SIAMGAS AND PETROCHEMICALS PLC

No. 107/2024
27 June 2024

CORPORATES

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

Last Review Date: 16/11/23

Company Rating History:

Date	Rating	Outlook/Alert
30/06/23	BBB+	Negative
17/05/18	BBB+	Stable
28/11/13	BBB	Stable
07/07/11	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Siamgas and Petrochemicals PLC (SGP) and the ratings on its outstanding senior unsecured debentures at "BBB+". TRIS Rating also revises the rating outlook to "stable" from "negative". The outlook revision reflects SGP's improved operating results as well as its revised budget for the construction of the liquefied natural gas (LNG) receiving terminal spread out over two phases, reducing near-term capital needs.

The ratings continue to recognize the company's market position as the second-largest liquefied petroleum gas (LPG) trader in Thailand and its significant presence in the LPG market across several East and Southeast Asian countries. Conversely, the ratings are constrained by SGP's vulnerability to fluctuating prices of the LPG in overseas markets. The ratings also consider SGP's planned investment in the LNG import project, which could lead to higher financial leverage.

KEY RATING CONSIDERATIONS

Broad distribution network

A key competitive advantage for SGP is its distribution network. In Thailand, SGP has nine LPG storage terminals, widespread LPG filling plants and gas service stations, and a large fleet of LPG trucks and tankers. Abroad, the firm owns two large storage caverns with a total storage capacity of 300,000 tonnes in China and a fleet of LPG vessels including several very large gas carriers (VLGC) used as relocatable floating storages near Singapore and India. The floating storages allow SGP to adapt its supply chain and logistics to meet changing regional demands and capture new market opportunities. SGP also has smaller LPG storage facilities in Malaysia, Vietnam, Singapore and in Laos. The scale of its operations and reach makes it a significant regional player.

Maintaining domestic market share

SGP's domestic market position remains strong. We believe its long-established brand, economies of scale, and nationwide distribution coverage will help SGP in defending its market share. In 2023, SGP managed to keep LPG market share at around 22%, near that in 2022. SGP used to have about 24%-25% market share during 2017-2019 but lost some due primarily to competition ignited by an aggressive player offering discounts in the automobile LPG and the cooking LPG segments.

SGP's domestic LPG operation has been a relatively steady source of earnings as the domestic LPG price is regulated and partly subsidized by the government. The non-LPG businesses, such as ammonia and chemical products trading and rental of oil storage tanks, have also been consistently profitable. As such, SGP's profit margin from domestic sales has not been as volatile as sales in overseas markets.

Volatile earnings from LPG price fluctuations

In overseas markets, comprising 78% of its total LPG sales volume, SGP is more susceptible to the LPG price risk relative to the domestic market. Gross profit per tonne from offshore trading can fluctuate widely from quarter to quarter in tandem with changes in LPG price.

Owning sizable LPG storage capacity enables SGP to manage inventory according to its expectation of future prices, with the flexibility to increase inventory level during a period of rising prices. SGP's days in inventory has ranged from 29 days to 44 days in the last 13 quarters. However, inventory management could also exacerbate inventory losses if the company's view on future prices turns out to be wrong.

Only modest volume growth projected with slightly declining prices

Given the weak global economic growth, LPG demand is expected to be weak over the next few years. We expect SGP's LPG sales volume in 2024 to be almost flat year-on-year (y-o-y) and then to grow by around 1% per year in 2025-2026.

In terms of LPG price, the propane reference price has weakened from USD630 per tonne since March 2024 to USD580 per tonne in June 2024. We project the LPG price to hover around this level through the rest of the year. We assume a slight declining trend in LPG prices over the forecast period. Given all the above, we project SGP's EBITDA to range THB3.7-THB3.9 billion per year in 2024-2026.

Recovery in LPG prices since August 2023 has helped SGP's financial performance. In 2023, SGP's EBITDA increased by 28% to THB3.8 billion, despite the almost flat y-o-y LPG sales volume. For the first quarter of 2024, SGP's EBITDA increased by 52% y-o-y.

Financial leverage to remain high due to heavy investment plan

In our base case, we project SGP's capital expenditures during 2024-2026, including potential LNG project investment, to total THB7.9 billion. Over the forecast periods, its debt to EBITDA ratio is expected to range 4.5-4.8 times. The ratio of funds from operations (FFO) to debt is projected to be 13.5%-14.5%. As of March 2024, the debt to EBITDA ratio (annualized with trailing 12 months) stood at 3.8 times and the FFO to debt ratio was 16.8%.

SGP made the decision to invest in another VLGC valued over THB2 billion in 2024. This VLGC is second-hand, but fairly new and has 44,000 tonne of LPG storage capacity. The vessel is expected to be rented out under a term contract. Apart from that, SGP still has long-term aspirations to construct the LNG receiving facilities. However, the firm has revised the plan to build only one LNG storage tank during the first phase of the project, instead of two. This change will reduce the project costs over the next 3-5 years from around THB8 billion to around THB5.2 billion. The project will support SGP's new business of importation and distribution of LNG to target industrial users, which are shifting to cleaner fuels or expecting to use LNG as an alternative energy source when the price is attractive. The project construction could take about three years and SGP may start selecting an engineering, procurement and construction (EPC) contractor for the project in 2025. We still hold the view that SGP's potential LNG import project carries significant project risks, given the lack of operating track record, uncertainties in the scope of end market, and the uncertain LNG price which would be key to the viability of the business.

Overdue receivables issues to be resolved

The company is experiencing a potential issue with outstanding accounts receivable, with a THB434 million and 12 months overdue as of March 2024. According to management, the problem mainly stems from certain foreign banks' inability to honor letter of credit (L/C) commitments due to ongoing currency control measures. The company has not yet made a provision for bad debts on these receivables. Despite the challenges, SGP has remained committed to trading with customers in the region impacted by these measures, but with all transactions secured by confirmed L/C. We will closely monitor the aging of the company's account receivables.

Adequate liquidity

We assess SGP's liquidity as adequate and improved from last year. As of March 2024, SGP had cash and cash equivalents of THB3.1 billion and undrawn short-term credit facilities of around THB6.5 billion. We forecast the FFO over the next 12 months to be around THB2.1 billion. At the same time, SGP had outstanding short-term loans of THB5.8 billion as of March 2024. The company will have maturing debt, comprising long-term loans and lease liabilities of THB326 million. Given the working capital needs and planned capital expenditures, we expect SGP will need to rollover its short-term debt.

Debt structure

At the end of March 2024, SGP had consolidated debt (excluding lease liabilities) of THB18.1 billion. SGP's priority debt totaled around THB3.3 billion. Hence, the ratio of priority debt to total debt was about 18%.

BASE-CASE ASSUMPTIONS

- SGP's total LPG sales volume to stay at 3.62 million tonnes in 2024 and grow by around 1% per year in 2025-2026.
- Operating revenue to total THB95 billion in 2024, declining to THB90 billion in 2025, and THB87 billion in 2026.
- EBITDA margin to be around 4% to 4.5%.
- Capital spending to total THB2.7 billion in 2024 and THB5.2 billion during 2025-2026.
- Dividend payout ratio at 40% of net profit.

RATING OUTLOOK

The “stable” outlook embeds our expectation that SGP will be able to maintain its market position in the domestic market and be able to manage inventory and price risks in the overseas markets while generating reasonable profits.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term due in part to SGP’s large investment plan. Conversely, a rating downgrade pressure could emerge if investment needs in the LNG import facilities turn out to be larger than expected or if financial performance falls significantly short of our estimates, resulting in our expectation that SGP’s debt to EBITDA ratio will exceed 5 times for a prolonged period.

COMPANY OVERVIEW

SGP engages in the LPG trading business in Thailand under the “Siam Gas” and “Unique Gas” brands. The company was established by the Weeraborwornpong family in 2001 and listed on the Stock Exchange of Thailand (SET) in 2008. The family held approximately 55.7% of SGP’s total shares as of March 2024.

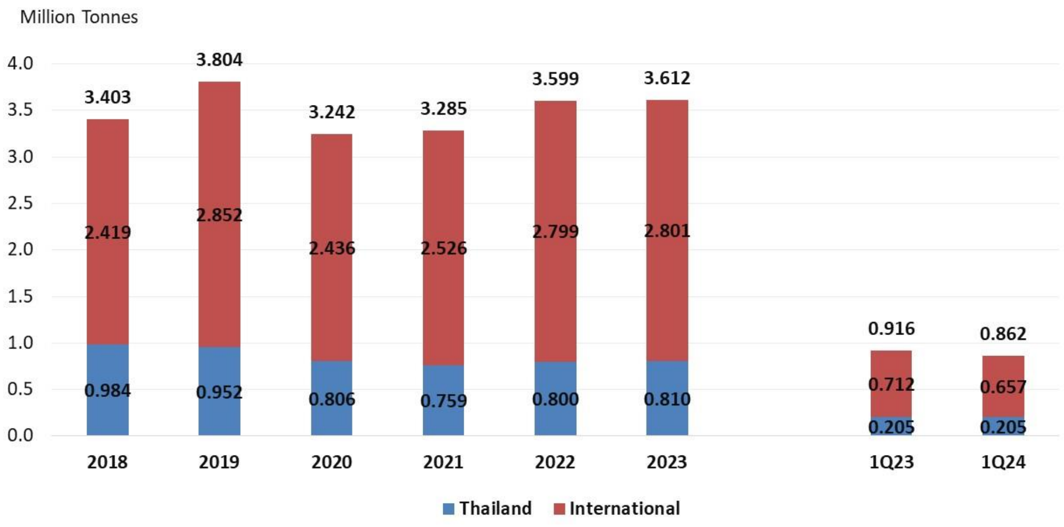
SGP’s LPG trading business expanded abroad in 2010 with an aim to increase volumes to offset dwindling demand in the domestic market. Revenue from the international LPG trading segment rose continually, and currently accounts for about 70%-80% of total revenue. In 2023, SGP sold around 3.6 million tonnes of LPG, comprising domestic sales volume of 0.8 million tonnes and international volume of 2.8 million tonnes.

SGP diversified into power generation in 2016. Currently, SGP holds a 41.1% share of a gas-fired power plant in Myanmar with a production capacity of 230 megawatts (MW). The company has also invested in a 33% share of a 10-MW diesel-fired power plant in Myanmar.

In early 2020, SGP completed the acquisition of a 99.69% share of Thai Public Port Co., Ltd. (TPP). TPP, which has been renamed Siam Tank Terminal Co., Ltd. (STT), engages in rental services for oil tank storage, with facilities located at Si-Chang deep seaport in Chonburi Province. In August 2020, SGP purchased 70% shares of Linh Gas Cylinder Co., Ltd. (LINH), an LPG cylinder producer. In early 2021, SGP completed the takeover of LINH, increasing its stake to 97.5%. In 2022, SGP acquired Prasansack Gas Sole Co., Ltd., which operates LPG trading in the Lao People's Democratic Republic (Lao PDR).

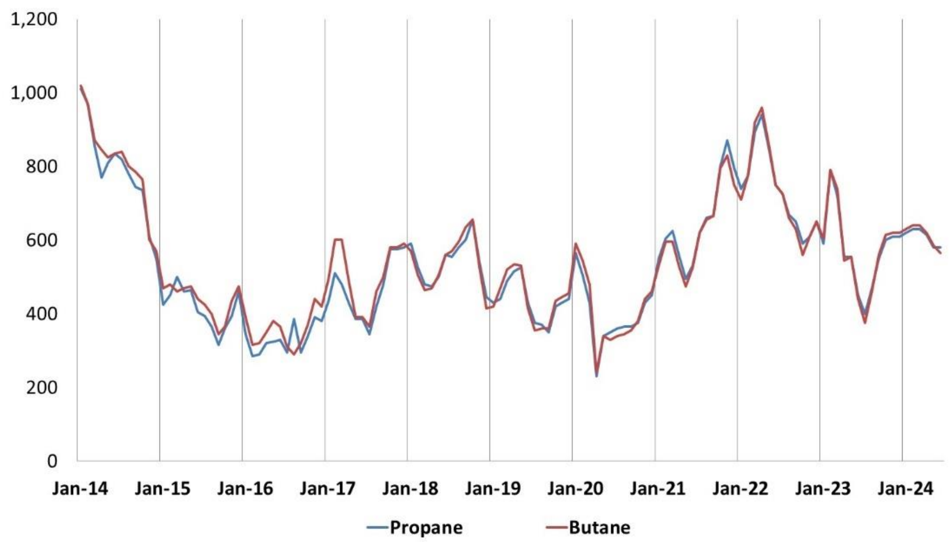
KEY OPERATING PERFORMANCE

Chart 1: Sales Volumes (Million Tonnes)



Source: SGP

Chart 2: LPG's Saudi Aramco Contract Price (USD per Tonne)



Source: SGP

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024		------------Year Ended 31 December --------- 2023	2022	2021	2020
Total operating revenues	23,383		91,059	102,522	78,993	55,365
Earnings before interest and taxes (EBIT)	969		2,476	1,493	5,060	2,906
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,328		3,689	2,879	6,379	3,995
Funds from operations (FFO)	1,002		2,273	1,728	4,987	2,994
Adjusted interest expense	272		1,120	724	664	631
Capital expenditures	108		1,873	1,466	2,047	2,015
Total assets	49,820		52,845	47,072	50,894	41,388
Adjusted debt	15,868		18,701	14,897	16,720	14,689
Adjusted equity	17,403		15,914	15,880	16,793	12,864
Adjusted Ratios						
EBITDA margin (%)	5.7		4.1	2.8	8.1	7.2
Pretax return on permanent capital (%)	7.7	**	6.7	4.2	15.1	9.8
EBITDA interest coverage (times)	4.9		3.3	4.0	9.6	6.3
Debt to EBITDA (times)	3.8	**	5.1	5.2	2.6	3.7
FFO to debt (%)	16.8	**	12.2	11.6	29.8	20.4
Debt to capitalization (%)	47.7		54.0	48.4	49.9	53.3

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Siamgas and Petrochemicals PLC (SGP)

Company Rating:	BBB+
Issue Ratings:	
SGP262A: THB4,000 million senior unsecured debentures due 2026	BBB+
SGP269A: THB2,000 million senior unsecured debentures due 2026	BBB+
SGP272A: THB4,000 million senior unsecured debentures due 2027	BBB+
SGP282A: THB1,728 million senior unsecured debentures due 2028	BBB+
Up to THB2,272 million senior unsecured debentures due within 4 years 2 months	BBB+
Rating Outlook:	Stable

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