

## COMPANY UPDATE

### Charoen Pokphand Foods (CPF TB)

#### Resilient Earnings Recovery Outlook

Although the domestic livestock trend is stronger than our earlier estimates, we expected to see a gradual decrease in 1H23. However, the softening of domestic livestock prices will be offset by a better share of profit from CTI. We expect 2022-23 core earnings to grow 606% yoy and 14.7% yoy respectively. Maintain BUY. Target price: Bt33.00.

#### WHAT'S NEW

- Yesterday, we attended Charoen Pokphand Foods' (CPF) analyst meeting. Here are the key takeaways.
- Higher-than-expected livestock prices.** Management guided that the domestic livestock prices should remain high in 2023. The swine prices will be supported by the gradual increase in supply. Stronger meat demand and chicken prices will be backed by the higher cost of day-old chicks, raw material, and also the lower supply of grandparent chickens from the US. Currently, the domestic swine and chicken prices stand at Bt105/kg and Bt45-46/kg, down from average prices in 3Q22 of around 5% qoq. We expect the prices to continue being high in 4Q22. However, we expect them to gradually decrease in 1H23 and be significantly lower in 2H23.
- Strong China swine prices.** The swine price in China remains high although there was a decline of around 10% from the peak. The current swine prices of Rmb25.5/kg is profitable for the farm operators as the breakeven costs are still lower than Rmb17/kg. There are three main reasons behind this: a) the lower-than-usual swine supply in China, b) higher government pork inventory, and c) the lower pork imports to China. Currently, Chia Tai Investment (CTI, a feed and integrated swine business in China) is the fifth largest farm operator in China. Therefore, we expect CTI to significantly benefit from the current upward trend in swine prices.
- Lower raw material pressure but higher cost of debt.** CPF expects the raw material cost to stay high in 4Q22 but the price trend in 2023 is expected to soften, especially the soybean meal prices following the higher supply globally. However, there is another key headwind in 2023 in the form of higher interest expenses. The company will try to manage the rising interest rate impact by: a) increasing the debt repayment after the long period of investment in the past years, and b) finding alternative sources of funds, such as an IPO.

## KEY FINANCIALS

Year to 31 Dec (Btm)	2020	2021	2022F	2023F	2024F
Net turnover	589,713	512,704	609,896	606,676	623,458
EBITDA	71,891	37,448	58,374	58,849	56,867
Operating profit	49,578	15,009	34,421	34,303	32,276
Net profit (rep./act.)	26,022	13,028	18,659	18,768	20,120
Net profit (adj.)	25,404	2,312	16,321	18,718	20,069
EPS (Bt)	3.0	0.3	1.9	2.2	2.3
PE (x)	8.5	93.1	13.2	11.5	10.7
P/B (x)	1.2	1.1	1.0	1.0	0.9
EV/EBITDA (x)	9.7	18.5	11.9	11.8	12.2
Dividend yield (%)	4.0	2.6	3.7	3.7	4.0
Net margin (%)	4.4	2.5	3.1	3.1	3.2
Net debt/(cash) to equity (%)	171.8	183.2	180.5	169.3	159.1
Interest cover (x)	4.3	2.3	3.0	2.7	2.7
ROE (%)	14.4	6.4	8.4	8.0	8.2
Consensus net profit	-	-	14,086	16,902	19,040
UOBKH/Consensus (x)	-	-	1.16	1.11	1.05

Source: Charoen Pokphand Foods, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	Bt24.40
Target Price	Bt33.00
Upside	+35.2%

## COMPANY DESCRIPTION

CPF, which is Thailand's leading conglomerate, engages in the agro-industrial processing of feed, farm and food.

## STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	CPF TB
Shares issued (m):	8,611.2
Market cap (Btm):	210,113.3
Market cap (US\$m):	5,918.7
3-mth avg daily t'over (US\$m):	11.6
Price Performance (%)	

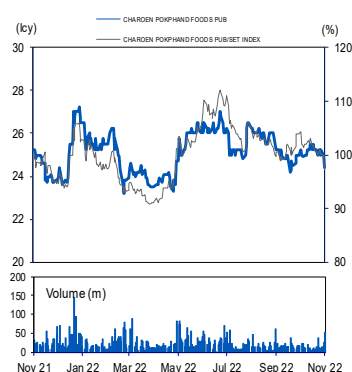
52-week high/low Bt27.25/Bt23.20

1mth	3mth	6mth	1yr	YTD
0.0	(5.7)	1.2	(1.0)	(2.0)

## Major Shareholders

	%
Charoen Pokphand Group Co., Ltd.	25.02
UBS AG LONDON BRANCH.	10.88
Charoen Pokphand Holding Co., Ltd.	8.34
FY22 NAV/Share (Bt)	24.75
FY22 Net Debt/Share (Bt)	47.83

## PRICE CHART



Source: Bloomberg

## ANALYST(S)

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### 3Q22 RESULTS

Year to 31 Dec (Btm)	3Q21	2Q22	3Q22	yoy % chg	qoq % chg
Revenue	125,940	155,996	160,266	27.3%	2.7%
Gross profit	21,236	17,791	22,624	6.5%	27.2%
SG&A/Sales	12,297	12,124	13,564	10.3%	11.9%
EBIT	(2,027)	9,060	9,594	-573.4%	5.9%
Net profit	(5,374)	4,208	5,108	-195.0%	21.4%
Core profit	(4,215)	3,631	5,284	-225.4%	45.5%
Core EPS (Bt)	(0.49)	0.42	0.61	-225.4%	45.5%
<b>Ratio (%)</b>					
Gross margin	8.8%	14.5%	15.0%	6.1%	0.5%
SG&A/Sales	10.4%	8.7%	9.0%	-1.4%	0.3%
Net profit margin	-4.3%	2.7%	3.2%	7.5%	0.5%

Source: CPF, UOB Kay Hian

- **Results recap.** CPF reported 3Q22 core profit of Bt5.3b (+45.5% qoq), up from a loss of Bt4.2b, lower than our and consensus' estimates by 15% and 12%. The lower-than-expected core earnings were from: a) higher-than-expected SG&A/Sales at 9% in 3Q22 (vs the expected 8.8%), up from 8.7% in 2Q22 (down from 10.4% due to higher sales), b) higher interest expenses due to higher interest rate and baht depreciation, and c) lower-than-expected CTI share of profit. This was partially offset by better-than-expected GPM of 15%, up from 14.5% and 8.8% in 2Q22 and 3Q21 respectively. Also, 3Q22 sales were up 27.3% yoy and 2.7% qoq.

### STOCK IMPACT

- **Fine-tuned 2022-23 assumptions.** We fine-tune our 2022-23 assumptions to better reflect the current situation. The impact to earnings is limited. Although we factored in the higher interest expenses and lower share of profit, these were offset by the higher sales and livestock prices. We forecast 2022 core earnings to grow by 606% yoy and 2023 core earnings to grow by 14.7% yoy on the back of the higher gross profit margin and better share of profit, especially from CTI in China. We expect 4Q22 core earnings to continue to increase qoq following the better share of profit.

### EARNINGS REVISIONS

(Bt m)	2022F			2023F		
	Old	New	chg	Old	New	chg
Sales (Btm)	541,434	609,896	12.6%	558,890	606,676	8.6%
Domestic swine (Bt/kg)	97	102	5.0%	86	96	11.6%
Domestic chicken (Bt/kg)	44	44	1.7%	41	43	6.5%
GPM (%)	15.4%	14.6%	-0.8%	15.5%	14.9%	-0.6%
SG&A/Sales (%)	9.8%	9.0%	-0.8%	9.8%	9.2%	-0.6%
Share of profit (Btm)	9,974	4,421	-55.7%	13,638	9,039	-33.7%
Interest (Btm)	17,047	19,741	15.8%	17,182	21,882	27.4%
Net profit (Btm)	16,920	18,659	10.3%	19,419	18,768	-3.4%
Core profit (Btm)	16,279	16,321	0.3%	18,734	18,718	-0.1%

Source: CPF, UOB Kay Hian

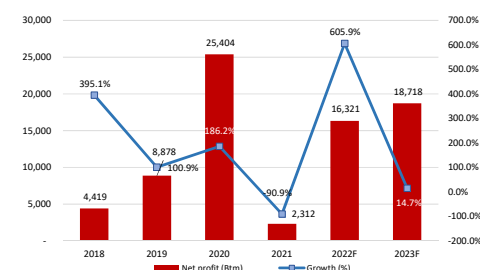
### VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of Bt33.00.** We adopt the PE valuation method. We use the +1SD forward PE to CPF's five-year mean, which is equivalent to 15x. Our current target is based on the forward PE'23 as the market should weigh more on 2H22-2023 earnings' recovery outlook following the improvement in its Vietnam and China operations. We expect that the recent share price correction was mainly from the Baht depreciation, but we still foresee resilient core earnings improvement of CPF in 2023.

### SHARE PRICE CATALYST

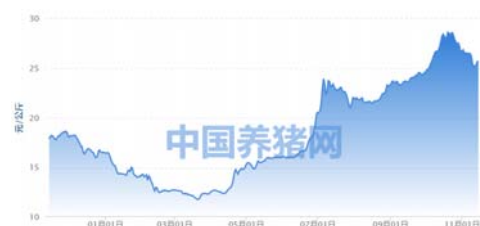
- The easing of lockdown restrictions in China, China swine prices remaining high in 2H22 and lower raw material costs.

### NORM PROFIT AND GROWTH



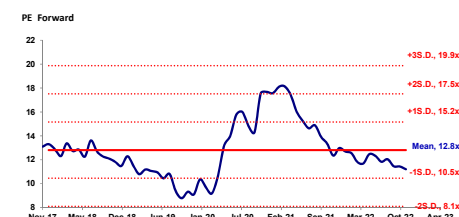
Source: CPF, UOB Kay Hian

### CHINA SWINE PRICES



Source: Zhujiia.Zhuwang

### FIVE YEAR FORWARD PE BAND



Source: Bloomberg

## PROFIT & LOSS

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Net turnover	512,704	609,896	606,676	623,458
EBITDA	37,448	58,374	58,849	56,867
Deprec. & amort.	22,439	23,953	24,546	24,591
EBIT	15,009	34,421	34,303	32,276
Total other non-operating income	16,255	4,884	2,792	2,869
Associate contributions	4,167	4,421	9,039	12,128
Net interest income/(expense)	(16,596)	(19,741)	(21,882)	(21,009)
Pre-tax profit	16,732	24,881	24,252	26,265
Tax	(2,654)	(5,723)	(4,850)	(5,253)
Minorities	(1,050)	(500)	(634)	(892)
Net profit	13,028	18,659	18,768	20,120
Net profit (adj.)	2,312	16,321	18,718	20,069

## BALANCE SHEET

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Fixed assets	230,507	236,216	236,644	237,031
Other LT assets	395,623	399,364	402,834	406,344
Cash/ST investment	36,686	34,789	42,063	39,227
Other current assets	179,864	202,389	202,209	206,829
Total assets	842,681	872,758	883,751	889,430
ST debt	129,477	150,571	163,813	165,473
Other current liabilities	74,451	74,923	74,721	76,360
LT debt	301,240	296,082	282,681	272,621
Other LT liabilities	50,376	50,985	51,606	52,240
Shareholders' equity	215,067	228,128	238,860	250,667
Minority interest	72,070	72,070	72,070	72,070
Total liabilities & equity	842,681	872,758	883,751	889,430

## CASH FLOW

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Operating	7,820	19,229	43,425	41,871
Pre-tax profit	16,732	24,881	24,252	26,265
Tax	(2,654)	(5,723)	(4,850)	(5,253)
Deprec. & amort.	22,439	23,953	24,546	24,591
Associates	4,167	4,421	9,039	12,128
Working capital changes	(44,018)	(21,939)	111	(2,840)
Non-cash items	n.a.	n.a.	n.a.	n.a.
Other operating cashflows	11,154	(6,364)	(9,672)	(13,020)
Investing	(22,705)	(32,919)	(27,956)	(27,994)
Capex (growth)	(24,163)	(30,000)	(25,000)	(25,000)
Investments	n.a.	n.a.	n.a.	n.a.
Others	1,458	(2,919)	(2,956)	(2,994)
Financing	(5,744)	11,794	(8,195)	(16,713)
Dividend payments	(7,969)	(5,597)	(8,036)	(8,313)
Issue of shares	226	0	0	0
Proceeds from borrowings	43,889	(5,158)	(13,400)	(10,060)
Loan repayment	(20,138)	0	0	0
Others/interest paid	(21,752)	22,550	13,242	1,660
Net cash inflow (outflow)	(20,628)	(1,897)	7,274	(2,837)
Beginning cash & cash equivalent	54,406	36,686	34,789	42,063
Changes due to forex impact	2,908	0	0	0
Ending cash & cash equivalent	36,686	34,789	42,063	39,227

## KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	7.3	9.6	9.7	9.1
Pre-tax margin	3.3	4.1	4.0	4.2
Net margin	2.5	3.1	3.1	3.2
ROA	1.6	2.2	2.1	2.3
ROE	6.4	8.4	8.0	8.2
Growth				
Turnover	(13.1)	19.0	(0.5)	2.8
EBITDA	(47.9)	55.9	0.8	(3.4)
Pre-tax profit	(69.6)	48.7	(2.5)	8.3
Net profit	(49.9)	43.2	0.6	7.2
Net profit (adj.)	(90.9)	605.9	14.7	7.2
EPS	(90.9)	605.9	14.7	7.2
Leverage				
Debt to total capital	60.0	59.8	58.9	57.6
Debt to equity	200.3	195.8	186.9	174.8
Net debt/(cash) to equity	183.2	180.5	169.3	159.1
Interest cover (x)	2.3	3.0	2.7	2.7

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