

SIAMGAS AND PETROCHEMICALS PLC

No. 6/2012

26 January 2012

Company Rating: BBB+

Outlook: Stable

New Issue Rating: BBB+

Rating History:

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

Rating Rationale

TRIS Rating affirms the company rating of Siamgas and Petrochemicals PLC (SGP) at “BBB+” and also affirms the rating of SGP’s guaranteed debentures at “A+”, which was assigned on 21 December 2011. At the same time, TRIS Rating assigns the rating of “BBB+” to SGP’s proposed issue of up to Bt6,000 million in senior debentures. The proceeds from the issuance of the debentures will mainly be used to refinance SGP’s existing secured debt. The ratings reflect SGP’s strong position as the second-largest liquefied petroleum gas (LPG) distributor in Thailand, robust distribution network, and geographically diverse customer base. The ratings also take into consideration the regulatory uncertainty and increasing business risk as international LPG trading becomes a larger portion of SGP’s business.

SGP was established by the Weeraborwornpong family on 17 January 2001, and was listed on the Stock Exchange of Thailand (SET) on 3 June 2008. As of August 2011, the Weeraborwornpong family remained the largest shareholder, holding 66.7% of the shares of the company.

SGP is the second-largest LPG distributor in Thailand. Its operations in Thailand cover LPG trading under the “Siam Gas” and “Unique Gas” brands. These two brands held a combined market share of 27.5% in the first eleven months of 2011, behind PTT PLC (39.8% share). The company also sells ammonia and other petrochemical products. SGP’s nationwide distribution network is considered strong, with seven LPG storage terminals, 176 LPG filling stations, and 422 LPG auto-fuel stations, as of June 2011. SGP also has a wide range of transportation facilities, including sea freight transportation services, to support its LPG trading business.

During the last three years, SGP’s LPG trading volume in Thailand averaged one million tonnes per year. In the first eleven months of 2011, the cooking segment accounted for 66.7% of total LPG volume sold, with the automotive segment (23.6%), and industrial segment (9.6%) making up the balance. Recently, the government decided to lift LPG auto-fuel price by Bt9 per kilogram (kg.) or Bt4.86 per liter within 12 months, starting from 16 January 2012. The price rise may have no immediate effect on LPG demand by auto fuel users because LPG is considerably cheaper than other auto fuels except natural gas for vehicles (NGV). NGV fuel is considerably cheaper compared with LPG and its price is also subsidized by the government for use in public vehicles through energy credit cards given to drivers. However, the number of NGV service stations are less than the number of LPG stations, due to logistical constraints.

Since 2010, SGP has expanded its LPG trading business into several countries: China, Vietnam, and Singapore. During the first nine months of 2011, the volume of LPG sold to international customers totaled 430,000 tonnes, accounting for 32.7% of total sales volume. The company aims to increase its international LPG trading volume to 50% of total by 2014. After acquiring a 100% stake in BP Zhuhai LPG Co., Ltd. in December 2010, and a 100% stake in Chevron Ocean Gas & Energy Ltd. in June 2011, the company plans to utilize its 300,000 tonnes Chinese facilities as hubs for LPG trading in China and Southeast Asia. Although international acquisitions provide business opportunities for SGP, they expose the company to greater business risk caused by the unfamiliar business environments and the volatility of LPG prices in the global market.

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SGP's financial performance has been satisfactory. However, the balance sheet has weakened, due to the aggressive expansion in 2010-2011. In the first nine months of 2011, SGP's LPG sales volume increased by 48.9% year-on-year (y-o-y) and its total revenue increased by 74.1% y-o-y, mainly due to a higher contribution from overseas LPG trading. However, the ratio of operating income before depreciation and amortization as a percentage of sales decreased to 4.6% in the first nine months of 2011 from 9.5% in 2010. The drop came as a result of stock losses and higher operating costs from overseas trading businesses plus intense competition in the auto-fuel segment in Thailand. The acquisitions during 2010-2011 and the inventories needed for the overseas businesses pushed total debt to Bt10,004 million at the end of September 2011. The leverage ratio has weakened, with the total debt to capitalization ratio increasing to 59.5% at the end of September 2011. This ratio is expected to gradually improve after the revenue and profits contributions from overseas trading have been fully realized.

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. The company is expected to maintain its financial profile and sufficient liquidity to accommodate higher business risk from its overseas LPG trading activities.

Siamgas and Petrochemicals PLC (SGP)

Company Rating:	BBB+
Issue Ratings:	
Up to Bt1,000 million guaranteed debentures due within 2014	A+
Up to Bt6,000 million senior debentures due within 2016	BBB+
Rating Outlook:	Stable

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