SIAMGAS AND PETROCHEMICALS PLC

No. 79/2015 24 December 2015

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 Bt3,000 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 2015, 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 23.5% market share, by LPG trading volume, behind PTT PLC (PTT) which had 37.5% market share as of September 2015. SGP’s distribution network is considered strong, supported by seven 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. The company’s LPG trading activities in Thailand have generated solid cash flows over the past five years. However the company’s earnings have declined due to the economy slowdown and intense competition in the automotive segment.

The ratings also take into consideration SGP’s competitive advantages in overseas markets. SGP entered overseas markets 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 of 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.

SGP’s sales revenue for the first nine months in 2015 was Bt41,598 million, an 8.5% drop year-on-year (y-o-y), reflecting a fall in trading volume in Thailand and a downtrend of Saudi Aramco Contract Price for LPG (CP). SGP’s international operations comprise about 60% of total revenue. The operating margin improved to 3.5% for the first nine months of 2015, thanks to less fluctuation in the CP price.

During 2016-2018, TRIS Rating expects that SGP’s trading operations in Thailand will generate adequate cash flow to cushion the LPG price risk inherent in the international operations. The CP price in September 2015 hit a six-year low, before rebounding to approximately US$460 per tonne in December 2015. The low CP price favors SGP’s overseas operation as the company needs less working capital and the downside risk of further drop in the LPG prices is limited.

TRIS Rating's base case expects that SGP's revenue to grow by 5%-10% per year in medium term, driven by an increase in overseas trading volumes. The overseas trading segment will contribute approximately 60% or more of total revenue over the next three years. The debt to capitalization ratio is expected to stay below 55% since the company has no material capital expenditures in the foreseeable future. SGP's liquidity profile is expected to be adequate, backed by Bt18,000 million credit facilities and expected funds from operations (FFO) ranging of Bt1,500-Bt1,700 million per annum. The earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio is expected to stay above five times. The FFO to total debt ratio should bounce back to 10%-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 ratings may be revised downward if SGP's financial profile deteriorated materially for an extended period. This could arise if the EBITDA interest coverage or FFO to total debt ratio significantly fall below TRIS Rating's expectation or large debt-funded acquisitions. The rating, however, would be revised upward if the performance is strong than the base case on a sustained basis.

Siamgas and Petrochemicals PLC (SGP)

Company Rating:	BBB
Issue Ratings:	
SGP162A: Bt1,500 million senior unsecured debentures due 2016	BBB
SGP171A: Bt1,300 million senior unsecured debentures due 2017	BBB
SGP181A: Bt2,000 million senior unsecured debentures due 2018	BBB
Up to Bt3,000 million senior unsecured debentures due within 2019	BBB
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		----------------------------- Year Ended 31 December -----------------------				
	Jan-Sep 2015	2014	2013	2012	2011	2010
Revenues	41,598	61,759	65,021	47,337	37,907	21,861
Gross Interest expense	308	441	433	367	372	89
Net income from operations	434	(646)	591	817	496	1,179
Funds from operations (FFO)	950	219	2,246	1,677	1,085	1,522
Capital expenditures	641	683	1,434	1,507	1,469	1,402
Total assets	23,398	28,243	29,602	28,094	23,312	15,883
Total debt	9,871	11,448	12,933	13,104	10,915	5,061
Shareholders' equity	9,074	8,369	9,084	7,321	6,822	6,102
Depreciation & amortization	791	1,089	1,017	829	723	460
Dividends	370	601	325	419	419	462
Operating income before depreciation and amortization as % of sales	3.5	1.1	3.2	4.0	4.5	9.5
Pretax return on permanent capital (%)	2.2 **	(0.6)	6.0	7.8	8.1	20.7
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	5.3	2.2	5.3	6.3	5.1	24.8
FFO/total debt (%)	8.2 **	1.9	17.4	12.8	9.9	30.1
Total debt/capitalization (%)	52.1	57.8	58.7	64.2	61.5	45.3

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

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