TRIS RATING
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CreditNews ข่าวเครดิต

SIAMGAS AND PETROCHEMICALS PLC

No. 92/2020
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CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Partially guaranteed (70%)	A
Partially guaranteed (85%)	A+
Outlook:	Stable

Last Review Date: 04/12/19

Company Rating History:

Date	Rating	Outlook/Alert
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+”, with a “stable” outlook. At the same time, TRIS Rating also affirms its 70% partially guaranteed debentures at “A” and its 85% partially guaranteed debentures at “A+”. The debentures are partially guaranteed by Credit Guarantee and Investment Facility (CGIF), rated “AAA”.

The ratings continue to reflect the company’s strong position in the domestic liquefied petroleum gas (LPG) market, robust growth in overseas sales, and extensive distribution network. Conversely, the ratings are held back by softening domestic demand, vulnerability to LPG price fluctuation in overseas markets, and a likelihood of heightening leverage from the liquefied natural gas (LNG) import project.

KEY RATING CONSIDERATIONS

Second-largest LPG supplier

SGP’s market position in Thailand remains strong. The domestic LPG market is dominated by the three large companies. SGP is ranked the second-largest LPG distributor, trailing behind market-leader, PTT PLC. Over the past years, SGP’s market share has held at about 25% by sales volume. The remaining slice is largely held by PTT (41%) and the third-ranked WP Energy PLC (18%).

SGP’s competitive edges in Thailand are underpinned by its economic scale of operations, strong brand recognition, and nationwide distribution coverage. In the domestic market, the LPG price is controlled and partly subsidized by the government. As such, SGP’s profit per volume has been fairly stable.

Steady downturn in domestic demand

The LPG domestic demand has persistently dropped over the past five years, with total consumption declining by 2%-7% each year. The demand for cooking gas, the largest segment of LPG consumption, has been flat while LPG for industrial usage has staged marginal growth. The most weakened segment is automobile. Its demand has plunged by 10%-15% each year. In 2019, domestic consumption totaled 3.8 million tonnes, a 5.3% decrease from 4.01 million tonnes in 2018.

In our view, the prospect of domestic demand remains weak in the long-run. There are no signs that the automobile segment has bottomed out while the cooking and industrial segments could level off due to necessity. The weak outlook has forced small traders to exit or merge with larger ones. Intense competitions also threaten to undercut the revenues of LPG traders.

Robust growth overseas offsets domestic slump

SGP’s overseas markets continue to deliver robust growth in sales volume and overwhelmingly countervail the sales contraction in the Thai market. Overseas sales volume rose to approximately 2.85 million tonnes in 2019, a number that has been increasing from 1.78 million tonnes in 2015. In contrast, SGP’s domestic sales gradually decreased to below one million tonne per year in 2019.

In 2019, overseas sales made up nearly three-fourths of total sales. China remained the top market, representing 31% of the total. SGP’s growth strategy focuses on new market expansion in countries such as Bangladesh, Myanmar, India, and the Philippines. Successful penetration in offshore markets will strengthen the company's business profile by enhancing geographical diversification and lessening reliance on the Chinese market. With the constant growth outside Thailand, SGP's overall sales volume arrived at 3.86 million tonnes in 2019, representing a 10% overall growth.

Extensive distribution network

In our view, SGP's distribution network places the company at a distinct advantage over most of its peers. SGP's logistic facilities in Thailand include eight large LPG storage terminals, widespread filling plants and gas service stations, and a large number of LPG trucks and tankers. For overseas operations, the company owns two sizable storage caverns in China, a floating storage in Singapore, and a fleet of LPG vessels.

With these core assets, SGP benefits from competitive costs of transportation as well as nationwide coverage and supply stability. The facilities located outside Thailand enable the company to import LPG into Thailand and trade LPG throughout East Asia.

Expected dwindling sales volume due to the COVID-19 pandemic

We expect SGP's sales volume to tumble in 2020. The unprecedented COVID-19 pandemic appears to be exacerbating the decline in LPG usage. In the first quarter of 2020, total domestic consumption fell to 0.901 million tonnes, a drop of 6.4% from 0.962 million tonnes in the same period last year. As for SGP, domestic sales volume fell by 9.5% year-over-year (y-o-y) during the first quarter of 2020.

The outbreak has also ravaged global demand with the sudden decline in economic activities pushing the global economy into recession. SGP's overseas sales plunged by 12.4% y-o-y, with the sales in the Chinese market suffering the steepest decline of 36.2%. Given the easing of lockdown measures, we expect LPG demand to recover from the back-half of 2020 onwards. That said, the recovery remains fragile as a second wave of infections remains possible.

In our base case forecast, we expect SGP's overall sales volume to drop by 6%-7% in 2020. The total sales volume is likely to restore at around 3%-8% in 2021 and 2022. Revenue is projected to decline by 15% to THB57 billion in 2020, before rising to THB69-THB73 billion in the next two years. We forecast averaged EBITDA (earnings before interest, taxes, depreciation, and amortization) to arrive at about THB3.3 billion per year.

Volatile earnings from LPG price fluctuations

SGP's susceptibility to LPG price volatility has been a constraint on the ratings. The company's earnings fluctuate from quarter to quarter since its international trading business is exposed to the high volatility of LPG prices in the global market. An abrupt plunge in LPG prices could cause large stock losses, and materially hurt the company's financial performance.

We expect the exposure to LPG price fluctuations will likely increase in the medium term, given the company's tendency for overseas expansions. Nonetheless, the price risk has been partly offset by the relatively stable profit from the domestic market. The current low LPG prices also limit the downside risk from a precipitous price drops. We also consider the company's stable equity income from its investments in the power plants in Myanmar and oil storage rental to help alleviate impacts from the price risk.

Execution risks of the LNG import project

The LNG import project requires SGP to invest in a sizable LNG terminal. SGP's recent entire acquisition of Thai Public Port Co., Ltd. (TPP) charts the path for LNG shipments as TPP owns deep sea ports and land plots to accommodate the construction of LNG tank storage facilities. The acquisition cost SGP about THB3.3 billion. Currently, the company is in the process of requesting a construction permit for LNG tank storage at TPP's sites.

In our view, the LNG import project could impact the company's risk profile, particularly its financial risk profile. If SGP follows through on the project, it is estimated that SGP would need to further invest about THB 6 billion. Meanwhile, several elements remain uncertain, such as business model, the addressable market segment, how to contend with larger players including the dominant PTT, and not least the financing structure to fund the project.

Expected rise in leverage from new investments

Although the LNG import project remains uncertain, we incorporate the investment in our base case scenario on a conservative basis. As a result, SGP's financial leverage, measured by cash flow to debt ratio, will worsen during the course of the investment. The ratio of funds from operations (FFO) to debt could fall to 12% while the ratio of debt to EBITDA could exceed 5 times. The ratio of debt to capitalization could rise to 60%. The ratings affirmation reflects our expectation that SGP will remain profitable and prudently manage liquidity over the course of the investment.

Adequate liquidity

We assess SGP to have adequate liquidity. SGP has no large bond repayments coming due over the next 12 months while it still has undrawn credit lines of about THB18 billion. Uses of funds over the next 12 months from the end of March 2020 include long-term loan repayments of THB0.9 billion and its planned capital expenditure of THB2.1 billion. SGP's cash on hand of THB2.46 billion and estimated FFO of about THB2 billion are adequate to cover such cash outflows.

With respect to the bond covenants, SGP has to maintain the ratio of interest-bearing debt (IBD) to equity not exceeding 2 times. Its IBD to equity ratio was 1.34 times at the end of March 2020. We expect SGP will remain compliant during the forecast period.

BASE-CASE ASSUMPTIONS

- SGP's overseas sales volume to decrease by 4%-5% in 2020 before rebounding by 10% in 2021 and 4% in 2022.
- Domestic sales volume to decline by 13% in 2020, rise by 3% in 2021, and will be flat in 2022.
- Revenue to come in at about THB57 billion in 2020, and THB69- THB73 billion per annum in 2021-2022.
- EBITDA margin to stay at around 4%-5%.
- Capital spending to total THB2.1 billion in 2020 and around THB2.8 billion each year during 2021-2022.
- Dividend payout ratio to be at 50% of net profit.

RATING OUTLOOK

The "stable" outlook embeds the expectation of TRIS Rating that SGP will be able to maintain its strong position as the second-largest LPG distributor in Thailand, with reliable cash flows from domestic LPG operations alleviating the volatile margin of overseas operations. TRIS Rating also expects overseas trading to remain profitable, despite its higher susceptibility to price risk.

RATING SENSITIVITIES

The prospect of a rating upgrade is limited due to the company's planned investments and the lingering downside risks of LPG demand. On the contrary, the ratings could be revised downward if SGP's financial profile materially deteriorates for an extended period. This could happen from any overinvestments that significantly weaken its financial profile.

The 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 changes in the credit profile of SGP or its 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 2020.

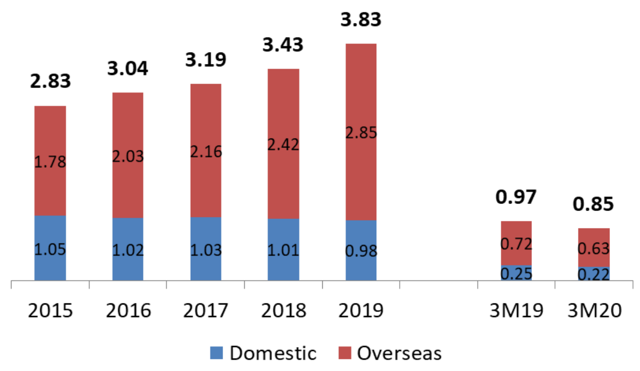
SGP's LPG trading business expanded abroad in 2010 with an aim to increase new volumes to offset weakening sales in the Thai market. Revenue from the international LPG trading segment rose continually, and currently accounting for about 65%-70% of total revenue. In 2019, SGP sold around 3.83 million tonnes of LPG, comprising domestic sales volume of 0.98 million tonnes and international volumes of 2.85 million tonnes.

SGP diversified into a new line of business: 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 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 TPP. TPP engages in rental services for oil tank storage, with facilities located at Si-Chang deep sea port in Chonburi province.

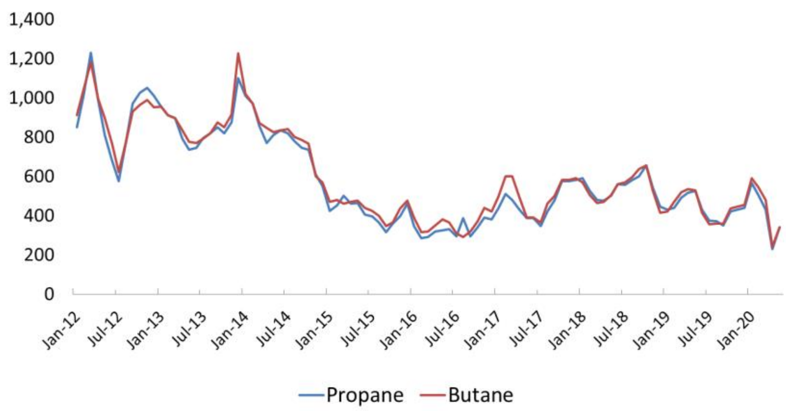
KEY OPERATING PERFORMANCE

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 2020	**2019**	**2018**	**2017**	**2016**
Total operating revenues	16,727	67,412	69,046	59,461	48,348
Earnings before interest and taxes (EBIT)	693	2,350	1,513	3,981	1,727
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	936	3,236	2,524	5,285	2,959
Funds from operations (FFO)	804	2,308	1,844	4,134	2,395
Adjusted interest expense	156	621	529	488	458
Capital expenditures	243	2,222	2,371	1,687	2,410
Total assets	40,154	41,439	35,804	31,458	28,557
Adjusted debt	13,445	13,013	14,085	8,345	7,867
Adjusted equity	11,653	11,889	10,129	11,308	9,800
Adjusted Ratios					
EBITDA margin (%)	5.6	4.8	3.7	8.9	6.1
Pretax return on permanent capital (%)	8.8 **	8.4	6.1	18.9	8.4
EBITDA interest coverage (times)	6.0	5.2	4.8	10.8	6.5
Debt to EBITDA (times)	4.3 **	4.0	5.6	1.6	2.7
FFO to debt (%)	16.9 **	17.7	13.1	49.5	30.4
Debt to capitalization (%)	53.6	52.3	58.2	42.5	44.5

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

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Siamgas and Petrochemicals PLC (SGP)

Company Rating:	BBB+
Issue Ratings:	
SGP221A: Bt3,000 million senior unsecured debentures due 2022	BBB+
SGP232A: Bt2,000 million partially guaranteed debentures (85%) due 2023	A+
SGP23DA: Bt2,000 million partially guaranteed debentures (70%) due 2023	A
SGP241A: Bt4,000 million senior unsecured debentures due 2024	BBB+
Rating Outlook:	Stable

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