

SIAMGAS AND PETROCHEMICALS PLC

No. 6/2018

5 February 2018

CORPORATES

Company Rating:	BBB
Issue Ratings:	
Senior unsecured	BBB
Partially guaranteed	A
Outlook:	Stable

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating of Siamgas and Petrochemicals PLC (SGP) and its current senior unsecured debenture ratings at “BBB”. At the same time, TRIS Rating assigns the rating of “A” to SGP’s newly proposed issue of up to Bt2,000 million in debentures partially guaranteed by Credit Guarantee and Investment Facility, a trust fund of the Asian Development Bank (CGIF). CGIF was rated “AAA” by TRIS Rating. Under the terms of the guarantee agreement, CGIF agrees to provide unconditional and irrevocable guarantees to cover up to 85% of the principal amount and 85% of the unpaid interest. The proceeds from the new debentures will be used for its 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 high business risk from SGP’s operations abroad which expose the company to fluctuations in LPG prices.

SGP’s overall operating performance in 2017 is likely to be better than TRIS Rating’s forecast due mainly to a price uptrend. The price of LPG rose from US\$380 per ton in December 2016 to US\$590 per ton in December 2017, a 55.2% increase. The company’s sales volume of LPG continues to grow moderately, backed by additional sales volume from imports of LPG and ongoing expansion into the Chinese market.

The company’s liquidity profile remains satisfactory, assessed by higher funds from operation (FFO) to total debt ratios as a result of better cash flow generated in 2017. Meanwhile the debt to capitalization ratio is expected to be around 50% in 2017, the same level in 2015 and 2016.

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. TRIS Rating expects total trading volume will grow by 5%-7%. The FFO is expected to be volatile but average approximately Bt2.5 billion per annum. The FFO to total debt ratio should stay above 15% in the long term.

RATING SENSITIVITIES

An upgrade potential for SGP’s rating and the ratings of its existing debentures is likely to be limited in the medium term due to exposure to the price risk inherent in the global LPG market. However, the rating may be upgraded if the company’s FFO becomes larger and/or more stable, or if the debt to capitalization ratio is controlled at a low level for an extended period.

The ratings could be revised downward if SGP’s financial profile materially deteriorates for an extended period. This could arise if the earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage and/or FFO to total debt ratio significantly falls below TRIS Rating’s expectation or if there are large debt-funded acquisitions, leading to a significantly weaker financial profile.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

The issue ratings and outlook for SGP's partially guaranteed debentures reflect the creditworthiness of both the issuer and its guarantor, CGIF. The issue ratings could be revised upward or downward should there be any changes in the credit profiles of SGP or its guarantor.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Bt million

	Jan-Sep 2017	----- Year Ended 31 December -----			
		2016	2015	2014	2013
Revenue	41,780	48,161	58,082	61,759	65,021
Gross interest expense	334	411	410	441	433
Net income from operations	1,922	1,116	1,248	(646)	591
Funds from operations (FFO)	3,015	2,142	2,117	219	2,246
Capital expenditures	1,258	2,409	846	683	1,434
Total assets	32,606	28,557	29,099	28,243	29,602
Total debts	11,768	9,395	10,351	11,448	12,933
Shareholders' equity	10,481	9,800	9,776	8,369	9,084
Depreciation & amortization	956	1,176	1,076	1,089	1,017
Dividends	791	447	370	601	325
Operating income before depreciation and amortization as % of sales	7.7	5.5	4.8	1.1	3.2
Pretax return on permanent capital (%)	17.2 **	8.5	9.6	(0.6)	6.0
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	10.5	6.9	7.3	2.2	5.3
FFO/total debt (%)	35.8 **	22.8	20.4	1.9	17.4
Total debt/capitalization (%)	52.9	48.9	51.4	57.8	58.7

* Consolidated financial statements

* Annualized with trailing 12 months

Siamgas and Petrochemicals PLC (SGP)

Company Rating:	BBB
Issue Ratings:	
SGP192A: Bt3,000 million senior unsecured debentures due 2019	BBB
SGP201A: Bt2,000 million senior unsecured debentures due 2020	BBB
Up to Bt2,000 million partially guaranteed debentures due within 5 years	A
Rating Outlook:	Stable

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