SIAMGAS AND PETROCHEMICALS PLC

No. 101/2013 28 November 2013

Company Rating: BBB

Outlook: Stable

Rating History:

Date	Company	Issue (Secured/ Unsecured)
11/09/12	BBB+/Sta	-/BBB+
26/01/12	BBB+/Sta	A+/BBB+
21/12/11	BBB+/Sta	A+/-
07/07/11	BBB+/Sta	-

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Rating Rationale

TRIS Rating downgrades the company and senior debenture ratings of Siamgas and Petrochemicals PLC (SGP) to “BBB” from “BBB+”. The downgrade reflects the company’s increasing business risks in overseas operations from greater exposure to liquefied petroleum gas (LPG) price fluctuations and an expectation that the company should require longer time than expected to strengthen its capital structure. The ratings continue to reflect the company’s strong position as the second-largest LPG distributor in Thailand, its robust domestic distribution network, and its geographically diverse customer base. The ratings are partially offset by the volatile nature of LPG prices and regulatory uncertainty in Thailand.

SGP was established by the Weeraborwornpong family in 2001, and was listed on the Stock Exchange of Thailand (SET) in 2008. As of August 2013, the Weeraborwornpong family remained the largest shareholder, holding 71% of the shares of the company.

SGP’s business profile is moderate. SGP has remained the second-largest LPG distributor in Thailand. Its operations in Thailand cover LPG trading under the “Siam Gas” and “Unique Gas” brands which held 26% market share by trading volume, behind PTT PLC (PTT) with a 36% share as of June 2013. SGP’s nationwide distribution network is considered strong, with seven LPG storage terminals, 178 LPG filling stations, and 551 LPG auto-gas stations, as of June 2013. SGP operates a range of transportation facilities, including land and sea freight transportation services, to support its LPG trading business. SGP’s domestic LPG trading volume has grown steadily. SGP sold about 0.61 million tonnes of LPG in the first half of 2013 and about 1.25 million tonnes in 2012. During the first six months of 2013, the cooking segment accounted for 61% of the total volume of LPG sold, followed by the automobile segment (29%) and the industrial segment (10%). As of June 2013, SGP’s market share was at 26%, down from 30% in 2010. The drop was mainly due to intense competition from new LPG suppliers in the automobile segment.

SGP continues to expand its trading business in China, Vietnam, Singapore, and Malaysia. SGP entered these markets in 2010. The company owns LPG storage caverns in China, capable of storing 300,000 tonnes and 45,000 deadweight tonnage (DWT) of floating storage in Singapore to support its LPG trading operations in Southeast Asia. The sale volume in the foreign LPG trading segment in 2012 was 0.87 million tonnes, accounting for 41% of SGP’s total sale volume. For the first half of 2013, the sale volume from overseas trading rose to 54% of SGP’s total sale volume, surpassing the volume of LPG sold in Thailand. Although the international expansion provides more business opportunities for SGP, it exposes the company to greater business risk, especially, from the volatility of LPG prices and competition.

According to the government policy in Thailand, LPG price in the cooking segment will be adjusted from Bt18.13/kilogram (kg) in August 2013 to Bt24.82/kg in October 2014 to reflect global market prices. SGP’s domestic revenue is expected to increase significantly next year as a result of the price increases, given that revenue from the cooking segment comprises more than 50% of SGP’s LPG sales in Thailand. However, SGP will earn the same amount of profit since the additional revenue from price increases must be submitted to the government’s

Oil Fund. In TRIS Rating's view, the rise in domestic LPG prices is expected to have little effect on the company's net income from operations and funds from operations (FFO).

SGP's revenues in the first nine months of 2013 were in line with TRIS Rating's base case scenario, but operating margin was below the forecasted value. SGP's revenues were Bt47,337 million in 2012, up by 24.8% from 2011, and Bt45,617 million in the first nine months of 2013, a 27.1% year-on-year (y-o-y) rise. The rise in revenue was largely driven by SGP's operation in China and off-shore trading. The operating margin (before depreciation and amortization, as % of sales) continued to decline, falling to 4.0% in 2012. The margin fell because of intense competition and losses from volatile LPG prices. For the first nine months of 2013, the operating margin dropped to 1.4% due primarily to a drop in LPG prices. The Saudi Aramco Contract Price (CP) sunk from US$955 per tonne in January 2013 to US$755 per tonne in June 2013, before rebounding to US$860 per tonne in September 2013.

SGP's leverage ratio remained high. As of September 2013, the debt to capitalization was 58.4%. Total debt was Bt11,010 million. About 65% of the total debt were short-term borrowings, mainly used to finance LPG inventory. The outstanding amount of debt fell at the rate slower than TRIS Rating's expectations. The debt outstanding fell slowly because of SGP's large expansion. The profit from the overseas expansion has not been fully realized.

For the next three years, TRIS Rating's base case expects SGP's revenue to grow at 10%-15% on average per year. Revenues from the overseas segment should contribute about 60% of total revenues. SGP's performance will depend on its sales and inventory management and LPG prices in the world market. The operating margin is expected to stay at 2%-5% on average. The debt to capitalization ratio is expected to improve gradually but will likely stay above 50% over the next three years. This level is considered acceptable, compared with SGP's financial covenants which cap the interest-bearing debt to equity ratio at 2:1, or the equivalent of debt to capitalization equal to 66.7%. For the next three years, capital expenditures are expected at Bt1,500-1,700 million per annum. FFO to total debt ratio is expected to be above 13%, while the EBITDA interest coverage ratio will average from 4-6 times.

Rating Outlook

The "stable" outlook reflects the expectation that SGP will be able to maintain its position as the second-largest LPG distributor in Thailand. Revenues from overseas will play a more important role in determining SGP's performance. The debt to capitalization ratio is expected to stay below 60% for the next three years.

Siamgas and Petrochemicals PLC (SGP)

Company Rating:	BBB
Issue Ratings:	
SGP142A: Bt1,500 million senior debentures due 2014	BBB
SGP152A: Bt1,500 million senior debentures due 2015	BBB
SGP162A: Bt1,500 million senior debentures due 2016	BBB
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Sep 2013	2012	2011	2010	2009	2008
		---------------------------- Year Ended 31 December -----------------------				
Revenues	45,617	47,337	37,907	21,861	19,333	20,060
Gross Interest expense	325	367	372	89	43	44
Net income from operations	50	817	496	1,179	1,255	1,095
Funds from operations (FFO)	802	1,677	1,085	1,522	1,632	1,460
Capital expenditures	1,116	1,507	1,469	1,402	960	1,639
Total assets	28,616	28,094	23,312	15,883	9,506	7,999
Total debt	11,010	13,104	10,915	5,061	954	198
Shareholders' equity	7,838	7,321	6,822	6,102	4,776	4,206
Depreciation & amortization	727	829	723	460	419	373
Dividends	325	419	419	462	425	143
Operating income before depreciation and amortization as % of sales	1.4	4.0	4.5	9.5	10.9	9.4
Pretax return on permanent capital (%)	5.1 **	7.8	8.1	20.7	35.7	46.6
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.7	6.3	5.1	24.8	52.0	45.4
FFO/total debt (%)	12.1 **	12.8	9.9	30.1	171.1	735.9
Total debt/capitalization (%)	58.4	64.2	61.5	45.3	16.6	4.5

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

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