

SIAMGAS AND PETROCHEMICALS PLC

No. 39/2016

3 May 2016

Company Rating:	BBB
Issue Ratings:	
Senior unsecured	BBB
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
28/11/13	BBB	Stable
07/07/11	BBB+	Stable

Contacts:

Pravit Chaichamnapai
pravit@trisrating.com

Phimpicha Khongsirikan
phimpicha@trisrating.com

Parat Mahuttano
parat@trisrating.com

Thiti Karoonyanont, Ph. D., CFA
Thiti@trisrating.com

Wiyada Pratoomsuwan, CFA
wiyada@trisrating.com

WWW.TRISRATING.COM

Rating Rationale

TRIS Rating affirms the company and senior unsecured debenture ratings of Siamgas and Petrochemicals PLC (SGP) at “BBB”. The ratings continue to reflect the company’s strong position as the second-largest liquefied petroleum gas (LPG) distributor in Thailand, its robust domestic distribution network, and its geographically diverse customer base. The ratings, however, are partially offset by weakening consumption of LPG in the domestic market and higher business risk from SGP’s operations abroad, which expose the company to fluctuations in LPG prices.

SGP was established by the Weeraborwornpong family in 2001, and was listed on the Stock Exchange of Thailand (SET) in 2008. As of December 2015, the Weeraborwornpong family remained the largest shareholder, holding 61% of the company’s shares.

SGP’s business profile in Thailand is strong. The company 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 together held about 23.6% market share by LPG trading volume in 2015, behind PTT PLC (PTT) which had a 37.6% market share. SGP’s distribution network is considered strong, supported by large LPG storage terminals and nationwide filling and service stations. SGP also owns land and sea freight transportation facilities that support its operation in Thailand. SGP’s LPG trading activities in Thailand have generated solid cash flows over the past five years. However, the company’s earnings in Thailand have declined due to the economic slowdown and increasingly intense competition in the automotive segment.

SGP entered overseas markets in 2010. The company established LPG trading businesses in China, Vietnam, Singapore, and Malaysia and operates off-shore trading in East Asia. The company owns two large storage caverns in China, capable of storing 300,000 tonnes of LPG, and 45,000 deadweight tonnage (DWT) of floating storage in Singapore to support its off-shore trading operations. The trading operation outside of Thailand provides growth opportunities and geographical diversification. However, the company’s business risk has increased materially due to greater exposure to the price volatility of LPG, which causes fluctuation of earning.

SGP’s full-year revenue in 2015 was Bt58,082 million, a 6 % drop year-on-year (y-o-y), which primarily reflected a fall in trading volume in Thailand and a downtrend of LPG in the global market. A degree of SGP’s exposure to LPG price risk increased, due to a larger proportion of international trading volume. SGP’s international sales volume rose by 40% to 1.8 million tonnes in 2015 and accounted for 63% of total volume, compared with 53% in 2014. SGP’s funds from operations (FFO) improved, thanks to less fluctuation in the global price of LPG than last year, a rebound of LPG price in the last quarter of 2015, and higher sales volume from the Chinese market in the second half of 2015. FFO surged to Bt2,117 million in 2015, compared with Bt219 million in 2014 or the five-year averaged FFO of Bt1,364 million.

SGP’s debt to capitalization ratio continued to be strengthened. The debt to capitalization ratio declined to 51.4% in 2015, from 57.8% in 2014 due to principal payments of loans and a material decrease in working capital needs since the LPG price slumped after 2014. As of December 2015, SGP’s outstanding debt was

Bt10,351 million, of which bonds and short-term debt each accounted for 46% of the total. In February 2016, SGP issued a new debentures of Bt3,000 million to refinance Bt1,500 million of matured bonds and to replace short-term debt facilities. This new bond issuance helped secure a low interest rate and reduce liquidity risk in the short term.

Going forward, SGP's operation in Thailand is expected to generate stable cash flows that help alleviate the impact of the price risk inherent in its international operation. The slowdown in the Thai economy and weak demand for LPG in the automotive sector would constrain SGP's volume growth. Meanwhile, the international operation would benefit from low LPG prices, which implies limited downside risk of further drops in the LPG price over the next year. The sales volume from the overseas operation is expected to grow about 3%-5% per year. However, TRIS Rating notes that the volume growth in the overseas segment will make the company more susceptible to global LPG price, leading to higher uncertainty of cash flow.

TRIS Rating's base-case scenario assumes that SGP's revenue growth will be about 5%-8% per year in the medium term, driven by a price recovery. The overseas trading segment will continue to account for approximately 65% of total volume. The debt to capitalization ratio is expected to decline and stay below 50% for the next three years. FFO is expected to be volatile but on average, it should be in the range of Bt1,500-Bt2,000 million per annum. The company's liquidity is adequate. SGP's earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage ratio is expected to stay above 5 times and the FFO to total debt ratio should be able to stay above 15%.

Rating Outlook

The "stable" outlook reflects the expectation that SGP will be able to maintain its strong position as the second-largest LPG distributor in Thailand. Reliable cash flows from LPG operations in Thailand will partly alleviate the volatile margin of overseas operations.

The upgrade potential is likely to be limited in the medium term due to larger exposure to the price risk inherent in the global LPG market. However, the rating may be upgraded if the company's FFO becomes larger and more stable, or if the debt to capitalization ratio is controlled at a low level for an extended period.

The ratings may be revised downward if SGP's financial profile were to materially deteriorate for an extended period. This could arise if the EBITDA interest coverage or FFO to total debt ratio significantly falls below TRIS Rating's expectation or if there are large debt-funded acquisitions.

Siamgas and Petrochemicals PLC (SGP)

Company Rating:	BBB
Issue Ratings:	
SGP171A: Bt1,300 million senior unsecured debentures due 2017	BBB
SGP181A: Bt2,000 million senior unsecured debentures due 2018	BBB
SGP192A: Bt3,000 million senior unsecured debentures due 2019	BBB
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Year Ended 31 December				
	2015	2014	2013	2012	2011
Revenues	58,082	61,759	65,021	47,337	37,907
Gross Interest expense	410	441	433	367	372
Net income from operations	1,248	(646)	591	817	496
Funds from operations (FFO)	2,117	219	2,246	1,677	1,085
Capital expenditures	846	683	1,434	1,507	1,469
Total assets	29,099	28,243	29,602	28,094	23,312
Total debt	10,351	11,448	12,933	13,104	10,915
Shareholders' equity	9,776	8,369	9,084	7,321	6,822
Depreciation & amortization	1,076	1,089	1,017	829	723
Dividends	370	601	325	419	419
Operating profit before depreciation and amortization as % of sales	4.8	1.1	3.2	4.0	4.5
Pretax return on permanent capital (%)	9.6	(0.6)	6.0	7.8	8.1
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	7.3	2.2	5.3	6.3	5.1
FFO/total debt (%)	20.4	1.9	17.4	12.8	9.9
Total debt/capitalization (%)	51.4	57.8	58.7	64.2	61.5

* Consolidated financial statements

TRIS Rating Co., Ltd.

Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

© Copyright 2016, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at http://www.trisrating.com/en/rating_information/rating_criteria.html.