35,633	37,935
Bank overdraft & ST loans	103,023	90,412	92,722	88,571	88,958
Current LT debt	37,027	39,065	41,857	39,983	40,158
Others current liabilities	31,784	30,079	29,200	30,076	30,873
Total LT debt	**244,196**	**301,240**	**306,953**	**293,211**	**294,493**
Others LT liabilities	51,197	50,376	55,655	58,805	62,131
Total liabilities	**499,541**	**555,544**	**574,777**	**546,280**	**554,549**
Minority interest	70,242	72,070	73,120	76,461	80,415
Preferreds shares	0	0	0	0	0
Paid-up capital	8,611	8,611	8,611	8,611	8,611
Share premium	60,769	60,882	60,882	60,882	60,882
Warrants	0	0	0	0	0
Surplus	1,734	19,396	19,396	19,396	19,396
Retained earnings	**120,822**	**126,178**	**134,742**	**146,716**	**160,725**
Shareholders' equity	191,937	215,067	223,631	235,605	249,614
Liabilities & equity	**761,719**	**842,681**	**871,528**	**858,346**	**884,578**

Sources: Company data, Thanachart estimates

Higher EBITDA

Excluding CPALL, CPF trades on a forward core PE of 1.2x

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	33,647	3,578	15,762	16,891	18,659
Tax paid	(9,556)	(3,873)	(4,655)	(4,891)	(5,510)
Depreciation & amortization	26,964	22,439	24,322	25,469	26,732
Chg In w orking capital	12,144	(17,755)	(7,145)	21,674	(3,379)
Chg In other CA & CL / minorities	33,429	7,677	1,230	5,734	8,743
Cash flow from operations	**96,628**	**12,067**	**29,513**	**64,879**	**45,245**
Capex	(23,601)	(51,613)	(20,000)	(25,000)	(25,000)
Right of use	(28,505)	(2,290)	(2,000)	(2,000)	(2,000)
ST loans & investments	188	0	0	0	0
LT loans & investments	(119,428)	(16,110)	(40,000)	(10,000)	(10,500)
Adj for asset revaluation	13,436	18,997	0	0	0
Chg In other assets & liabilities	50,241	(20,588)	625	(1,568)	(1,457)
Cash flow from investments	**(107,669)**	**(71,604)**	**(61,375)**	**(38,568)**	**(38,957)**
Debt financing	51,339	47,122	10,815	(19,767)	1,844
Capital increase	0	113	(0)	0	0
Dividends paid	(6,503)	(7,969)	(5,639)	(6,544)	(8,132)
Warrants & other surplus	(9,294)	(1,039)	0	0	0
Cash flow from financing	**35,542**	**38,227**	**5,176**	**(26,311)**	**(6,288)**
Free cash flow	**73,027**	**(39,546)**	**9,513**	**39,879**	**20,245**

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	9.9	51.8	14.7	11.3	9.5
Normalized PE - at target price (x)	11.1	58.1	16.5	12.7	10.6
PE (x)	8.0	16.1	14.7	11.3	9.5
PE - at target price (x)	9.0	18.0	16.5	12.7	10.6
EV/EBITDA (x)	7.4	17.1	11.8	10.9	10.4
EV/EBITDA - at target price (x)	7.8	17.8	12.2	11.3	10.8
P/BV (x)	1.1	1.0	0.9	0.9	0.8
P/BV - at target price (x)	1.2	1.1	1.0	1.0	0.9
P/CFO (x)	2.2	17.3	7.1	3.2	4.6
Price/sales (x)	0.4	0.4	0.4	0.3	0.3
Dividend yield (%)	4.1	2.7	2.7	3.5	4.2
FCF Yield (%)	34.9	(18.9)	4.5	19.1	9.7
(Bt)					
Normalized EPS	2.5	0.5	1.6	2.2	2.6
EPS	3.0	1.5	1.6	2.2	2.6
DPS	1.0	0.7	0.7	0.9	1.0
BV/share	22.3	25.0	26.0	27.4	29.0
CFO/share	11.2	1.4	3.4	7.5	5.3
FCF/share	8.5	(4.6)	1.1	4.6	2.4

Sources: Company data, Thanachart estimates

Turnaround story remains intact, in our view

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	10.7	(13.1)	11.8	5.9	6.3
Net profit (%)	41.0	(49.9)	9.0	30.4	19.6
EPS (%)	41.0	(49.9)	9.0	30.4	19.6
Normalized profit (%)	14.4	(80.9)	251.5	30.4	19.6
Normalized EPS (%)	14.4	(80.9)	251.5	30.4	19.6
Dividend payout ratio (%)	33.1	43.0	40.0	40.0	40.0
Operating performance					
Gross margin (%)	18.1	12.4	14.4	14.4	14.2
Operating margin (%)	7.6	2.5	5.3	5.2	5.2
EBITDA margin (%)	12.2	6.9	9.5	9.4	9.3
Net margin (%)	3.8	0.2	1.9	1.9	2.0
D/E (incl. minor) (x)	1.5	1.5	1.5	1.4	1.3
Net D/E (incl. minor) (x)	1.2	1.4	1.5	1.3	1.3
Interest coverage - EBIT (x)	2.7	0.8	1.6	1.6	1.7
Interest coverage - EBITDA (x)	4.3	2.1	2.9	3.0	3.1
ROA - using norm profit (%)	3.0	0.5	1.7	2.1	2.5
ROE - using norm profit (%)	11.7	2.0	6.5	8.1	9.1
DuPont					
ROE - using after tax profit (%)	12.6	0.5	5.0	5.1	5.4
- asset turnover (x)	0.8	0.6	0.7	0.7	0.7
- operating margin (%)	8.6	3.9	6.0	5.9	5.9
- leverage (x)	3.9	3.9	3.9	3.8	3.6
- interest burden (%)	66.7	17.7	45.5	46.7	49.0
- tax burden (%)	67.3	25.8	70.0	70.0	70.0
WACC (%)	6.5	6.5	6.5	6.5	6.5
ROIC (%)	6.5	0.6	3.5	3.4	3.6
NOPAT (Bt m)	30,255	3,335	21,117	22,160	23,333
invested capital (Bt m)	518,186	609,098	655,163	647,370	663,223

Sources: Company data, Thanachart estimates

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