# SIAMGAS AND PETROCHEMICALS PLC

No. 102/2022
29 June 2022

## CORPORATES

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

**Last Review Date:** 19/11/21

**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. 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”, with a “stable” outlook 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 geographically diverse customer bases. Conversely, the ratings are weighed down by its vulnerability to LPG price fluctuations in overseas markets and an expected rise in SGP’s financial leverage from the planned investment for the liquefied natural gas (LNG) import project.

## KEY RATING CONSIDERATIONS

### Second-largest LPG supplier

SGP has a strong market position. The company remains the second-largest LPG supplier in Thailand, with a 22% market share in 2021. Key competitors are PTT PLC and WP Energy PLC, holding market shares of about 42% and 19%, respectively. Despite its strong market presence, SGP’s market share has steadily fallen from 24%-25% in 2018 due in large part to intensifying price competition from new players.

SGP’s competitive advantages are largely underpinned by its strong brand reputation, merits from economies of scale, and nationwide distribution coverage. We view the company’s domestic sales as a source of steady cash flow since LPG prices in the Thai market are controlled and partly subsidized by the government.

### Extensive distribution network

SGP's distribution network places the company in a distinctively advantageous position over most of its peers. SGP’s logistics facilities in Thailand include nine large LPG storage terminals, widespread filling plants and gas service stations, as well as a host of LPG trucks and tankers. The wealth of operating assets results in competitive transportation costs, nationwide market coverage, and supply stability.

Given the dismal outlook of the domestic LPG market, SGP has transitioned to focus heavily on overseas trading over the past several years. For overseas operations, SGP owns two storage caverns with a total storage capacity of 300,000 tonnes in China, a floating storage facility of 45,000 tonnes in Singapore, and a fleet of LPG vessels. These facilities support SGP’s business strength, enabling the company to trade LPG throughout the Asia Pacific region.

### Customer bases keep diversifying

SGP has gained customers in many countries, with China being the key strategic market responsible for 27% of total sales volume in 2021. SGP’s offshore trading, representing sales in various countries, has increased over the past years with the proportion rising to 43% of the total in 2021. On the contrary, the sales volume in Thailand fell to 23%.

We assess SGP's customer bases will become more diversified geographically, following its concerted effort to expand in new markets with good growth potential, for instance, India and Bangladesh. The company plans to set up a floating LPG storage facility in India to support sales growth in the South Asia region.

### Susceptibility to LPG price fluctuations

Price risk inherent in its international operations remains the key rating constraint. SGP's earnings could widely swing from quarter to quarter, along with fluctuations in LPG prices. A dive in LPG prices could result in hefty stock losses and take a heavy toll on SGP's financial performance.

We expect the degree of SGP's price risk exposure will heighten, considering the company's strategic growth in overseas. International operations made up 77% of total sales volume in 2021, gradually rising from 68% in 2017. Nonetheless, the price risk is partly offset by more stable revenues from domestic LPG trading and non-LPG businesses, such as chemical trading, power plants, rental of oil storage tanks, and wholesale oil trading.

### Post-COVID-19 sales resurgence

In all, SGP's sales volume is recovering from the setbacks induced by the Coronavirus Disease 2019 (COVID-19) pandemic. In the first quarter of 2022, sales volume totaled 0.924 million tonnes, suggesting a healthy rebound of 17.1% year-on-year (y-o-y). Thanks to reviving demand in the China market and ongoing sales expansion in offshore trading, SGP's sales volume in international markets escalated to 0.725 million tonnes, marking a robust 23.5% turnaround y-o-y.

Conversely, SGP staged a slower recovery than peers in the domestic market in the wake of acute competition in the cooking and auto segments. In the first quarter of 2022, SGP's domestic sales volume came in flat at 0.199 million tonnes, whereas the overall market grew by 3.7% y-o-y.

### Outsized earnings from LPG price rally

SGP arrived at a record earnings before interest, taxes, depreciation, and amortization (EBITDA) of THB6.38 billion in 2021, due to a rally in LPG prices. The global LPG price escalated to USD795 per tonne in December 2021 from USD550 per tonne in January 2021. The LPG price continued to rise to USD895 per tonne in March 2022. As such, SGP's earnings in the first three months of 2022 remained strong with an EBITDA of THB1.67 billion, compared with average EBITDA of approximately THB1 billion per quarter.

The tremendous earnings helped support SGP's working capital needs. At the same time, its debt serviceability improved markedly with the debt to EBITDA ratio falling to 2.4 times and the ratio of funds from operations (FFO) to debt rising to 32% in the first quarter of 2022.

### EBITDA expected to normalize

Looking ahead, we expect SGP's profitability to return to the normal level. In our forecast, we assume the LPG price will stay at a high level towards the end of 2022 before falling in 2023-2024 in anticipation of an easing supply crunch. With respect to sales volume, we expect SGP will continue to shore up its international trading to make up for the subdued domestic sales. In our base-case, we project that SGP's total sales volume will return to 3.6 million tonnes in 2022 and keep growing by 2% per year in 2023-2024. We arrive at a forecast EBITDA of THB5.3-THB5.5 billion in 2022. EBITDA should then return to the normal level of THB3.4-THB3.7 billion per year during 2023-2024.

### Leverage on the rise

In our base case, SGP's financial leverage will rise due to the planned outlays for construction of LNG receiving facilities. SGP plans to import and sell LNG to target industrial users, which are shifting to cleaner fuels. The LNG will be distributed by truck. The project construction will cost about THB8 billion over the course of three years.

We expect SGP will mainly use debt to finance the project. We assume SGP will start construction in 2023. As a result, the debt to EBITDA ratio is likely to touch 5 times, while the FFO to debt ratio could fall below 15%. However, we expect the financial leverage should decline once SGP starts to monetize the LNG receiving facilities. Moreover, we believe its stronger capital base will help support the investment, hence making its financial profile commensurate to the current ratings. We hold the view that SGP is exposed to project execution risks, given the lack of an operating track record, several uncertainties in the scope of the end market, and the degree of competition after the Thai LNG market is liberalized.

### Manageable liquidity

We assess that SGP's sources of funds will be sufficient to cover uses of funds over the next 12 months. The sources of funds over the next 12 months comprise cash and cash equivalents of THB3.0 billion as of March 2022, an estimated FFO of THB3.3 billion, and undrawn credit facilities of over THB10.0 billion. The uses of funds include long-term loan and lease obligations coming due totaling THB0.64 billion, a bond payment of THB2.0 billion, estimated capital expenditures of THB1.5-TH2.0 billion, and estimated dividend payments of THB2.0 billion.

### Debt structure

At the end of March 2022, SGP had THB16.6 billion in debt, including approximately THB3.9 billion in priority debt. This means the ratio of priority debt to total debt was about 24%.

## BASE-CASE ASSUMPTIONS

- SGP's sales volume to rebound to 3.6 million tonnes in 2022 and grow by 2% per year in 2023-2024.
- Revenue to total THB110 billion in 2022, declining to THB100 billion in 2023 and THB80 billion in 2024.
- EBITDA margin to be around 3.5%-5.0%.
- Capital spending to total THB2.0 billion in 2022 and around THB3.2-THB3.6 billion each year during 2023-2024.
- Dividend payout ratio at 50% of net profit.

## RATING OUTLOOK

The "stable" outlook reflects our expectation that SGP will be able to maintain its strong position as the second-largest LPG distributor in Thailand. The more stable profit from domestic sales will continue to help SGP weather the volatile margin of its 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 connection with the LNG import project. Conversely, the ratings could be revised downward if SGP's financial profile materially deteriorates, with the debt to EBITDA ratio staying over 5-6 times and FFO to debt ratio remaining below 10% for an extended period

The ratings and outlook for SGP's partially guaranteed debentures reflect the creditworthiness of both the issuer and the guarantor, CGIF. The issue ratings could be revised upward or downward should there be any changes in the credit profile of SGP or the 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 2022.

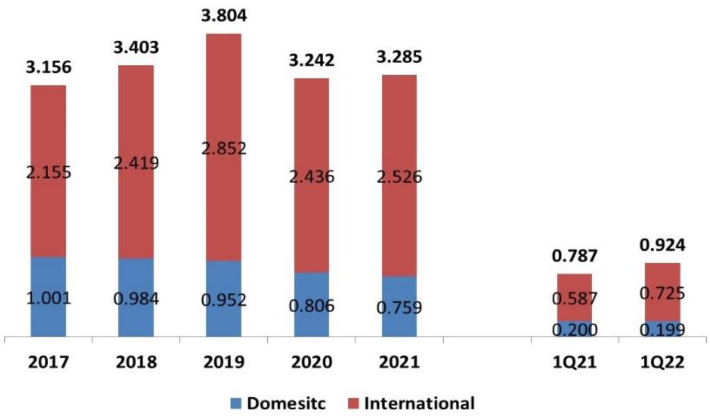
SGP's LPG trading business expanded abroad in 2010 with an aim to increase volumes to offset dwindling demand in the domestic market. Revenue from the international LPG trading segment rose continually, and currently accounts for about 65%-70% of total revenue. In 2021, SGP sold around 3.3 million tonnes of LPG, comprising domestic sales volume of 0.8 million tonnes and international volume of 2.5 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., Ltd. (LINH), an LPG cylinder producer. In early 2021, SGP completed the takeover of LINH, increasing its stake to 97.5%.

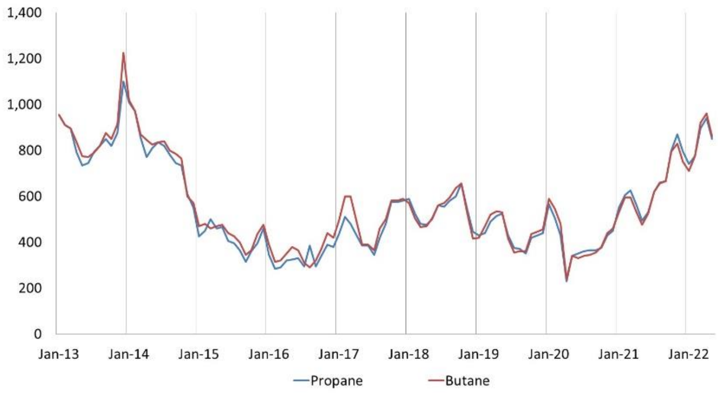
## KEY OPERATING PERFORMANCE

**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*

| | | | ---------------Year Ended 31 December ----------- | | |
|---|---|---|---|---|---|
| | Jan-Mar 2022 | 2021 | 2020 | 2019 | 2018 |
| Total operating revenues | 26,871 | 78,993 | 55,365 | 67,399 | 69,046 |
| Earnings before interest and taxes (EBIT) | 1,362 | 5,060 | 2,906 | 2,350 | 1,513 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 1,671 | 6,379 | 3,995 | 3,236 | 2,524 |
| Funds from operations (FFO) | 1,309 | 4,987 | 2,994 | 2,322 | 1,709 |
| Adjusted interest expense | 164 | 664 | 631 | 621 | 529 |
| Capital expenditures | 418 | 2,047 | 2,015 | 2,222 | 2,371 |
| Total assets | 51,831 | 50,894 | 41,388 | 41,439 | 35,804 |
| Adjusted debt | 14,455 | 16,720 | 14,689 | 12,966 | 14,085 |
| Adjusted equity | 17,692 | 16,793 | 12,864 | 11,889 | 10,129 |
| **Adjusted Ratios** | | | | | |
| EBITDA margin (%) | 6.2 | 8.1 | 7.2 | 4.8 | 3.7 |
| Pretax return on permanent capital (%) | 14.0 ** | 15.1 | 9.8 | 8.4 | 6.1 |
| EBITDA interest coverage (times) | 10.2 | 9.6 | 6.3 | 5.2 | 4.8 |
| Debt to EBITDA (times) | 2.4 ** | 2.6 | 3.7 | 4.0 | 5.6 |
| FFO to debt (%) | 32.0 ** | 29.8 | 20.4 | 17.9 | 12.1 |
| Debt to capitalization (%) | 45.0 | 49.9 | 53.3 | 52.2 | 58.2 |

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

## RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

## Siamgas and Petrochemicals PLC (SGP)

| | |
|---|---|
| **Company Rating:** | BBB+ |
| **Issue Ratings:** | |
| 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+ |
| SGP262A: THB4,000 million senior unsecured debentures due 2026 | BBB+ |
| **Rating Outlook:** | Stable |

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