

SIAMGAS AND PETROCHEMICALS PLC

No. 133/2023

16 November 2023

CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Partially guaranteed	A
Outlook:	Negative

Last Review Date: 30/06/23

Company Rating History:

Date	Rating	Outlook/Alert
30/06/23	BBB+	Negative
17/05/18	BBB+	Stable
28/11/13	BBB	Stable
07/07/11	BBB+	Stable

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RATIONALE

TRIS Rating assigns a rating of “BBB+” to the proposed issue of up to THB4 billion senior unsecured debentures and an additional greenshoe option of THB2 billion of Siamgas and Petrochemicals PLC (SGP). The tenor of the debentures is up to four years and two months. SGP intends to use the proceeds from the new debenture issuance to refinance existing debentures. All the ratings on SGP remain unchanged. These include the company rating and the ratings on its senior unsecured debentures of “BBB+”, as well as the rating of “A” on SGP’s debentures which are 70% guaranteed by Credit Guarantee and Investment Facility (CGIF, rated “AAA/stable”). We maintain a “negative” outlook on the ratings to reflect our view of potential deterioration in SGP’s financial risk profile.

The ratings continue to recognize the company’s extensive distribution network, and its market position as the second-largest liquefied petroleum gas (LPG) supplier in Thailand. Conversely, the ratings are tempered by SGP’s high vulnerability to fluctuating LPG prices in overseas markets, despite the benefits of geographically diverse customer bases.

SGP’s LPG sales volume in the first nine months of 2023 increased by 6.7% year-on-year (y-o-y) to 2.76 million tonnes, accounting for around 70% of our full-year forecast for 2023. International sales volume grew by 8% y-o-y to 2.15 million tonnes, driven by a 24% y-o-y sales volume recovery in China to 0.93 million tonnes. Conversely, the offshore trading sales volume declined by 2% y-o-y to 1.02 million tonnes. Meanwhile, domestic sales volume improved by 2.2% y-o-y to 0.61 million tonnes.

Earnings before interest, taxes, depreciation, and amortization (EBITDA) for the first nine months of 2023 came in at THB2.1 billion, decreasing 8% y-o-y as LPG prices declined from higher bases during the first half of 2022. We project the company to generate THB2.7 billion in EBITDA in 2023, which is lower than the long-term average level of about THB3.4 billion a year. We forecast SGP’s EBITDA to bounce back to THB3.3-THB3.5 billion a year in 2024-2025. Nevertheless, SGP’s operating performance remains vulnerable to ongoing market uncertainties.

The company’s financial leverage has risen due in part to a material increase in working capital requirements, with a longer collection period of accounts receivable and rising days in inventory. Adjusted net debt rose to a record of THB20 billion as of September 2023 while the debt to EBITDA ratio increased to 7.5 times (annualized with the trailing 12 months). We forecast the debt to EBITDA ratio to fall to 6 times towards the end of 2023 and range from 4.5-5.2 times in 2024-2025. Additionally, we expect the funds from operations (FFO) to debt ratio to be above 10% in our forecast. We could lower the ratings if no deleveraging trend is apparent.

SGP has a hefty investment plan for the construction of liquefied natural gas (LNG) receiving facilities. Should the project materialize, SGP’s financial leverage will likely rise further and remain elevated over the course of construction, given the company’s tendency to fund projects mainly by debt. The debt to EBITDA ratio could remain at 6 times for a lengthy period, which could also trigger a downward revision to the ratings.

At the end of September 2023, SGP had THB23.4 billion in total debt, excluding lease liabilities. Of the total, SGP's priority debt was THB9.1 billion. This means the ratio of priority debt to total debt was 39%.

RATING OUTLOOK

The “negative” outlook reflects a potential deterioration in SGP’s financial risk profile, given the heightening financial leverage arising from its operations and the potential investment in LNG importation facilities.

RATING SENSITIVITIES

We could consider revising the outlook to “stable” if we see evidence of a deleveraging trend and use of a prudent capital structure for the investment in the LNG project. As such, the company would need to keep its debt to EBITDA ratio at not more than 5 times on average over the long term. Given the “negative” outlook, an upgrade of ratings is unlikely in the near term.

A rating downgrade could emerge if there is no sign of financial deleveraging, or SGP’s performance falls materially short of our estimates resulting in the debt to EBITDA ratio remaining over 5 times for an extended period.

The ratings on 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 change in the credit profile of SGP or the guarantor.

RELATED CRITERIA

- Partially Guaranteed Debt Rating Methodology, 27 January 2023
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Siamgas and Petrochemicals PLC (SGP)

Company Rating:	BBB+
Issue Ratings:	
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+
SGP272A: THB4,000 million senior unsecured debentures due 2027	BBB+
Up to THB4,000 million senior unsecured debentures and additional greenshoe portion of up to THB2,000 million due within 4 years 2 months	BBB+
Rating Outlook:	Negative

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