

SIAMGAS AND PETROCHEMICALS PLC

No. 64/2016

23 December 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

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Rating Rationale

TRIS Rating affirms the company and current senior unsecured debenture ratings of Siamgas and Petrochemicals PLC (SGP) at “BBB”. At the same time, TRIS Rating assigns the rating of “BBB” to SGP’s proposed issue of up to Bt2,000 million in senior unsecured debentures. The proceeds from the new debentures will be used to refinance SGP’s existing debts and for working capital.

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 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 September 2016, 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 held about 24.0% market share, by LPG trading volume, behind PTT PLC (PTT) which had a 38.5% market share as of September 2016. SGP’s distribution network is considered strong, supported by eight LPG storage terminals and a sizeable number of filling and service stations. SGP also owns land and sea freight transportation facilities which 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 primarily to a decrease in sales volumes of LPG in the cooking and the automotive segment.

The ratings also take into consideration SGP’s competitive advantages in overseas markets, which SGP entered in 2010. The company established its LPG trading business 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 a 45,000 deadweight tonnage (DWT) of floating storage in Singapore to support its off-shore trading operations. The trading operation outside Thailand provides benefits of geographical diversification and growth opportunities. However, the company’s business risk has increased materially due to greater exposure to the price volatility of LPG in the global market.

To lessen impacts from uncertainty of LPG prices, SGP announced its investment in a 230-MW power plant in Myanmar In July 2016. The investment was worth about US\$48 million, allowing it to hold 30% of total shares in the project. The transaction is expected to be completed in first half of 2017. The size of equity income is estimated to be between Bt150-Bt200 million per annum.

SGP’s increasing overall business risk involves the company’s larger exposure to price uncertainty and competition in the Chinese market. The portion of volumes sold internationally rose to 66% in the first nine months of 2016, compared to 63% in 2015 and 53% in 2014. The sales volumes of LPG in Thailand was 0.75 million tonnes in the first nine month of 2016, declining by 3.7% year-on-

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year (y-o-y), but improving from a 7.3% y-o-y drop in 2015. The curtailment of sales volumes was still a result of from a contraction in demand in the automotive sector, whereas the demand in the cooking and industrial segments were stable. In contrast, sale volumes in the international market grew rapidly to 1.49 million tonnes, up by about 20.6% in the first nine months of 2016. About 72% of growth was contributed by consumption in the Chinese market. In September 2016, the volumes distributed in China accounted for 54% of total volumes sold abroad.

Given continual expansion in the overseas market, in TRIS Rating's view, SGP's business will be increasingly exposed to price risks of the global LPG market. However, the currently low level of LPG price is likely to be beneficial to the SGP's business in short term as it limits downside risks of further drops in LPG price and thus makes SGP's operating performance less volatile than in the past.

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 demand for LPG aboard is likely to increase, supported by its cheap price. Over the next three years, the overseas trading segment will account for approximately 65%-70% of total volume. Funds from operations (FFO) is expected to be volatile but range around Bt1,500-Bt2,000 million per annum. The debt to capitalization ratio is expected to surround 50%. 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 could be revised downward if SGP's financial profile materially deteriorates for an extended period. This could arise if the EBITDA interest coverage and/or FFO to total debt ratio significantly falls below TRIS Rating's expectation or if there are large debt-funded acquisitions, leading to significantly weaker financial profile.

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
Up to Bt2,000 million senior unsecured debentures due within 2020	BBB
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Year Ended 31 December					
	Jan-Sep 2016	2015	2014	2013	2012	2011
Revenues	34,198	58,082	61,759	65,021	47,337	37,907
Gross Interest expense	307	410	441	433	367	372
Net income from operations	220	1,248	(646)	591	817	496
Funds from operations (FFO)	949	2,117	219	2,246	1,677	1,085
Capital expenditures	1,604	846	683	1,434	1,507	1,469
Total assets	28,363	29,099	28,243	29,602	28,094	23,312
Total debt	10,603	10,351	11,448	12,933	13,104	10,915
Shareholders' equity	8,948	9,776	8,369	9,084	7,321	6,822
Depreciation & amortization	845	1,076	1,089	1,017	829	723
Dividends	447	370	601	325	419	419
Operating income before depreciation and amortization as % of sales	3.7	4.8	1.1	3.2	4.0	4.5
Pretax return on permanent capital (%)	8.7 **	9.6	(0.6)	6.0	7.8	8.1
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.9	7.3	2.2	5.3	6.3	5.1
FFO/total debt (%)	20.0 **	20.4	1.9	17.4	12.8	9.9
Total debt/capitalization (%)	54.2	51.4	57.8	58.7	64.2	61.5

* Consolidated financial statements

** Annualized with trailing 12 months

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