

SIAMGAS AND PETROCHEMICALS PLC

No. 94/2021

19 November 2021

CORPORATES

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

Last Review Date: 30/06/21

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. Also, 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.

At the same time, TRIS Rating assigns the rating of “BBB+” to SGP’s newly proposed issue of up to THB4 billion in senior unsecured debentures. SGP intends to use the proceeds to replace a maturing debenture of THB3 billion which will be due in January 2022 with the rest used for working capitals.

The ratings continue to reflect the company’s market position as the second-largest liquefied petroleum gas (LPG) supplier in Thailand, its extensive distribution network, and its growth prospects in overseas markets. Conversely, the ratings are weighed down by a contraction in sales volume brought on by the prolonged effects of the Coronavirus Disease 2019 (COVID-19) pandemic, and its LPG price risk in overseas markets. The ratings also take into consideration our expectation of a significant rise in SGP’s financial leverage following the investment outlays in the liquefied natural gas (LNG) import project.

We view that SGP’s financial profile remains adequately strong to withstand a challenging period for the LPG industry impacted by the pandemic. In 2021, the company has benefited from a surge in energy prices, completely offsetting the negative effects from a fall in LPG sales volumes due to COVID-19. The LPG price rallied from USD540 per ton in January 2021 to about USD800 per ton in October 2021, resulting in SGP’s stronger earnings compared to the past average. For the first nine months in 2021, SGP’s revenue was THB54.7 billion, up by about 36% year-on-year (y-o-y), while its earnings before interest, tax, depreciation, and amortization (EBITDA) were THB4.67 billion, up by 103% y-o-y.

We see SGP’s sales volume will likely recover over the medium term, driven by a global economic turnaround. Ongoing overseas expansion with the aim to compensate shrinking LPG demand in Thailand will continue to be SGP’s main strategy to sustain its earning bases. During 2022-2023, we forecast that SGP will be able to generate average EBITDA of about THB3.0-THB3.5 billion each year, close to the historical mean.

However, we expect SGP’s credit strength will be under pressure from its investment in the LNG import project worth THB5.3 billion. The company’s financial profile is likely to weaken as we project the funds from operations (FFO) to net debt ratio to fall to 12% while the ratio of net debt to EBITDA could exceed 5 times during the period of project construction. The ratio of debt to capitalization could rise to 57%-60%.

SGP’s LNG import project is still at the early stage. Currently, the company is in the process of Environmental Impact Assessment (EIA) for the LNG tank storage facility in Chonburi province. We forecast that the construction of the LNG project to start in 2022 and will take about three years to complete.

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.

At the end of September 2021, SGP had THB17.8 billion in debt, including approximately THB2.8 billion of priority debt which all are secured debts. This means the ratio of priority debt to total debt was about 15.9%.

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 sizable investment in the LNG import project, as well as the 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 heightens 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 changes in the credit profile of SGP or its guarantor.

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+
Up to THB4,000 million senior unsecured debentures due within 4 years and 1 month	BBB+
Rating Outlook:	Stable

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