

SIAMGAS AND PETROCHEMICALS PLC

No. 101/2021
30 June 2021

CORPORATES

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

Last Review Date: 29/06/20

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 affirms SGP’s 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” by TRIS Rating.

The ratings continue to reflect the company’s market position as the second-largest liquefied petroleum gas (LPG) supplier in Thailand, extensive distribution network, and its growth prospects in overseas markets. Conversely, the ratings are weighed down by an acute contraction in sales volume brought on by the prolonged effects of the Coronavirus Disease 2019 (COVID-19), and its vulnerability to LPG price fluctuations in overseas markets. The ratings also take into consideration the investment outlays needed for the liquefied natural gas (LNG) import project, which is likely to heighten SGP’s financial leverage.

KEY RATING CONSIDERATIONS

Second-largest LPG supplier

The ratings on SGP incorporate its strong market position as the second-largest LPG supplier in Thailand. In the domestic LPG industry, SGP held a market share of about 23% in the first quarter of 2021. Key competitors are PTT PLC and WP Energy PLC, holding a market share of 43% and 17%, respectively. SGP’s market share dropped slightly from 24%-25% during 2017-2020 due primarily to intensifying price competition from smaller players.

We believe SGP’s strong brand reputation, benefits from economies of scale, and nationwide distribution coverage will enable SGP to maintain its competitive position. SGP’s domestic LPG market is considered a stable source of earnings as the LPG price is controlled and partly subsidized by the government. As such, SGP’s profit margin of domestic sales has remained reasonably stable.

Extensive distribution network

SGP’s distribution network places the company in a distinctively advantaged position over most of its peers. SGP’s logistics facilities in Thailand include eight large LPG storage terminals, widespread filling plants and gas service stations, and a host of LPG trucks and tankers. For overseas operations, SGP owns two sizable storage caverns in China, a floating storage facility in Singapore, and a fleet of LPG vessels.

Given its wealth of operating assets, SGP benefits from competitive costs of logistics, nationwide market coverage, and supply stability. The overseas facilities enable the company to import LPG into Thailand and trade LPG throughout the Asia.

Volatile earnings from LPG price fluctuations

SGP’s susceptibility to volatility of LPG prices is a major constraint to the ratings. Price risk is inherent in its international operations. The company’s earnings could fluctuate widely from quarter to quarter in tandem with the LPG price. An abrupt plunge in LPG prices could cause hefty stock losses and a material impact on the company’s financial performance.

We expect the company's exposure to LPG price fluctuations will likely remain, considering SGP's market expansion plans. Currently, the international operations make up 70%-75% of the company's total sales volume.

Nonetheless, the price risk is partly offset by more stable earnings from the domestic LPG operations and more diversified sources of revenues from non-LPG businesses, including chemicals trading, power plants, rental of oil storage tanks, and wholesale oil trading.

SGP's sales volume hit hard by COVID-19

SGP's sales volume dropped considerably due to the unprecedented Coronavirus 2019 Disease (COVID-19) pandemic which forced lockdowns and decimated global demand. In total, SGP's sales volume contracted by 14.8% year-on-year (y-o-y) from 3.80 million tonnes in 2019 to 3.24 million tons in 2020, almost the same level as 2017.

In Thailand, the COVID-19 outbreak exacerbated the already-dwindling LPG market. The market demand slumped by 10.8% in 2020, far greater than the annual contraction of 2%-5% before the pandemic took hold. SGP's sales volume recorded a steeper decline than the industry's average. SGP's total sales volume slid by 15.4% to 0.806 million tonnes in 2020. The automotive LPG remained the worst-performing segment, plunging by 24.5%. At the same time, volumes also fell sharply in the cooking and industry segments, slumping by 11.7% and 15.6%, respectively. In the first quarter of 2021, SGP's domestic sales volume continued to shrink, reducing by 10.1% y-o-y.

The company's international sales volume plummeted by 14.6% to 2.44 million tonnes in 2020. Volume from the offshore market, its largest overseas market segment, fell drastically by 13.5%. SGP also suffered from slack demand in the Chinese market, with sales volume tumbling by 20.5%. In the first quarter of 2021, total overseas sales volume declined by 6.9% y-o-y to 0.587 million tonnes from 0.631 million tonnes. The volume in the offshore markets showed some signs of recovery while the Chinese market remained stagnant.

Strong financial performance thanks to an extended price uptrend

A rally in the global LPG price crucially helped SGP get through the COVID-19 market contraction. After hitting a low level of about USD230 per tonne in April 2020, the global LPG price, based on the price of propane, rose to USD450 per tonne in December 2020 and USD625 per tonne in March 2021. The price surge yielded a larger profit margin, which adequately offset the fall in sales volume and resulted in a strong financial performance in 2020.

Despite the fall in revenue, SGP's earnings continued to grow. Earnings before interest, tax, depreciation, and amortization (EBITDA) totaled THB4.0 billion in 2020, a 23.4% increase from the previous year. For the first quarter of 2021, SGP's EBITDA reached THB2.08 billion, soaring by 123% y-o-y. The ratio of funds from operations (FFO) to debt was 27.7% and the debt to EBITDA ratio stood at 2.7 times in the first quarter of 2021. These indicated marked improvement in cash flow protection against its debt obligations.

In our base-case projection, we forecast SGP's total sales volume to contract by 6% in 2021, given the fragile economic recovery. However, LPG demand in Asia will begin its rebound, based on our expectation of an economic turnaround from 2022 onwards. Nevertheless, LPG demand in Thailand could remain under intensifying pressure from further market deterioration, particularly in the automotive segment. On the contrary, we expect SGP will grow further in overseas markets, particularly those with low LPG penetration rates.

We project SGP's EBITDA to be THB3.2-THB3.5 billion each year during 2021-2023, based on the average level of profit the company previously achieved. We view the strong performance in the first quarter of 2021 is untenable, due to rising downside risk of the LPG price.

Potential surge in leverage

SGP's investment outlays for the LNG import project, together with the associated execution risks, continue to constrain the ratings. SGP plans to import and sell LNG to industrial users. The company is planning the construction of LNG receiving facilities. The project is still at an early stage and the business model is uncertain in terms of the scope of its end market, how to contend with more prominent players including the dominant PTT Group, and not least the financing structure to fund the project.

The company is in a process of the Environmental Impact Assessment (EIA) for the LNG tank storage facility in Chonburi province. However, project construction is likely to be delayed due to the COVID-19 outbreak. We forecast that the construction phase of the LNG project will take about three years. We expect the project construction to start in 2022.

In our base-case forecast, we expect SGP's financial leverage to rise during the construction phase. Capital spending during 2021-2023 will be THB8.7 billion, including THB5.3 billion for the LNG investment and THB1.2 billion for new cylinders and storages. Over the next three years, SGP's FFO to debt ratio could fall to 12% while the ratio of debt to EBITDA could exceed 5 times. The ratio of debt to capitalization could rise to 57%-60%. Nevertheless, the financial leverage should

gradually tail off once the LNG import project starts commercial operation. The ratings affirmation embeds our expectation that SGP will remain profitable and prudently manage its liquidity over the course of the investment.

Manageable liquidity

We assess SGP to have adequate liquidity with its sources of funds sufficient to cover uses of funds over the next 12 months. SGP's sources of funds include cash and cash equivalents of THB2.5 billion as of March 2021, estimated FFO of about THB2.6 billion, and undrawn credit facilities over THB12 billion. Over the next 12 months, uses of funds include long-term loan repayments of THB0.9 billion and dividend payments of THB0.92 billion. SGP plans to refinance its THB3 billion debentures maturing in January 2022 to preserve liquidity. We expect the company to finance the construction of the LNG facilities mainly by debt.

SGP continues to comply with its financial covenants, which require a ratio of interest-bearing debt (IBD) to equity not exceeding 2 times. The ratio was 1.12 times at the end of March 2021.

Capital structure

At the end of March 2021, SGP had THB15.7 billion in debt, including approximately THB5.3 billion of the priority debt. SGP's priority debt included THB2.5 billion of secured debt and THB2.8 billion of unsecured debt at the subsidiary level. This means the ratio of priority debt to total debt was about 34%.

BASE-CASE ASSUMPTIONS

- SGP's overseas sales volume to decrease by 6% in 2021 and rebound by 1%-2% per year in 2022-2023.
- Domestic sales volume to decline by 6%-7% in 2021, 3.5% in 2022, then remain flat in 2023.
- Revenue to range from THB61-THB65 billion a year during in 2021- 2023.
- EBITDA margin around 5%-6%.
- Capital spending to total THB1.5 billion in 2021 and around THB3.6 billion each year during 2022-2023.
- Dividend payout ratio at 50% of net profit.

RATING OUTLOOK

The "stable" outlook embeds our expectation that SGP will be able to maintain its strong position as the second-largest LPG distributor in Thailand. The more reliable cash flows from domestic sales continue to help cushion the volatile margin of overseas operations. We also expect overseas trading to remain profitable, despite its susceptibility to price risk.

RATING SENSITIVITIES

The ratings are unlikely to be upgraded in the near term due in large part to SGP's large investment for the LNG import project, as well as continuing downtrend of LPG demand in Thailand. Conversely, the ratings could be revised downward if SGP's financial profile materially deteriorates for an extended period. This could emerge from any aggressive investment that significantly heighten its financial leverage.

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 any 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 April 2021.

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 accounting for about 65%-70% of total revenue. In 2020, SGP sold around 3.24 million tonnes of LPG, comprising domestic sales volume of 0.81 million tonnes and international volume of 2.44 million tonnes.

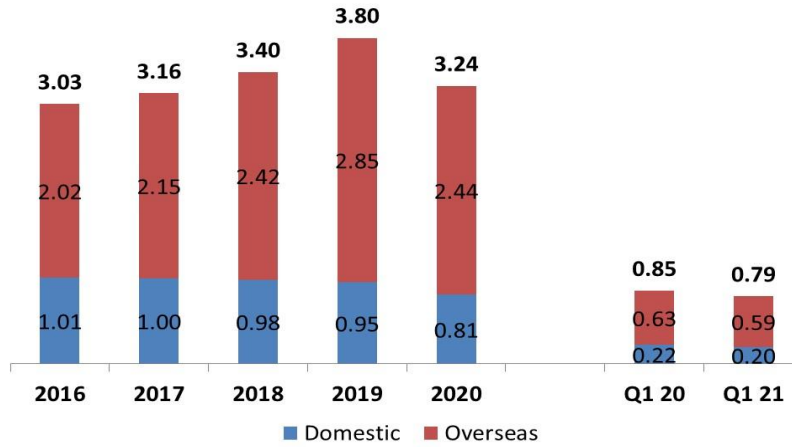
SGP diversified into power generation, in 2016. Currently SGP holds a 41.1% share of a gas-fired power plant in Myanmar with a production capacity of 230 megawatts (MW). The company has also invested in a 33% share of a 10-MW diesel-fired power plant in Myanmar.

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 (LINH), an LPG cylinder producer. In early 2021, SGP completed the takeover of LINH, increasing its stake to 97.5%.

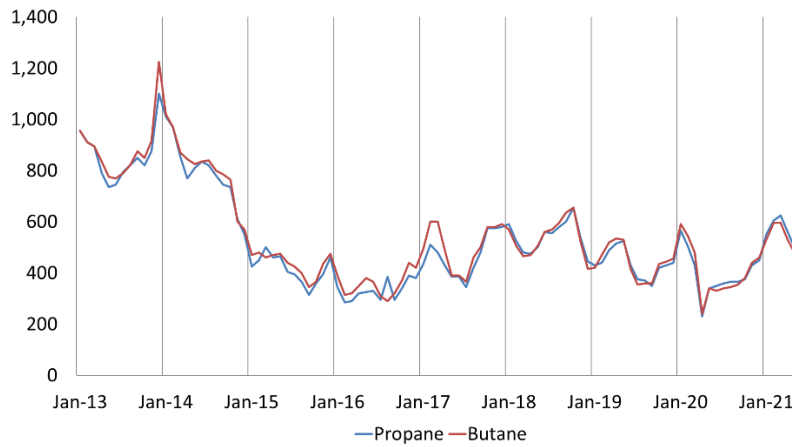
KEY OPERATING PERFORMANCE

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

	Jan-Mar 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	17,339	55,365	67,412	69,046	59,461
Earnings before interest and taxes (EBIT)	1,776	2,906	2,350	1,513	3,981
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,083	3,995	3,236	2,524	5,285
Funds from operations (FFO)	1,681	3,043	2,308	1,844	4,134
Adjusted interest expense	158	631	621	529	488
Capital expenditures	682	2,015	2,222	2,371	1,687
Total assets	45,149	41,388	41,439	35,804	31,458
Adjusted debt	14,134	14,736	13,013	14,085	8,345
Adjusted equity	14,494	12,864	11,889	10,129	11,308
Adjusted Ratios					
EBITDA margin (%)	12.0	7.2	4.8	3.7	8.9
Pretax return on permanent capital (%)	13.6 **	9.8	8.4	6.1	18.9
EBITDA interest coverage (times)	13.2	6.3	5.2	4.8	10.8
Debt to EBITDA (times)	2.7 **	3.7	4.0	5.6	1.6
FFO to debt (%)	27.7 **	20.6	17.7	13.1	49.5
Debt to capitalization (%)	49.4	53.4	52.3	58.2	42.5

* Consolidated financial statements

** Annualized with 12 months trailing

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- 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: THB3,000 million senior unsecured debentures due 2022	BBB+
SGP232A: THB2,000 million partially guaranteed debentures (85%) due 2023	A+
SGP23DA: THB2,000 million partially guaranteed debentures (70%) due 2023	A
SGP241A: THB4,000 million senior unsecured debentures due 2024	BBB+
Rating Outlook:	Stable

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