

SIAMGAS AND PETROCHEMICALS PLC

No. 51/2017

12 May 2017

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

Company Rating History:

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

Rating Rationale

TRIS Rating affirms the company rating of Siamgas and Petrochemicals PLC (SGP) and the ratings of SGP's senior unsecured debenture 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 risks 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 March 2017, 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 24.1% of market share by LPG trading volume in 2016, behind PTT PLC (PTT) which had a 38.6% 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 to the company. However, the cash flows have declined significantly over the past few years due to the economic slowdown and increasingly intense competition in the automotive segment.

SGP entered overseas markets in 2010, establishing LPG trading businesses in China, Vietnam, Singapore, and Malaysia and operating 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 operations outside Thailand provide growth opportunities and geographical diversification. However, the company's business risks have increased materially due to greater exposure to the price volatility of LPG, which causes fluctuation of earning.

The company's exposure to price risk of LPG increased gradually, tracking a growing portion of its international trading. SGP's total sales volume in 2016 rose by 7.2% year-on-year (y-o-y) to 3.04 million tonnes, comprising 1.02 million tonnes in Thailand and 2.02 million tonnes in the international markets. The overseas trading accounted for about 67% in 2016, increased from 63% in 2015. The proportion is expected to rise further according to SGP's business growth plan.

The total domestic volume, representing a source of solid cash flow, continued to fall owing to a plunge of LPG consumption in the automotive sector as customers switch from LPG to more competitively-priced gasoline. The sales volume in the automotive sector was cut by 16.3% in 2016 and 15.8% for the first two months of 2017. Meanwhile, the volumes in the cooking and industrial segment grew below 5%. The price competition with small suppliers in the automotive segment was increasingly intense and also had considerable impacts on the company's profit.

SGP's international business continued to expand, driven by the growth in the Chinese market. The volume sold in China escalated by 29% in 2016 and accounted

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for almost 60% of total international volume. TRIS Rating holds the views that even though the growth opportunity from the international markets will help offset the depressed demand in Thailand, the volatility of global LPG prices can impair the stability and predictability of the company's cash flows.

The currently low price of LPG can be favorable to SGP. The Saudi Aramco contract price for LPG was at US\$430 per tonne for propane in April 2017, lower than the 10-year average of the contract price of about US\$660 per tonne. The low level of price indicates lower working capital needs and also low downside risks of large stock losses in the short term.

Going forward, TRIS Rating expects the total trading volumes of SGP to increase by 5%-7% per annum. The sales in the domestic market would continue to drop as the downtrend of the LPG demand in the automotive sector is likely to persist, given the competitive price of gasoline. The overseas trading segment is forecast to grow by 5%-10%. The business diversification through an investment in a 230-MW power plant in Myanmar is viewed as a positive factor to the credit ratings. The power plant is expected to generate stable equity incomes of Bt180-Bt200 million per annum and partly help alleviate uncertainty of SGP's overall earnings. However, the risks inherent in the investment, including country risk, regulatory risk, and operational risk, still cause concerns over its performance. The earnings before interest, tax, depreciation and amortization (EBITDA) is expected to be volatile but, on average, it should be about Bt2.5-Bt3.5 billion per annum. The funds from operations (FFO) are expected to be in the range of Bt1.5-Bt2.5 billion per annum.

The company's capital expenditures in 2017, mainly including new service stations in Thailand, new LPG storages, and a second-hand very large gas carrier, would be Bt1.5-Bt1.8 billion. The debt to capitalization ratio is likely hover at the current level of 48%, for a certain period, before lowering to below 45% over the next three years. SGP's 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%.

The result of assessment for SGP's liquidity is adequate. Cash outflows over the next 12 months include loan repayments of about Bt480 million, estimated capital expenditures of Bt1.8 billion and estimated dividend of Bt459 million. Meanwhile, the company's sources of funds, including cash on hand of Bt1.99 billion and expected FFO of Bt2 billion, are sufficient to cover the cash outflows. During 2015-2016, the company issued bonds to finance its working capital. Therefore, the company has a plenty of unused credit facilities of about Bt12 billion to support its liquidity needs.

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 the LPG operations in Thailand will partly alleviate the volatile margin of overseas operations.

The upgrade rating potential is likely to be limited in the medium term due to the larger exposure to the price risk inherent in the global LPG market. However, the ratings may be upgraded if the company's FFOs become 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 was to materially deteriorate for an extended period. This situation could arise if the EBITDA interest coverage ratio or the 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:

SGP181A: Bt2,000 million senior unsecured debentures due 2018	BBB
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SGP192A: Bt3,000 million senior unsecured debentures due 2019	BBB
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SGP201A: Bt2,000 million senior unsecured debentures due 2020	BBB
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Rating Outlook: Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Year Ended 31 December				
	2016	2015	2014	2013	2012
Revenues	48,161	58,082	61,759	65,021	47,337
Gross Interest expense	411	410	441	433	367
Net income from operations	1,116	1,248	(646)	591	817
Funds from operations (FFO)	2,142	2,117	219	2,246	1,677
Capital expenditures	2,409	970	683	1,434	1,507
Total assets	28,557	29,099	28,243	29,602	28,094
Total debt	9,395	10,351	11,448	12,933	13,104
Shareholders' equity	9,800	9,776	8,369	9,084	7,321
Depreciation & amortization	1,176	1,076	1,089	1,017	829
Dividends	447	370	601	325	419
Operating profit before depreciation and amortization as % of sales	5.5	4.8	1.1	3.2	4.0
Pretax return on permanent capital (%)	8.5	9.6	(0.6)	6.0	7.8
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	6.9	7.3	2.2	5.3	6.3
FFO/total debt (%)	22.8	20.4	1.9	17.4	12.8
Total debt/capitalization (%)	48.9	51.4	57.8	58.7	64.2

* Consolidated financial statements

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