BUY (Unchanged)	**TP: Bt 30.00** (From: Bt 27.25)	**4 JULY 2022**
Change in Numbers	**Upside : 14.3%**	

Charoen Pokphand Foods (CPF TB)

Greater recovery

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Thanachart Securities

Thanks to a supply cut and easing COVID-19 curbs, China pork prices have rebounded faster and stronger than we'd expected earlier. This, together with rising meat prices in Thailand and Vietnam, leads us to see CPF being right on track for very strong 2Q-3Q profits. We raise our profit forecasts and TP to Bt30. Reaffirm BUY.

Improving demand/supply dynamics in China

As the breeding sow cull since late last year starts to curb supply amid rising demand as COVID curbs are eased, China pork prices have bounced from CNY13/kg in late March to CNY17/kg now, 7% above break-even level. With the long raising cycle for swine, breeding capacity could stay low while the government's pork purchases for state reserves have helped keep pork supply in check. We expect the upward pork price trend to continue. This is positive for Chia Tai Investment (CTI), CPF's integrated pork producer affiliate in China. Dragged by operating and mark-to-market inventory losses, CTI contributed a huge 1Q21 equity loss. Backed by inventory gains as pork prices rebounded 30% q-q in 2Q22, we expect a positive contribution from CTI.

Strong performance of Thailand ops

While Thailand supply remains tight, demand has started to recover after the country's reopening. On top of greater demand/supply at home, the export outlook is brighter on growing meat shortages and rising food inflation globally. Thailand's chicken and pork prices have risen from an average of Bt40.5 and Bt98/kg in 1Q22 to Bt43.7 and Bt108 respectively in 2Q22. CPF expects pork prices to stay high throughout the year while chicken prices could hover at Bt40-41/kg as capacity expansions are under way. We expect the Thailand operation to be the group's main earnings and profitability driver this year and next.

Raising our earnings

Driven by no loss contribution by CTI and higher meat prices in Thailand, we expect 2Q-3Q22 profits to come in at Bt5bn per quarter. Despite factoring in lower profit contributions of CP All Pcl (CPALL TB, BUY, Bt61.50) and Siam Makro Pcl (MAKRO TB, BUY Bt34.75) after our recent in-house downgrades, we still raise our earnings projections for CPF by an average of 5% over 2022-24F. These hikes are mainly on the back of lower SG&A and higher profit contributions from CTI. As we also roll over our base year to 2023F, our SOTP-based 12-month TP for CPF is raised by 10% to Bt30 per share from Bt27.25.

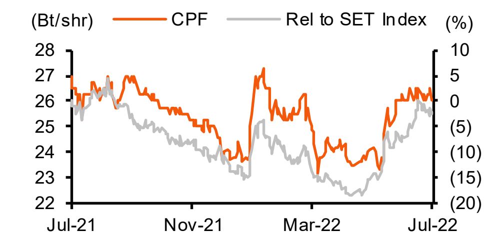
Reaffirming BUY

As a prime beneficiary of rising meat prices, CPF's share price has been quite resilient and outperformed the SET YTD. Admittedly, CPF is no longer very cheap. Excluding CPALL, CPF's core PE is 4.4x. This is while CPF is worth Bt25.3/share if we factor CPALL's market price of Bt61.5 into our SOTP calculation. That said, worst looks over for CPALL with a swift 7-Eleven sales rebound YTD while CPF appears to be on track for very strong 2Q-3Q profits. We see 14% potential upside to our Bt30 TP and reaffirm our BUY rating on shares of CPF.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	512,704	570,883	608,389	643,398
Net profit	13,028	15,198	18,410	23,791
Consensus NP	—	14,134	17,115	19,753
Diff frm cons (%)	—	*7.5*	*7.6*	*20.4*
Norm profit	4,041	15,198	18,410	23,791
Prev. Norm profit	—	14,204	18,518	22,141
Chg frm prev (%)	—	*7.0*	*(0.6)*	*7.5*
Norm EPS (Bt)	0.5	1.8	2.1	2.8
Norm EPS grw (%)	(80.9)	276.1	21.1	29.2
Norm PE (x)	55.9	14.9	12.3	9.5
EV/EBITDA (x)	17.5	12.1	11.2	10.7
P/BV (x)	1.1	1.0	1.0	0.9
Div yield (%)	2.5	2.7	3.3	4.2
ROE (%)	2.0	6.9	8.0	9.8
Net D/E (%)	137.2	143.8	133.0	126.1

PRICE PERFORMANCE

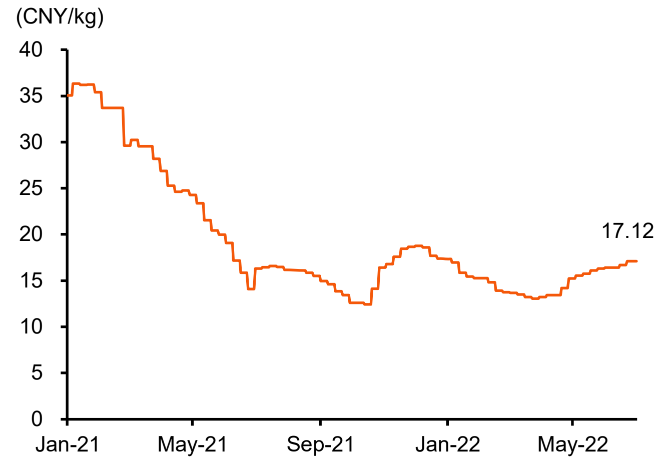


COMPANY INFORMATION

Price *as of* 4-Jul-22 (Bt)	26.25
Market Cap (US$ m)	6,339.3
Listed Shares (m shares)	8,611.2
Free Float (%)	45.7
Avg Daily Turnover (US$ m)	20.6
12M Price H/L (Bt)	27.25/23.20
Sector	FOOD
Major Shareholder	CP Group 35.3%

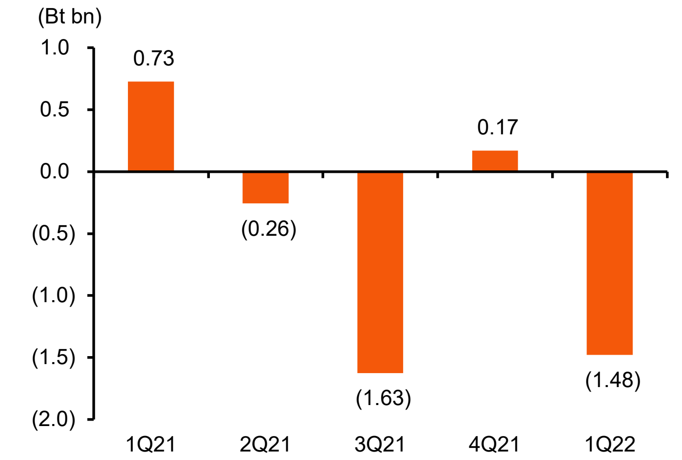
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: A Stronger Rebound Of Pork Prices In China…



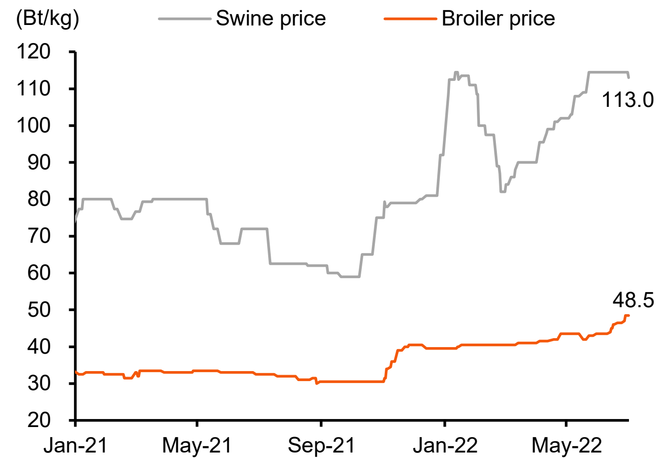
Source: Bloomberg

Ex 2: …We Expect No More Drag From CTI



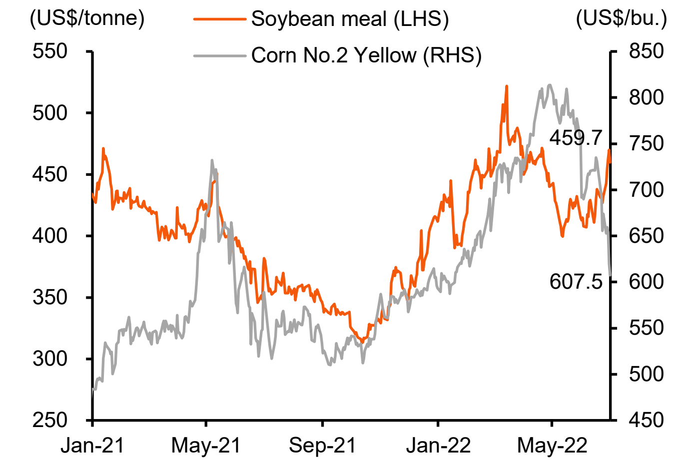
Source: Company data

Ex 3: Very Strong Meat Prices In Thailand



Source: Office of Agricultural Economics

Ex 4: Input Costs Off Their Peaks



Source: Bloomberg

Ex 5: Earnings Revisions

	2020	2021	2022F	2023F	2024F
Normalized profits (Bt bn)					
- New	21.12	4.04	15.20	18.41	23.79
- Old			14.20	18.52	22.14
- Change (%)			*7.00*	*(0.58)*	*7.45*
Net sales (Bt bn)					
- New	589.71	512.70	570.88	608.39	643.40
- Old			573.41	607.47	645.86
- Change (%)			*(0.44)*	*0.15*	*(0.38)*
Gross margin (%)					
- New	18.14	12.39	14.11	14.06	14.00
- Old			14.44	14.36	14.25
- Change (pp)			*(0.33)*	*(0.30)*	*(0.25)*
SG&A expenses (Bt bn)					
- New	62.02	50.60	50.88	53.72	56.71
- Old			52.63	55.57	58.67
- Change (%)			*(3.32)*	*(3.33)*	*(3.34)*
Interest expenses (Bt bn)					
- New	16.82	16.60	19.25	19.43	19.47
- Old			18.86	19.24	19.42
- Change (%)			*2.11*	*0.99*	*0.28*
Equity income (Bt bn)					
- New	9.25	4.17	4.91	8.28	12.45
- Old			6.51	10.32	13.03
- Change (%)			*(24.66)*	*(19.80)*	*(4.44)*
Minority interest (Bt m)					
- New	(10.78)	(1.05)	(1.50)	(2.69)	(2.74)
- Old			(3.34)	(3.63)	(3.95)
- Change (%)			*na*	*na*	*na*

Sources: Company data, Thanachart estimates

Ex 6: 12-month DCF-derived SOTP-based TP Calculation Using A Base Year Of 2023F

(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
EBITDA excl. depre from right of use	57,282	60,098	62,125	65,244	68,498	71,908	75,499	79,298	83,336	87,650	92,277	—
Free cash flow	33,002	13,181	14,731	17,124	19,531	22,016	24,595	27,284	30,103	32,916	36,067	692,023
PV of free cash flow	33,002	11,634	12,065	13,122	14,004	14,767	15,435	16,022	16,540	16,919	16,578	318,097

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.8
WACC (%)	6.4
Terminal growth (%)	2.0
Enterprise value	**498,185**
Net debt (end-2022F)	394,031
Minority interest	73,120
Equity value	31,033
# of shares (m)	8,611
Equity value/share (Bt)	**3.6**
Investment:	
CPALL @ Bt75 TP	26.5
SOTP (Bt)	**30.0**

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 7: 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	13.5	11.2	10.9	9.8	1.7	1.3	6.7	6.4	3.7	4.6
Leroy Seafood Group ASA	LSG NO	Norway	15.2	7.8	14.4	13.4	2.2	2.1	9.3	8.8	4.1	4.6
Mowi ASA	MOWI NO	Norway	52.8	(5.2)	16.1	17.0	3.5	3.3	10.1	10.3	4.0	4.4
Conagra Brands	CAG US	USA	(12.1)	8.4	14.7	13.6	1.8	1.7	12.3	11.6	3.5	3.7
Danone	DANOY US	USA	na	8.2	17.3	16.0	2.0	1.9	10.9	10.2	3.5	3.7
Nestle	NSRGY US	USA	na	8.6	25.2	23.2	6.7	6.7	17.6	16.5	2.5	2.7
Tyson Foods	TSN US	USA	8.0	(11.9)	9.4	10.7	1.6	1.5	6.5	7.2	2.2	2.3
Average			**15.5**	**3.9**	**15.4**	**14.8**	**2.8**	**2.6**	**10.5**	**10.1**	**3.4**	**3.7**
Feed Mills												
Japfa Comfeed	JPFA IJ	Indonesia	(6.9)	19.9	8.9	7.5	1.2	1.1	5.3	4.7	5.0	5.1
Charoen Pok Indo	CPIN IJ	Indonesia	11.8	18.0	23.4	19.8	3.5	3.1	14.0	12.3	1.8	2.0
Universal Robina	URC PM	Philippines	(53.1)	16.6	22.3	19.1	2.2	2.1	11.6	10.4	2.9	3.0
Average			**(16.1)**	**18.2**	**18.2**	**15.5**	**2.3**	**2.1**	**10.3**	**9.1**	**3.2**	**3.4**
Thailand												
Charoen Pokphand Foods *	CPF TB	Thailand	276.1	21.1	14.9	12.3	1.0	1.0	12.1	11.2	2.7	3.3
GFPT	GFPT TB	Thailand	607.6	3.9	14.5	13.9	1.4	1.3	10.7	10.1	1.7	1.9
Thai Union Group *	TU TB	Thailand	(2.2)	14.2	10.3	9.0	1.3	1.2	12.0	11.1	5.5	6.5
Average			**293.8**	**13.1**	**13.2**	**11.7**	**1.2**	**1.2**	**11.6**	**10.8**	**3.3**	**3.9**
Average - All			**82.8**	**9.3**	**15.6**	**14.2**	**2.3**	**2.2**	**10.7**	**10.1**	**3.3**	**3.7**

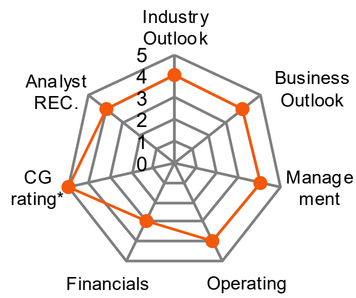
Source: Bloomberg
Note: * Thanachart estimates, using Thanachart normalized EPS
Based on 4 July 2022 closing prices

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)	29.87	30.00	0%
Net profit 22F (Bt m)	14,134	15,198	8%
Net profit 23F (Bt m)	17,115	18,410	8%
Consensus REC	**BUY: 19**	**HOLD: 3**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- We believe we are ahead of the market in incorporating the improving outlook for China's pork prices and we believe this is why our 2022-23F profits are above the Bloomberg consensus numbers.
- We expect farming margin to normalize over the medium to long term. Our TP is therefore in line with the consensus.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- The key downside risk to our call would be if meat prices are not on a recovery trend in Vietnam and China.
- 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

Expansions are mainly for overseas operations

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	589,713	512,704	570,883	608,389	643,398
Cost of sales	482,739	449,196	490,340	522,861	553,322
Gross profit	**106,974**	**63,508**	**80,543**	**85,528**	**90,076**
% gross margin	18.1%	12.4%	14.1%	14.1%	14.0%
Selling & administration expenses	62,021	50,602	50,880	53,716	56,710
Operating profit	**44,952**	**12,906**	**29,662**	**31,813**	**33,366**
% operating margin	7.6%	2.5%	5.2%	5.2%	5.2%
Depreciation & amortization	26,964	22,439	24,322	25,469	26,732
EBITDA	**71,917**	**35,345**	**53,985**	**57,282**	**60,098**
% EBITDA margin	12.2%	6.9%	9.5%	9.4%	9.3%
Non-operating income	5,513	7,268	5,970	5,419	5,664
Non-operating expenses	0	0	0	0	0
Interest expense	(16,818)	(16,596)	(19,254)	(19,432)	(19,473)
Pre-tax profit	**33,647**	**3,578**	**16,378**	**17,799**	**19,556**
Income tax	11,001	2,654	4,586	4,984	5,476
After-tax profit	**22,646**	**925**	**11,792**	**12,815**	**14,081**
% net margin	3.8%	0.2%	2.1%	2.1%	2.2%
Shares in affiliates' Earnings	9,254	4,167	4,905	8,280	12,455
Minority interests	(10,780)	(1,050)	(1,500)	(2,685)	(2,744)
Extraordinary items	4,903	8,987	0	0	0
NET PROFIT	**26,022**	**13,028**	**15,198**	**18,410**	**23,791**
Normalized profit	**21,119**	**4,041**	**15,198**	**18,410**	**23,791**
EPS (Bt)	3.0	1.5	1.8	2.1	2.8
Normalized EPS (Bt)	2.5	0.5	1.8	2.1	2.8

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	194,670	216,550	198,803	173,969	184,130
Cash & cash equivalent	57,997	36,686	10,000	10,000	10,000
Account receivables	29,952	38,471	42,230	31,670	33,492
Inventories	52,136	73,431	76,574	57,300	60,638
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**	**867,266**	**858,680**	**884,391**
LIABILITIES:					
Current liabilities:	204,147	203,928	209,705	194,889	198,238
Account payables	32,312	44,372	47,019	35,812	37,899
Bank overdraft & ST loans	103,023	90,412	91,969	88,873	89,200
Current LT debt	37,027	39,065	41,518	40,120	40,267
Others current liabilities	31,784	30,079	29,200	30,083	30,872
Total LT debt	**244,196**	**301,240**	**304,462**	**294,213**	**295,293**
Others LT liabilities	51,197	50,376	55,552	58,843	62,031
Total liabilities	**499,541**	**555,544**	**569,720**	**547,945**	**555,561**
Minority interest	70,242	72,070	73,120	74,620	77,365
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**	**135,537**	**147,226**	**162,577**
Shareholders' equity	191,937	215,067	224,426	236,115	251,465
Liabilities & equity	**761,719**	**842,681**	**867,266**	**858,680**	**884,391**

Sources: Company data, Thanachart estimates

Improving internal cash flow

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	33,647	3,578	16,378	17,799	19,556
Tax paid	(9,556)	(3,873)	(4,513)	(4,800)	(5,396)
Depreciation & amortization	26,964	22,439	24,322	25,469	26,732
Chg In w orking capital	12,144	(17,755)	(4,254)	18,627	(3,074)
Chg In other CA & CL / minorities	16,611	(8,919)	1,465	2,794	8,164
Cash flow from operations	**79,810**	**(4,530)**	**33,399**	**59,891**	**45,982**
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	67,059	(3,992)	522	(1,427)	(1,595)
Cash flow from investments	**(90,851)**	**(55,008)**	**(61,478)**	**(38,427)**	**(39,095)**
Debt financing	51,339	47,122	7,232	(14,742)	1,553
Capital increase	0	113	(0)	0	0
Dividends paid	(6,503)	(7,969)	(5,838)	(6,722)	(8,440)
Warrants & other surplus	(9,294)	(1,039)	0	0	0
Cash flow from financing	**35,542**	**38,227**	**1,393**	**(21,463)**	**(6,887)**
Free cash flow	**56,209**	**(56,142)**	**13,399**	**34,891**	**20,982**

Clear near-term catalysts with an inexpensive valuation in our view

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	10.7	55.9	14.9	12.3	9.5
Normalized PE - at target price (x)	12.2	63.9	17.0	14.0	10.9
PE (x)	8.7	17.3	14.9	12.3	9.5
PE - at target price (x)	9.9	19.8	17.0	14.0	10.9
EV/EBITDA (x)	7.7	17.5	12.1	11.2	10.7
EV/EBITDA - at target price (x)	8.1	18.5	12.7	11.7	11.2
P/BV (x)	1.2	1.1	1.0	1.0	0.9
P/BV - at target price (x)	1.3	1.2	1.2	1.1	1.0
P/CFO (x)	2.8	(49.9)	6.8	3.8	4.9
Price/sales (x)	0.4	0.4	0.4	0.4	0.4
Dividend yield (%)	3.8	2.5	2.7	3.3	4.2
FCF Yield (%)	24.9	(24.8)	5.9	15.4	9.3
(Bt)					
Normalized EPS	2.5	0.5	1.8	2.1	2.8
EPS	3.0	1.5	1.8	2.1	2.8
DPS	1.0	0.7	0.7	0.9	1.1
BV/share	22.3	25.0	26.1	27.4	29.2
CFO/share	9.3	(0.5)	3.9	7.0	5.3
FCF/share	6.5	(6.5)	1.6	4.1	2.4

Sources: Company data, Thanachart estimates

Earnings turnaround looks intact

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	10.7	(13.1)	11.3	6.6	5.8
Net profit (%)	41.0	(49.9)	16.7	21.1	29.2
EPS (%)	41.0	(49.9)	16.7	21.1	29.2
Normalized profit (%)	14.4	(80.9)	276.1	21.1	29.2
Normalized EPS (%)	14.4	(80.9)	276.1	21.1	29.2
Dividend payout ratio (%)	33.1	43.0	40.0	40.0	40.0
Operating performance					
Gross margin (%)	18.1	12.4	14.1	14.1	14.0
Operating margin (%)	7.6	2.5	5.2	5.2	5.2
EBITDA margin (%)	12.2	6.9	9.5	9.4	9.3
Net margin (%)	3.8	0.2	2.1	2.1	2.2
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	1.4	1.3	1.3
Interest coverage - EBIT (x)	2.7	0.8	1.5	1.6	1.7
Interest coverage - EBITDA (x)	4.3	2.1	2.8	2.9	3.1
ROA - using norm profit (%)	3.0	0.5	1.8	2.1	2.7
ROE - using norm profit (%)	11.7	2.0	6.9	8.0	9.8
DuPont					
ROE - using after tax profit (%)	12.6	0.5	5.4	5.6	5.8
- asset turnover (x)	0.8	0.6	0.7	0.7	0.7
- operating margin (%)	8.6	3.9	6.2	6.1	6.1
- leverage (x)	3.9	3.9	3.9	3.7	3.6
- interest burden (%)	66.7	17.7	46.0	47.8	50.1
- tax burden (%)	67.3	25.8	72.0	72.0	72.0
WACC (%)	6.4	6.4	6.4	6.4	6.4
ROIC (%)	6.5	0.6	3.5	3.5	3.7
NOPAT (Bt m)	30,255	3,335	21,357	22,905	24,023
invested capital (Bt m)	518,186	609,098	652,375	649,321	666,225

Sources: Company data, Thanachart estimates

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