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Thailand's Charoen Pokphand and Japan's Itochu form strategic alliance

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BANGKOK -- Thailand's giant business conglomerate Charoen Pokphand (CP) Group has entered into a cross-shareholding deal with Itochu Corporation, a major Japanese trading house.

CP is taking a 4.9% stake in Itochu for 102 billion yen (\$1 billion). Itochu is reciprocating by buying a 25% stake in CP Pokphand, a Hong Kong-listed subsidiary of Charoen Pokphand (CP) Foods, the group's agribusiness arm, for HK\$ 6.62 billion (\$854 million).

CP Pokphand operates agribusiness in China and Vietnam. CP Group is to remain its largest shareholder, but with a stake lowered from 74.18% to 50.43%. Itochu will become its second largest shareholder. CP Foods said in a statement that it intends to use proceeds to pay down debt.

The deal is intended to leverage the activities of the two companies in Asia. In Thailand, Vietnam and China, the focus will be on animal feed, livestock and fisheries, according to a statement filed by Itochu with the Tokyo Stock Exchange.

With group sales of around \$41 billion in 2013, CP Group is a diversified conglomerate widely invested in Thailand and the region. It has interests in agribusiness, telecoms, finance and property development, and recently added automobile production to its slate in a joint venture with China's Shanghai Automotive Industry.

Overseas operations already account for about 50% of CP Group's turnover. It has investments in neighboring Vietnam, Cambodia and Myanmar, and is considered one of the most successful foreign companies in China with investments there worth up to \$9 billion and a workforce of 80,000.

Phatra Securities analyst Charti Phrawphraikulsees notes that CP Pokphand's operations in China are still relatively small compared to those in Thailand: "The company may be looking to expand into the downstream businesses with Itochu, such as packaged food and retail," he said.

CP Group might also leverage Itochu's global network to reach outside Southeast Asia to markets in Japan, Europe and the U.S. where it is presently unrepresented. Sarasin Viraphol, a CP Group vice-president, told the Nikkei Asia Review earlier this month that the company wants to expand into new markets by partnering with existing players. "We will add value to an existing company rather

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than start from scratch," he said.

The Itochu deal may help CP Foods, a listed company on the Thai bourse, improve its financial position. The company's operations have been slumping in recent years due to a poultry glut in 2012 and a breakout of shrimp disease around Southeast Asia in 2013. Net profit in the year ended 2013 was almost halved compared to 2011, and interest bearing debt at the end of March was up almost 3 times on two years ago.

Trading of CP Foods shares was temporarily suspended Thursday morning but resumed in the afternoon, shooting up briefly to a 4-month high and closing 1.8% up on Wednesday's close. Trading of CP Pokphand shares was halted throughout Thursday but will resume on Friday.

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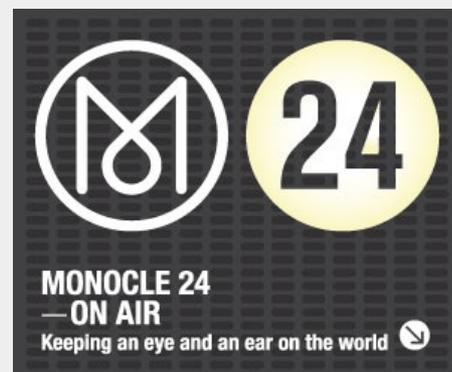
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