

SIAMGAS AND PETROCHEMICALS PLC

No. 83/2019
12 June 2019

CORPORATES

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

Last Review Date: 21/12/18

Company Rating History:

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

Contacts:

Pravit Chaichamnapai, CFA

pravit@trisrating.com

Sermwit Sriyotha

sermwit@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 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” by TRIS Rating.

The ratings continue to reflect the company’s strong market position in Thailand, robust distribution network and its geographically diverse customer base. The ratings are, however, partially weighed down by softening domestic demand, high susceptibility to price risk of liquefied petroleum gas (LPG) from SGP’s overseas operations, and heightening leverage.

KEY RATING CONSIDERATIONS

Strong market position in Thailand

SGP has maintained its position as the second-largest LPG distributor in Thailand. The company’s market share is rather stable over the past several years. In 2018, SGP held a market share of 24.6%, behind the market-leading PTT PLC (PTT) (41.1%).

The market demand in Thailand has declined for many years, due in large part to waning demand in LPG for automobile consumption. The demand for cooking gas, the largest segment of LPG consumption, has plateaued while LPG for industrial usage has grown insignificantly.

With domestic demand weakening, SGP has shifted to focus more on the overseas trading business. However, SGP’s domestic sales remain a source of reliable earnings, protected by the regulated price scheme. TRIS Rating expects SGP’s competitive strengths to maintain, propelled by its large scale of operation, long-standing brand, and countrywide coverage. The strong domestic business will alleviate the effect of volatile cash flows in overseas trading.

Robust distribution network

TRIS Rating views that SGP’s key advantages over its competitors are distribution networks. The company’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 outside Thailand, the company owns two sizable storage caverns in China, floating storage in Singapore, and a fleet of LPG vessels.

These core assets benefit the company from lower costs of transportation as well as nationwide and stable supplies. The facilities located outside Thailand enable the company to import LPG into Thailand and trade LPG throughout East Asia. SGP’s competitors are unlikely to replicate these competitive strengths in the near term because of the huge capital requirements.

Overseas trading remains the key growth driver

SGP’s International trading business continued to grow significantly, offsetting the sluggish demand in the Thai market. SGP’s total sales volume grew by 7.6% to 3.43 million tonnes in 2018, marking growth for four consecutive years.

SGP's overseas segment remains the key growth driver. Total overseas sales rose by 12.2% year-on-year (y-o-y) to approximately 2.42 million tonnes in 2018, due mainly to successful penetration in the Bangladesh market. The overseas sales volume almost doubled from 1.3 million tonnes in 2014. On the contrary, domestic sales gradually contracted to 1.01 million tonnes in 2018 from 1.14 million tonnes in 2014.

The Chinese market remains the centerpiece of SGP's business, representing about 37% of total sales volume. In the first quarter of 2019, the overseas sales climbed further to 716,000 tonnes approximately, suggesting a 30.3% increase y-o-y. As a result, SGP's total sales volume was about 962,000 tonnes, increasing by 19% y-o-y.

High susceptibility to price risks in overseas markets

While the overseas markets continue to prop up SGP's growth in the years ahead, SGP will remain highly susceptible to price risk of LPG. SGP's earnings could fluctuate significantly from quarter to quarter. An abrupt falloff in LPG prices could devastatingly hurt the company's financial performance. In 2018, SGP's sales arrived at Bt68.5 billion, a 7.4% increase from the year ago. However, SGP's profits and operating cash flow came in below TRIS Rating's expectation, due to the fast-paced drop of LPG prices during the last quarter of 2018. Funds from operations (FFO) drastically fell to Bt1.84 billion, from Bt4.1 billion in 2017 and Bt2.4 billion in 2016.

We view exposure to LPG price risks will likely increase in the medium terms, given the company's tendency to further expand abroad and a possibility of LPG liberalization in Thailand. Although partly counterbalanced by regulated domestic market and stable income from invested power plants, SGP's earning volatility will likely be the key factor capping its ratings.

Leverage on the rise from new investment

Presently, SGP is attempting to diversify into liquefied natural gas (LNG) trading business, given the tendency of supply scarcity in Thailand. The company is studying a project feasibility to build terminal and storages for importation of LNG into Thailand. Preliminarily, the project is estimated to cost about Bt8.0 billion and the project construction may be began in 2020 or later.

Given the huge amount of investment, the financial profile is likely to weaken in near terms. Under our base-case forecast for 2019-2021, the company's core business will generate an averaged FFO of Bt2.4 billion per annum. The company's total capital expenditures is estimated to about Bt10.6 billion in total. The debt to capitalization ratio will rise to 60%. The FFO to debt ratio will drop but should stay over 10%. As such, SGP's gearing and cash flow cushion against debt is projected to worse than our previous forecast. The ratings affirmation reflects our expectation that SGP will remain profitable and prudently manage liquidity over the course of investment.

Adequate liquidity

SGP's liquidity is adequate, supported by large undrawn credit lines. Over the next 12 months, sources of funds will comprise cash on hand of Bt2.9 billion at the end of March 2019, undrawn credit facilities of Bt15 billion, and FFO forecast at Bt2.0 billion or more. Uses of funds over the next 12 months include long-term loans coming due worth Bt1.36 billion and capital expenditures of around Bt2.5 billion. The company's outstanding debentures of Bt2 billion due in January 2020 will likely be refinanced.

According to SGP's debenture financial covenant, the company has to maintain the ratio of interest bearing debt (IBD) to equity not exceeding 2 times. Its IBD to equity ratio rose to 1.16 times at the end of March 2019. Notwithstanding its planned expenditures, TRIS Rating expects SGP can comply with the financial covenant.

BASE-CASE ASSUMPTIONS

- We assume that SGP's international sales volume will increase by 2%-6% per year while the domestic sales volume will decline by 1%-3% per annum over the next two to three years.
- The operating income (before depreciation and amortization as a percentage of revenues) will stay at around 4%-5%.
- SGP will spend Bt2.5 billion for capital expenditures in 2019, and Bt4.1 billion each year in 2020 and 2021.
- The dividend payout ratio is 50%.

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. TRIS Rating also expects overseas trading to remain profitable, despite 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 falls considerably from the current level. These outcomes could be achieved if SGP can attain a 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 FFO to debt ratio falls below TRIS Rating's expectation or if there are large debt-funded acquisitions which significantly jeopardize its financial profile.

The issue 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 profiles of SGP or its guarantor.

COMPANY OVERVIEW

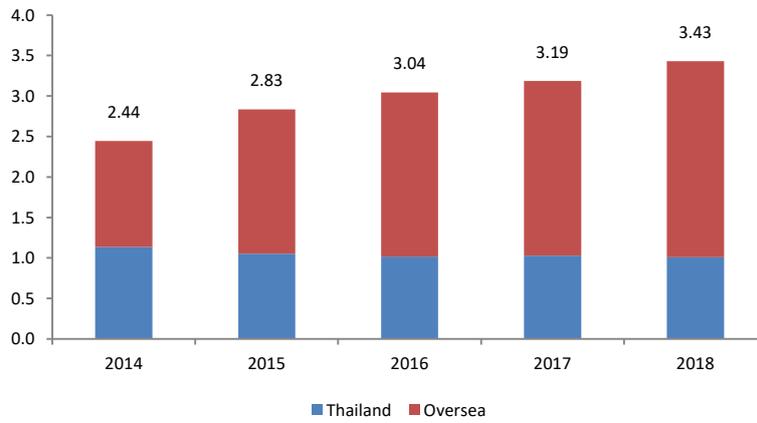
SGP is the second-largest LPG distributor in Thailand, covering LPG trading under the "Siam Gas" and "Unique Gas" brands. The company was established by the Weeraborwornpong family in 2001 and listed on the Stock Exchange of Thailand (SET) in 2008. The Weeraborwornpong family held 61% of SGP's total shares as of March 2019.

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 2018, SGP sold around 3.4 million tonnes of LPG. The volumes sold in the domestic and international segments were approximately 1.01 million tonnes and 2.42 million tonnes, respectively.

SGP started diversifying into a new line of business: power generation. In 2016, SGP started investing in a 30% share of a power plant in Myanmar with production capacity of 230 megawatts (MW). The company increased its stakes to 41.1% in December 2018. The company also invested in 33% share of a 10-MW diesel-fired power plant in Myanmar.

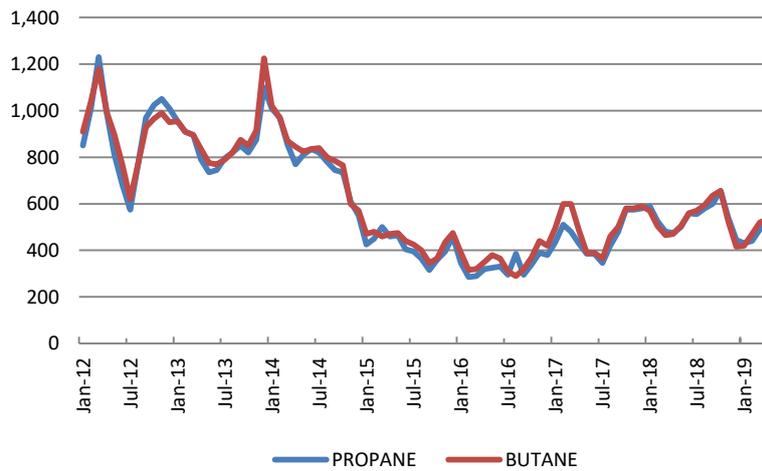
KEY OPERATING PERFORMANCE

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 2019 | -----Year Ended 31 December ----- | | | |
|---|-----------------|-----------------------------------|--------|--------|--------|
| | | 2018 | 2017 | 2016 | 2015 |
| Total operating revenues | 17,756 | 68,955 | 59,461 | 48,348 | 58,267 |
| Operating income | 1,053 | 2,412 | 5,125 | 2,933 | 2,897 |
| Earnings before interest and taxes (EBIT) | 790 | 1,513 | 3,981 | 1,727 | 1,804 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 1,053 | 2,524 | 5,285 | 2,959 | 2,928 |
| Funds from operations (FFO) | 835 | 1,844 | 4,134 | 2,395 | 2,225 |
| Adjusted interest expense | 152 | 529 | 488 | 458 | 478 |
| Capital expenditures | 181 | 2,371 | 1,687 | 2,410 | 972 |
| Total assets | 34,103 | 35,804 | 31,458 | 28,557 | 29,098 |
| Adjusted debt | 9,950 | 14,085 | 8,345 | 7,867 | 8,925 |
| Adjusted equity | 10,611 | 10,129 | 11,308 | 9,800 | 9,775 |
| Adjusted Ratios | | | | | |
| Operating income as % of total operating revenues (%) | 5.9 | 3.5 | 8.6 | 6.1 | 5.0 |
| Pretax return on permanent capital (%) | 8.9 * | 6.1 | 18.9 | 8.4 | 8.6 |
| EBITDA interest coverage (times) | 6.9 | 4.8 | 10.8 | 6.5 | 6.1 |
| Debt to EBITDA (times) | 3.3 * | 5.6 | 1.6 | 2.7 | 3.0 |
| FFO to debt (%) | 23.2 * | 13.1 | 49.5 | 30.4 | 24.9 |
| Debt to capitalization (%) | 48.4 | 58.2 | 42.5 | 44.5 | 47.7 |

* Annualized with 12 months trailing

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Siamgas and Petrochemicals PLC (SGP)

| | |
|---|--------|
| Company Rating: | BBB+ |
| Issue Ratings: | |
| SGP201A: Bt2,000 million senior unsecured debentures due 2020 | BBB+ |
| 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 |
| Rating Outlook: | Stable |

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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