

SIAMGAS AND PETROCHEMICALS PLC

No. 105/2014

20 November 2014

Company Rating:	BBB
Issue Ratings:	
Senior unsecured	BBB

Company Rating History:

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

Rating Rationale

TRIS Rating affirms the company and senior unsecured debenture ratings of Siamgas and Petrochemicals PLC (SGP) 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 an increase in business risk from SGP's overseas operations which increasingly expose the company to fluctuation of LPG prices and upcoming changes in LPG price structure in Thailand.

SGP was established by the Weeraborwornpong family in 2001, and was listed on the Stock Exchange of Thailand (SET) in 2008. As of June 2014, the Weeraborwornpong family remained the largest shareholder, holding 61% of the company's shares.

SGP's business profile is moderate. 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% market share by trading volume, behind PTT PLC (PTT) which had a 35% market share as of August 2014. SGP's distribution network is considered strong, with seven LPG storage terminals, 184 LPG filling stations, and 558 LPG auto-gas stations as of June 2014. SGP operates a range of transportation facilities, including land and sea freight transportation services, to support its LPG trading business.

SGP's domestic LPG trading volume slipped by 3.7% year-on-year (y-o-y) to 1.21 million tonnes in 2013. In the first eight months of 2014, SGP sold about 0.75 million tonnes of LPG, a drop of 8.3% from the same period last year. SGP's current market share is around 24%, down from 27% in 2012. The drop was mainly due to intense competition from new LPG suppliers in the auto segment. However, SGP's market positions in the cooking and industrial segments remain strong, as evidenced by its stable market shares over the last three years. As of August 2014, SGP's market share was about 29% in the cooking segment and 22% in the industrial segment. While the market share in the auto segment continued to decline to 18% from around 20% at the end of 2013.

SGP entered overseas markets in 2010. The company owns two large storage caverns in China, capable of storing 300,000 tonnes of LPG. It also owns a 45,000 deadweight tonnage (DWT) of floating storage in Singapore to support its LPG trading operations in Southeast Asia. The sales volume in the LPG trading segment in 2013 was 1.43 million tonnes, soaring by 64% from the 2012 level. However, for the first half of 2014, the sales volume fell by 9% y-o-y to 0.52 million tonnes. The drop was from the contraction in demand and downward trend of market price.

In the first nine months of 2014, the company's revenue was Bt45,453 million, similar to the revenue in the same period last year. At the same time, the operating margin (before depreciation and amortization, as % of sales) was 1.8%, lower than the full-year operating margin of 3.2% in 2013. The operating margin fell, tracking LPG prices which sunk from US\$1,010 per tonne in January 2014 to US\$745 per tonne in September 2014. In terms of cash flow, earnings before interest, tax, depreciation, and amortization (EBITDA) was Bt1,099 million, falling by 8% year over year.

SGP's leverage ratio is commensurate with the current ratings. The debt to total capitalization ratio improved slowly, from 64.2% in 2012 to 57.2% as of

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September 2014. This level is satisfactory, compared with SGP's financial covenants which cap the interest-bearing debt to equity ratio at 2:1, or the equivalent of a debt to capitalization ratio equal to 66.7%. Liquidity remains acceptable. In the first nine months of 2014, the funds from operations (FFO) to total debt ratio (annualized with trailing 12 months) was 15.2% and the EBITDA to interest ratio was 3.3 times.

Going forward, TRIS Rating maintains the views that SGP's revenue can grow by 5%-10% per annum over the next three years. The overseas trading segment will be the main driver of growth and will contribute 50%-60% of total revenue over the next three years. The higher exposure to overseas markets means SGP's operating performance will be closely linked to LPG prices in the world market. The debt to capitalization is expected to slightly lower than the current level over the next three years.

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

Siamgas and Petrochemicals PLC (SGP)

Company Rating:	BBB
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Issue Ratings:

SGP152A: Bt1,500 million senior unsecured debentures due 2015	BBB
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SGP162A: Bt1,500 million senior unsecured debentures due 2016	BBB
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SGP171A: Bt1,300 million senior unsecured debentures due 2017	BBB
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Rating Outlook:	Stable
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Financial Statistics and Key Financial Ratios*
Unit: Bt million

	Jan-Sep 2014	Year Ended 31 December				
		2013	2012	2011	2010	2009
Revenues	45,453	65,021	47,337	37,907	21,861	19,333
Gross Interest expense	337	433	367	372	89	43
Net income from operations	(108)	591	817	496	1,179	1,255
Funds from operations (FFO)	362	2,246	1,677	1,085	1,522	1,632
Capital expenditures	511	1,434	1,507	1,469	1,402	960
Total assets	30,033	29,602	28,094	23,312	15,883	9,506
Total debt	11,940	12,933	13,104	10,915	5,061	954
Shareholders' equity	8,928	9,084	7,321	6,822	6,102	4,776
Depreciation & amortization	802	1,017	829	723	460	419
Dividends	601	325	419	419	462	425
Operating profit before depreciation and amortization as % of sales	1.8	3.2	4.0	4.5	9.5	10.9
Pretax return on permanent capital (%)	5.2 **	6.0	7.8	8.1	20.7	35.7
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.3	5.3	6.3	5.1	24.8	52.0
FFO/total debt (%)	15.2 **	17.4	12.8	9.9	30.1	171.1
Total debt/capitalization (%)	57.2	58.7	64.2	61.5	45.3	16.6

** Consolidated financial statements*
*** Annualized with trailing 12 months*
TRIS Rating Co., Ltd.

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