SIAMGAS AND PETROCHEMICALS PLC

No. 69/2012 11 September 2012

Company Rating: BBB+

Outlook: Stable

New Issue Rating: -

Rating History:

Date	Company	Issue (Secured/ Unsecured)
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 affirms the company and senior debenture ratings of Siamgas and Petrochemicals PLC (SGP) at "BBB+". The ratings reflect the company'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 SGP's higher financial leverage, volatile nature of LPG prices, regulatory uncertainty, and increasing business risk from international LPG trading.

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 March 2012, the Weeraborwornpong family remained the largest shareholder, holding 66.7% of the shares of the company.

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. SGP held 26.7% market share in the first half of 2012, behind PTT PLC (38.9% share). SGP's nationwide distribution network is considered strong, with seven LPG storage terminals, 176 LPG filling stations, and 422 LPG auto-gas stations, as of December 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 domestic trading volume averaged 1.12 million tonnes of LPG per year. The cooking segment accounted for 64.1% of the total volume of LPG sold, with the automobile segment (26.4%) and industrial segment (9.5%) making up the balance. SGP's market share dropped from 32.5% in 2008 to 26.7% in the first half of 2012. The drop was mainly due to the intense competition in the automobile segment.

During 2010-2011, SGP expanded its LPG trading business into several countries: China, Vietnam, and Singapore. During the first six months of 2012, the volume of LPG sold to international customers accounted for 39.4% of total sales volume but accounted for 51.1% of total LPG revenue. Currently, the company owns 300,000 tonnes of LPG storage caverns in China. The company utilizes the Chinese facilities as hubs for LPG trading in China and Southeast Asia. Although the international expansion via acquisitions provides more business opportunities for SGP, the expansion exposes the company to greater business risk because of the unfamiliar business environments and the volatility of LPG prices in the world market.

The government policy to gradually liberate LPG market in Thailand will have a negative impact on LPG demand. The increase in the price for LPG used in industrial segment had slashed demand for LPG in this segment. According to the Energy Policy and Planning Office (EPPO), demand for LPG in industrial segment dropped by 21.9% year-on-year (y-o-y) in the first half of 2012. However, SGP's sales in this segment continued to grow by 6.3% y-o-y because SGP has a strong network and a reliable supply of LPG. In January 2012, the government also took action to increase the LPG price in the automobile segment. Although the price of LPG for vehicle use now more reflects the market price, LPG is still cheaper than gasoline. This advantage continues to help bolster consumption in this segment. The growth prospect for this segment leads to the intense competition and increase in number of players.

SGP's financial performance has deteriorated during 2011-2012. In the first six months of 2012, SGP's LPG sales volume increased by 20.8% y-o-y to 1.01 million tonnes, while total revenue increased by 22.8% (y-o-y). However, the operating profit has been declining since 2011, mainly due to the underutilized Chinese storage facilities and losses from the LPG price volatility. The Saudi Aramco Contract Price for LPG (CP) fluctuated wildly during the first half 2012: the CP was US$874 per tonne in January 2012 and rose to US$1,210 per tonne in March 2012 before dropping to US$714 per tonne in June 2012. SGP's international expansion efforts are just beginning. The company needs time to build its distribution network and boost the sales volume, in order to cover its costs and achieve economies of scale. The ratio of operating income before depreciation and amortization as a percentage of sales decreased to 4.5% in 2011 and 3.8% in the first six months of 2012, from 9.5% in 2010. At the end of June 2012, total debt amounted to Bt8,021 million, of which 30.9% was short-term loan. The short-term loan is mainly used to finance its LPG inventory in the Chinese facilities. Leverage ratio, as measured by the total debt to capitalization ratio, was 54.1% at the end of June 2012. This ratio is expected to gradually improve after the profit and cash flow 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. Revenues from domestic trading should serve as a reliable stream of incomes and a cushion for SGP's exposure to the more volatile international markets. The company is also expected to maintain its financial profile and sufficient liquidity to accommodate higher risk from overseas LPG trading activities.

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

		----------------------------- Year Ended 31 December -----------------------------				
	Jan-Jun 2012	2011	2010	2009	2008	2007
Sales and service revenues	22,501	37,907	21,861	19,333	20,060	14,886
Gross interest expense	185	372	89	43	44	136
Net income from operations	293	496	1,179	1,255	1,095	497
Funds from operations (FFOs)	961	1,085	1,522	1,632	1,460	923
Capital expenditures	892	1,469	1,402	960	1,639	404
Total assets	21,810	23,312	15,883	9,506	7,999	5,791
Total debt	8,021	10,915	5,061	954	198	1,527
Shareholder equity	6,793	6,822	6,102	4,776	4,206	991
Operating income before depreciation and amortization as % of sales	3.8	4.5	9.5	10.9	9.4	8.5
Pretax return on permanent capital (%)	4.1 **	8.1	20.7	35.7	46.6	35.4
Earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage (times)	5.7	5.1	24.8	52.0	45.4	9.8
FFOs/total debt (%)	12.0 **	9.9	30.1	171.1	735.9	60.4
Total debt/capitalization (%)	54.1	61.5	45.3	16.6	4.5	60.7

* *Consolidated financial statements*
** *Non-annualized*

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