TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

SIAMGAS AND PETROCHEMICALS PLC

No. 120/2023
30 June 2023

CORPORATES

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

Last Review Date: 16/12/22

Company Rating History:

Date	Rating	Outlook/Alert
17/05/18	BBB+	Stable
28/11/13	BBB	Stable
07/07/11	BBB+	Stable

Contacts:

Supasith Tiensuksai, CFA
supasith@trisrating.com

Pravit Chaichamnapai, CFA
pravit@trisrating.com

Parat Mahuttano
parat@trisrating.com

Monthian Chantarklam
monthian@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Siamgas and Petrochemicals PLC (SGP), and the ratings on its outstanding senior unsecured debentures at "BBB+". At the same time, TRIS Rating affirms the rating on its 70% partially guaranteed debentures at "A". The debentures are partially guaranteed by Credit Guarantee and Investment Facility (CGIF, rated "AAA/stable"). However, TRIS Rating revises the rating outlook to "negative" from "stable", reflecting the tendency of SGP's softening financial performance led by the ongoing downtrend of liquefied petroleum gas (LPG) prices, and the risk of heightening leverage.

The ratings continue to recognize the company's extensive distribution network, its market position as the second-largest LPG supplier in Thailand, and the reviving sales volume. The ratings also take into account SGP's high vulnerability to fluctuating LPG prices in overseas markets, despite the benefits of geographically diverse customer bases.

KEY RATING CONSIDERATIONS

SGP's extensive distribution network

The ratings recognize SGP's extensive distribution network and facilities which materially support its competitiveness in LPG trading business in Asia Pacific region. The firm owns two large storage caverns with a total storage capacity of 300,000 tonnes in China, a floating storage facility of 45,000 tonnes and a fleet of vessels. SGP also has smaller LPG storage facilities or LPG filling plants in Malaysia, Vietnam, Singapore and the latest in Laos.

Meanwhile, SGP's logistics facilities in Thailand include nine LPG storage terminals, widespread LPG filling plants and auto gas service stations, and a large fleet of LPG trucks and tankers. We view the strength of distribution network has placed SGP in an advantageous position compared to most of its peers.

Post-pandemic volume recovery

SGP's LPG sales volume totaled 3.6 million tonnes in 2022, suggesting a 9.6% recovery from the setbacks in 2020 and 2021 brought on by the Coronavirus Disease 2019 pandemic. Overseas LPG sales volume grew by 10.8% to 2.8 million tonnes. At the same time, domestic sales staged a 5.4% increase, driven by resurgences in LPG consumption in the industrial segment and auto sector. The revival of domestic auto LPG was induced by the steep rise in gasoline prices. We view a surge in LPG demand in auto sector as short-lived, with the long-term downward trend still lingering. SGP's LPG sales volume in the first quarter of 2023 was flat year-on-year.

The proportion of overseas LPG sales volume increased to 78% in 2022 from 75% in 2019 and is expected to increase further as the overseas markets still have the potential to grow. However, overseas trading is much more susceptible to LPG price fluctuations than the domestic market.

Maintaining second position in domestic market

SGP's domestic market position is considered strong, supported by its long-established reputation and economies of scale. However, its LPG market share has gradually declined, from about 25% in 2019 to about 22% in 2022. Competition has intensified driven by an aggressive player in the auto LPG business. The competition is also spreading to the cooking LPG segment. With that, we expect SGP to be able to protect its market share in the cooking LPG and industrial segments while its auto LPG market share to gradually shrink. In response, SGP plans to convert some of its auto LPG stations to petrol stations instead.

High vulnerability to LPG price swing

SGP has established customer bases in many countries, with China being the key strategic market and making up about 31% of total sales volume in 2022. Meanwhile, SGP's offshore trading in various countries represented about 39%. Despite the benefits of geographically diverse customer bases, we expect SGP to remain highly vulnerable to fluctuating LPG prices as the company tends to further expand its overseas markets in the years to come. The heightening LPG price risk is partly offset by more stable revenues from domestic LPG trade and non-LPG businesses, such as chemical trading, rental of oil storage tanks, and wholesale oil trading.

Weaker-than-expected financial performance

Notwithstanding the restoration in sales volume, SGP saw a plunge in its earnings as it incurred gross losses in China market and offshore trading. SGP's earnings before interest, taxes, depreciation, and amortization (EBITDA) plummeted by 55% to THB2.9 billion in 2022, although we projected that EBITDA would gradually decline to ordinary levels from the earnings in 2021. The decline in earnings came after a tenacious tumble in LPG prices during 2022. LPG price drastically fell from its peak of USD950 per tonne in April 2022 to USD650 per tonne in December 2022. This markedly hurt SGP's earnings although the company earned high profit from oil trading business.

As a result, the ratio of debt to EBITDA rose to 5.2 times and the funds from operations (FFO) to debt ratio was down to 11.6% in 2022. The LPG price bounced back during the first quarter of 2023 and ended at USD730 per tonne in March 2023. However, SGP's profitability did not rebound as strong as it generally does during an uptrend of LPG prices. Moreover, SGP had a deficit in operating cash flows in the first quarter of 2023 as it needed higher working capital due in part to a longer collection period of accounts receivable. In effect, the adjusted net debt rose to a record of THB18.8 billion as of March 2023. As SGP has provided longer credit terms to customers in some countries, we expect SGP to prudently manage the credit risk. A significant deterioration in the quality of accounts receivable would negatively weigh on the ratings.

Lingering pressure on earnings from declining LPG prices

The prospect of SGP encountering a tough year in 2023 seems inevitable as we witnessed the LPG price further receded to USD445 per tonne in June 2023, which is about the pre-pandemic level. We view SGP is at risk of booking significant stock losses, particularly in the second quarter of 2023. In our base-case forecast, we project SGP's sales volume to continue to increase by 9% in 2023, aided by China's re-opening and the recovering tourism in domestic market. However, the profit margins from LPG trading remain under pressure from lowering LPG prices. At the same time, the profit from other businesses in 2023 is expected to soften, especially from the oil trading. In all, we project SGP to arrive at THB2.7 billion in EBITDA in 2023, which is lower than the long-term average level of about THB3.4 billion a year.

Looking further ahead, we project sales volume to grow by around 2% per year in 2024-2025. We expect LPG price to be more stable going forward but could be decreasing further in the medium term. As a result, we forecast SGP's EBITDA to recoup to THB3.3-THB3.5 billion a year in 2024-2025.

Leverage could remain high

In our base case, we forecast SGP's debt to EBITDA ratio to further increase to 6 times in 2023 and should then decrease to around 4.5-5.2 times in 2024-2025. Our forecast incorporates SGP's plan to purchase two new vessels in 2024. We note that SGP continues its plan for construction of the liquefied natural gas (LNG) receiving facilities. 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 while the project cost is estimated at around THB8 billion.

However, we leave out the LNG import project from our base-case forecast, as we do not expect the project to progress in the near future since the company is still in the process of a concrete feasibility study. Should the project materialize, SGP's financial leverage will likely rise and remain elevated over the course of construction, given the company's tendency to fund the project mainly by debt. The debt to EBITDA ratio could remain at 6 times over a sustained period, in which case we may consider a rating downward revision. We still hold our view of SGP's potential LNG import project carries project risks, given a lack of operating track record, uncertainties in the scope of end market, and the potentially intensifying competition after the Thai LNG market is liberalized.

Manageable liquidity

We assess SGP's liquidity as manageable. As of March 2023, SGP had cash and cash equivalents of THB4.0 billion, and undrawn credit facilities of over THB10.0 billion. We forecast the FFO over the next 12 months to be THB1.8 billion.

At the same time, SGP had outstanding short-term loans of THB6.8 billion as of March 2023. The company will have maturing debt, comprising long-term loans and lease liabilities of THB497 million, as well as debentures of THB6.0 billion. Given the working capital needs and planned capital expenditures, we expect SGP will need to rollover its short-term loans and maturing debentures.

Debt structure

At the end of March 2023, SGP had consolidated debt (excluding lease liabilities) of THB21.8 billion. SGP's priority debt totaled approximately THB7.4 billion. Hence, the ratio of priority debt to total debt was about 34%.

BASE-CASE ASSUMPTIONS

- SGP's sales volume to increase to 3.92 million tonnes in 2023 and grow by around 2% per year in 2024-2025.
- Revenue to total THB87 billion in 2023, declining to THB79 billion in 2024 and THB78 billion in 2025.
- EBITDA margin to be around 3% to 4.5%.
- Capital spending to total THB1.5 billion in 2023 and THB5 billion during 2024-2025.
- Dividend payout ratio at 50% of net profit.

RATING OUTLOOK

The "negative" outlook embeds our expectation that SGP could arrive at a softening financial performance as the company faces lingering pressure from lowering LPG prices. The outlook also reflects a likelihood of SGP's financial leverage to heighten and remain elevated, given the weakened earnings and potential investment of LNG importation facilities.

RATING SENSITIVITIES

We could consider revising the outlook to "stable" if we see a trend of earnings recovery and SGP will employ a prudent capital structure for the investment in the LNG project. As such, the company could keep its debt to EBITDA ratio not more than 5 times on average over the long term. Given the "negative" outlook, an upgrade of ratings is unlikely in the near term.

A rating downgrade could emerge if there is no sign of earnings recovery, or SGP's performance falls short of our estimates, or its financial profile continues to deteriorate. As a result, SGP's debt to EBITDA ratio would remain over 5 times for a sustained period.

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

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% of SGP's total shares as of March 2023.

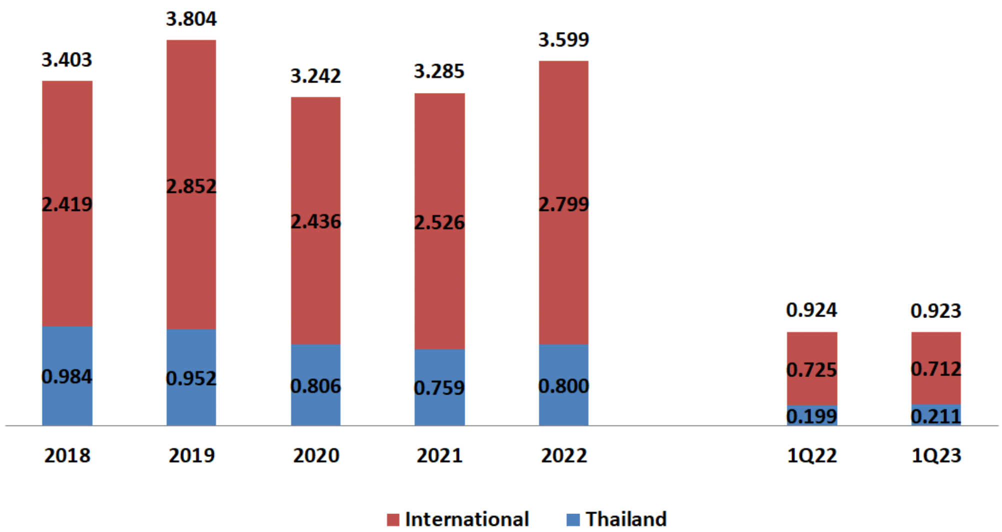
SGP's LPG trading business expanded abroad in 2010 with an aim to increase volumes to offset dwindling demand in the domestic market. Revenue from the international LPG trading segment rose continually, and currently accounts for about 75%-80% of total revenue. In 2022, SGP sold around 3.6 million tonnes 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).

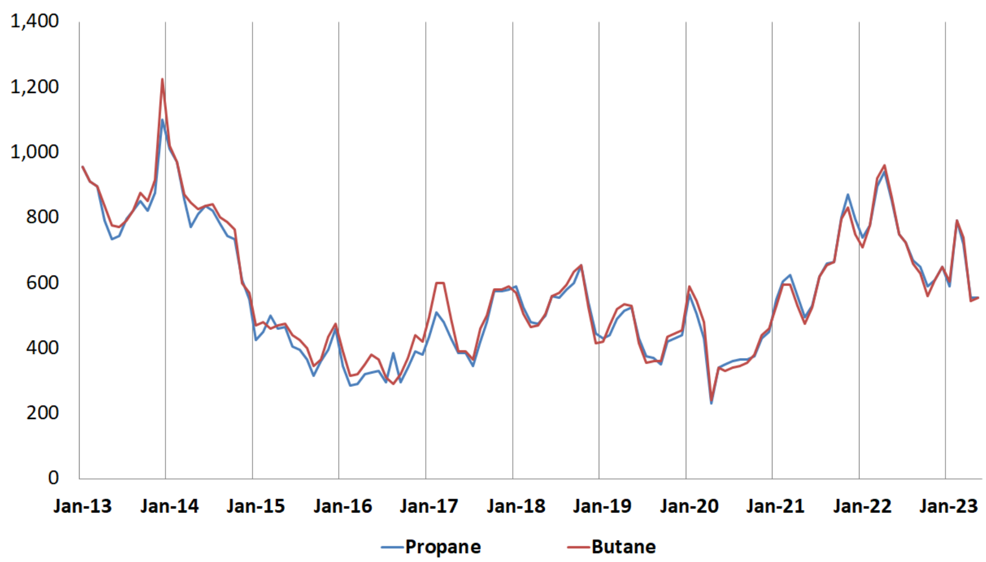
KEY OPERATING PERFORMANCE

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

		-----------Year Ended 31 December -----------			
	Jan-Mar 2023	2022	2021	2020	2019
Total operating revenues	24,755	102,522	78,993	55,365	67,412
Earnings before interest and taxes (EBIT)	534	1,493	5,060	2,906	2,350
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	875	2,879	6,379	3,995	3,236
Funds from operations (FFO)	602	1,728	4,987	2,994	2,322
Adjusted interest expense	228	724	664	631	621
Capital expenditures	433	1,466	2,047	2,015	2,652
Total assets	53,190	47,072	50,894	41,388	41,439
Adjusted debt	18,765	14,897	16,720	14,689	13,013
Adjusted equity	16,010	15,880	16,793	12,864	11,889
Adjusted Ratios					
EBITDA margin (%)	3.53	2.81	8.08	7.21	4.80
Pretax return on permanent capital (%)	1.79 **	4.23	15.13	9.80	8.41
EBITDA interest coverage (times)	3.84	3.98	9.60	6.33	5.21
Debt to EBITDA (times)	9.01 **	5.17	2.62	3.68	4.02
FFO to debt (%)	5.44 **	11.60	29.82	20.38	17.85
Debt to capitalization (%)	53.96	48.40	49.89	53.31	52.26

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

RELATED CRITERIA

- Partially Guaranteed Debt Rating Methodology, 27 January 2023
- 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:	
SGP23DA: THB2,000 million partially guaranteed debentures (70%) due 2023	A
SGP241A: THB4,000 million senior unsecured debentures due 2024	BBB+
SGP262A: THB4,000 million senior unsecured debentures due 2026	BBB+
SGP272A: THB4,000 million senior unsecured debentures due 2027	BBB+
Rating Outlook:	Negative

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000