TRIS RATING
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SIAMGAS AND PETROCHEMICALS PLC

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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 upgrades the company rating of Siamgas and Petrochemicals PLC (SGP) and the ratings of SGP's outstanding senior unsecured debentures to "BBB+" from "BBB". At the same time, TRIS Rating upgrades the rating of its outstanding partially guaranteed debentures to "A+" from "A". The debentures are partially guaranteed by Credit Guarantee and Investment Facility (CGIF), rated "AAA" by TRIS Rating.

The upgrade reflects a consistent improvement in SGP's financial profile, following a streak of sound operating results and a strengthened balance sheet. The upgrade also incorporates SGP's sustained profitability despite a heightened exposure to price risk.

The ratings continue to reflect the company's strong market position in Thailand and robust distribution network. The ratings are, however, partially offset by high business risk from SGP's operations abroad which expose the company to fluctuations in the prices of liquefied petroleum gas (LPG).

KEY RATING CONSIDERATIONS

Strong market position in Thailand

SGP is the second-largest LPG distributor in Thailand, holding about 24.4% market share, by LPG trading volume, in 2017. SGP trails PTT PLC (PTT) which has the largest market share of 39.6%, but leads the third-ranked WP Energy PLC (20.1%).

Although demand for LPG in Thailand remains tame, TRIS Rating holds the view that SGP's domestic sales are a source of stable profits due to its regulated price. However, a portion of profit in the domestic market is more volatile after the company started importing LPG to sell in the domestic market in 2017, instead of entirely purchasing from PTT. SGP's volume of LPG imports amounted to approximately 40% of total domestic sales volume in 2017.

Robust distribution network

SGP's competitive advantages are underpinned by a strong logistics system which supports its trading activities. The core facilities in Thailand include eight LPG storage terminals, a nationwide network of service stations, and a number of LPG trucks and tankers. Abroad, the company owns two large storage caverns in China capable of storing 300,000 tonnes of LPG, sizable floating storage in Singapore, and a fleet of LPG tankers to support its off-shore trading operations in East Asia. These core facilities make SGP's transportation cost more competitive and give the company access to more markets than peers.

Larger contribution from growing overseas markets

SGP has been expanding abroad over the past several years, a move to steer the company away from the sluggish domestic market. The international operation has grown consistently, outpacing the growth of the domestic operation. In 2017, the overseas volume made up 67.4% of total sales volume. The key growth driver is a tremendous expansion in the Chinese market, which is now the centerpiece of SGP's business. SGP has grown steadily in China, on the back of a well-established market presence as a large LPG importer and its good demand. The Chinese market accounted for nearly 40% of total sales volume in 2017, continually up from 13% in 2013.

Exposure to price risk from overseas trading

The success of the international operations is counterbalanced by greater exposure to the volatility of LPG prices in the global market. The company's earnings remain susceptible to a precipitous fall in LPG prices and intense competition among distributors, particularly in the Chinese market.

The LPG price has moved favorably to SGP's business. The LPG price was about US$473 per tonne in April 2017, compared to a 10-year average of US$660 per tonne and the lowest price of about US$300 per tonne. The low level of LPG price also indicates limited possibility of a plunge, which causes a devastating loss SGP experienced in 2014. In our forecast, the LPG price is expected to oscillate in a manageable range. SGP's prudent management of inventory turnover will insulate the company somewhat to inopportune price swings.

Strengthened financial profile

SGP reported a three-year streak of healthy operating performance during 2015-2017. The good operating performances were due in large part to narrower fluctuations and a nascent recovery in the price of LPG. SGP's generated FFO was about Bt2.1 billion in 2015 and 2016, before soaring to a record of Bt4.55 billion in 2017 thanks to an about 40% increase of average price of LPG in 2017.

SGP's financial leverage is on the mend. Its total debt has remained nearly constant over the past three years, meanwhile a string of profits enlarged the equity base. Hence, the debt to capitalization ratio fell steadily to 45.6% in the first quarter of 2018 from over 50% prior to 2016. The FFO to total debt ratio ranged from around 20%-40% over the same period, suggesting a fairly large cash flow cushion against debt.

Under TRIS Rating's forecast, the company's FFO tends to fluctuate significantly from quarter to quarter. However, throughout the year, TRIS Rating believes that SGP is able to deliver the averaged FFO of Bt2.5 billion per annum and maintain the FFO to total debt ratio at over 20%.

Adequate liquidity

SGP's liquidity is adequate. Sources of funds comprised cash on hand of Bt2.1 billion at the end of March 2018, undrawn credit facilities of Bt13-Bt14 billion, and estimated FFO of at least 2.0 billion over the next 12 months. Uses of funds over the next 12 months include long-term loans coming due worth Bt740 million, bond repayments of around Bt3 billion, and the capital expenditures of around Bt2 billion for the construction of new LPG storages in its new market.

According to SGP's bond financial covenant, the company has to maintain the ratio of interest bearing debt (IBD) to equity not to exceed 2 times. Its IBD to equity ratio was merely 0.93 times at the end of 2017. Given its planned expenditures, TRIS Rating expects the company can comply with the financial covenant.

RATING OUTLOOK

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

RATING SENSITIVITIES

A rating upgrade could happen if cash flow is larger and more stable or if the debt to capitalization ratio fall considerably from the current level. These outcomes could be achieved if SGP can create stronger competitive position in China or extend sources of stable income.

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 ratio or the FFO to total debt ratio falls below TRIS Rating's expectation or if there are large debt-funded acquisitions which significantly jeopardize its financial profile.

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

COMPANY OVERVIEW

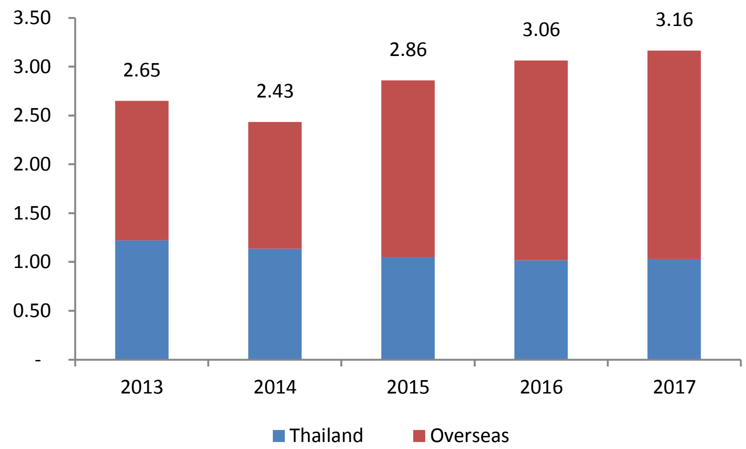
SGP is the second-largest LPG distributor in Thailand, covering LPG trading under the "Siam Gas" and "Unique Gas" brands. The company was established by the Weeraborwornpong family in 2001 and listed on the Stock Exchange of Thailand (SET) in 2008. The Weeraborwornpong family held 61% of SGP's total shares as of December 2017.

Before 2011, SGP's domestic LPG trading segment comprised 85%-90% of SGP's total revenue; the rest was contributed by the trading of ammonia and other businesses. After expanding abroad in 2010, revenue from the international LPG trading segment rose continually, and accounting for about 60%-70% of total revenue. In 2017, SGP sold around 3.16 million tonnes of LPG. The volumes sold in the domestic and international segments were approximately 1.03 million tonnes and 2.13 million tonnes, respectively.

In 2016, SGP started diversifying into a new line of business: power generation. SGP invested in a 30% share of a power plant in Myanmar with production capacity of 230 megawatts (MW). The company decided to increase its shareholding in the power plant to 36.1% in November 2017. In 2018, the company also invested in 33% share of a 10-MW diesel-fired power plant in Myanmar.

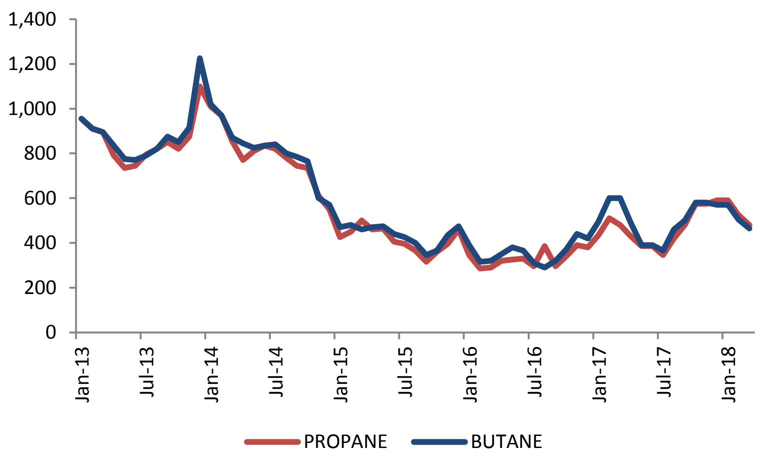
KEY OPERTING PERFORMANCE

Chart 1: Sales Volumes (Million Tonnes)



Source: SGP

Chart 2: LPG's Saudi Aramco Contract Price (US$ per Tonne)



Source: SGP

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2018	--------------- Year Ended 31 December ---------- 2017	2016	2015	2014
Revenues	15,594	59,152	48,161	58,082	61,759
Gross interest expense	107	461	411	410	441
Net income from operations	101	2,662	1,116	1,248	(646)
Funds from operations (FFO)	464	4,547	2,142	2,117	219
Capital expenditures	269	1,678	2,409	970	683
Total assets	30,634	31,458	28,557	29,099	28,243
Total debts	9,355	10,534	9,395	10,351	11,448
Total liabilities	19,484	20,150	18,757	19,324	19,875
Shareholders' equity	11,150	11,308	9,800	9,776	8,369
Depreciation & amortization	277	1,230	1,176	1,076	1,089
Dividends	0	791	447	370	601
Operating income before depreciation and amortization as % of sales	2.6	8.0	5.5	4.8	1.1
Pretax return on permanent capital (%)	12.8**	18.6	8.5	9.6	(0.6)
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	5.5	10.9	6.9	7.3	2.2
FFO/total debt (%)	36.6**	43.2	22.8	20.4	1.9
Total debt/capitalization (%)	45.6	48.2	48.9	51.4	57.8

* *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+
SGP232A: Bt2,000 million senior partially guaranteed debentures due 2023	A+
Rating Outlook:	Stable

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