Charoen Pokphand Foods Pcl (CPF TB) - BUY, Price Bt26.25, TP Bt30 | Results Comment

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Weaker-than-expected profits

- CPF's 2Q22 reported net profits of Bt4.2bn (down 11% y-y but up 48% q-q). Excluding revaluation gains according to TAS40 of Bt1.4bn. and FX losses, norm profits were around Bt3bn.
- CPF announced to pay interim dividend of Bt0.4 per share. XD and payment dates are set on 30 August and 14 September 2022.
- Profits came in below our expectation. The shortfall was due to higher equity loss from ongoing loss of its Chinese integrated pork operation (CTI) and higher loss of Hylife in Canada and higher tax expenses. We had expected CTI to recover from loss due to mark to market gains while we didn't expect Hylife to make larger loss from 1Q22.
- Higher tax expenses were due to profits incurred from its internal business restructuring to utilize expiring tax carried loss forward. Adding back these one-off, CPF should have made norm profits of Bt4.7bn, up 15% y-y and 57% q-q.
- Thai and Vietnam operation grew healthily as expected. With exception of Bellissio, other overseas also contributed higher especially for India. With well-contained interest expenses, profits before tax and equity income accounted for 74% of our projection.
- We keep our forecast as is and we are positive and expecting much stronger profits in 3Q22. With average pork prices in China of CNY22/kg over July to date, CTI should enjoy real turnaround while Hylife's COGS could come down along with falling pork prices in USA.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	2Q21	3Q21	4Q21	1Q22	2Q22
Revenue	129,638	125,940	137,781	138,887	155,996
Gross profit	**20,711**	**7,839**	**11,241**	**18,889**	**23,353**
SG&A	12,297	13,127	13,503	12,169	13,564
Operating profit	8,413	(5,289)	(2,262)	6,720	9,789
EBITDA	**13,899**	**471**	**3,647**	**12,462**	**15,782**
Other income	1,381	3,439	1,706	2,281	2,085
Other expense	0	0	0	0	0
Interest expense	3,980	4,155	4,363	4,469	4,309
Profit before tax	**5,814**	**(6,005)**	**(4,918)**	**4,532**	**7,565**
Income tax	1,752	(1,266)	50	1,158	3,522
Equity & invest. income	753	(1,266)	2,636	(336)	(793)
Minority interests	(748)	468	903	(154)	(264)
Extraordinary items	670	163	8,149	(41)	1,222
Net profit	**4,737**	**(5,374)**	**6,720**	**2,842**	**4,208**
Normalized profit	**4,068**	**(5,537)**	**(1,429)**	**2,883**	**2,986**
EPS (Bt)	0.58	(0.66)	0.82	0.35	0.51
Normalized EPS (Bt)	0.50	(0.68)	(0.17)	0.35	0.36

Income Statement			6M as		
(Bt m)	q-q%	y-y%	% 2022F	2022F	2023F
Revenue	12	20	52	570,883	608,389
Gross profit	**24**	**13**	**52**	**80,543**	**85,528**
SG&A	11	10	51	50,880	53,716
Operating profit	46	16	56	29,662	31,813
EBITDA	**27**	**14**	**52**	**53,985**	**57,282**
Other income	(9)	51	73	5,970	5,419
Other expense			na	0	0
Interest expense	(4)	8	46	19,254	19,432
Profit before tax	**67**	**30**	**74**	**16,378**	**17,799**
Income tax	204	101	102	4,586	4,984
Equity & invest. income	na	na	(23)	4,905	8,280
Minority interests	na	na	28	(1,500)	(2,685)
Extraordinary items	na	82	na	0	0
Net profit	**48**	**(11)**	**46**	**15,198**	**18,410**
Normalized profit	**4**	**(27)**	**39**	**15,198**	**18,410**
EPS (Bt)	48	(11)	49	1.76	2.14
Normalized EPS (Bt)	4	(27)	41	1.76	2.14

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	2Q21	3Q21	4Q21	1Q22	2Q22
Cash & ST investment	43,067	52,799	36,686	25,703	26,843
A/C receivable	35,228	35,166	38,471	40,008	42,624
Inventory	63,598	67,917	73,431	73,557	81,447
Other current assets	62,561	69,096	67,962	67,017	71,894
Investment	253,045	255,253	270,993	273,423	273,919
Fixed assets	213,935	221,844	230,507	228,754	263,971
Other assets	120,789	129,268	127,521	128,659	142,933
Total assets	**792,223**	**831,344**	**845,572**	**837,121**	**903,629**
S-T debt	111,613	128,297	129,477	146,696	156,266
A/C payable	38,252	37,226	44,372	45,629	46,084
Other current liabilities	35,921	33,320	30,079	29,161	32,548
L-T debt	272,166	295,255	301,240	303,506	315,677
Other liabilities	51,497	53,038	50,767	50,423	56,306
Minority interest	72,931	74,353	72,071	42,469	44,735
Shareholders' equity	**209,842**	**209,854**	**217,567**	**219,238**	**252,013**
Working capital	60,574	65,857	67,531	67,936	77,986
Total debt	383,779	423,552	430,717	450,201	471,942
Net debt	**340,712**	**370,753**	**394,031**	**424,498**	**445,100**

Financial Ratios					
(%)	2Q21	3Q21	4Q21	1Q22	2Q22
Sales growth	(9.9)	(20.2)	(8.1)	16.4	20.3
Operating profit growth	(37.2)	na	na	(44.2)	16.4
EBITDA growth	(26.2)	(97.7)	(73.2)	(28.1)	13.6
Norm profit growth	(31.7)	na	na	(58.5)	(26.6)
Norm EPS growth	(31.7)	na	na	(58.5)	(26.6)
Gross margin	16.0	6.2	8.2	13.6	15.0
Operating margin	6.5	(4.2)	(1.6)	4.8	6.3
EBITDA margin	10.7	0.4	2.6	9.0	10.1
Norm net margin	3.1	(4.4)	(1.0)	2.1	1.9
D/E (x)	1.4	1.5	1.5	1.7	1.6
Net D/E (x)	1.2	1.3	1.4	1.6	1.5
Interest coverage (x)	3.5	0.1	0.8	2.8	3.7
Interest rate	4.18	4.12	4.09	4.06	3.74
Effective tax rate	30.1	21.1	(1.0)	25.6	46.6
ROA	2.1	(2.7)	(0.7)	1.4	1.4
ROE	7.9	(10.6)	(2.7)	5.3	5.1

Sources: Company data, Thanachart estimates

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