SCG CHEMICALS PLC

No. 93/2025
18 June 2025

CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Outlook:	Stable

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RATIONALE

TRIS Rating assigns a "A" company rating to SCG Chemicals PLC (SCGC) and a "A" issue ratings to its outstanding senior unsecured debentures. The rating outlook is "stable". We assess SCGC's stand-alone credit profile (SACP) at "bbb-". The company rating on SCGC is equal to the rating on The Siam Cement PLC (SCC, rated "A/Stable"), reflecting our assessment of SCGC's group status as a "core" subsidiary of SCC.

The SACP reflects SCGC's leading position in polyolefins and polyvinyl chloride (PVC) markets in Thailand and Southeast Asia, on the back of its large capacity and diversified pool of assets. The SACP also factors in its diverse market and customer bases, and ability to develop high value added (HVA) products. However, the SACP is constrained by its weak financial profile caused by prolonged weakness in operating performance and hefty capital spending. The prospect of SCGC's financial turnaround remains challenging due to the ongoing cyclical trough of petrochemicals industry, and increasing macroeconomic risks induced by global trade tensions.

KEY RATING CONSIDERATIONS

A core subsidiary of SCC

We assess SCGC as a "core" subsidiary of SCC based on its shareholding structure, its strategic importance to the group, and discernable record of strong group support.

SCC holds 100% shareholding in SCGC, and we believe this to remain over the foreseeable future. The majority of company's board members are also members of the SCC's board of directors, ensuring the alignment of business strategies and financial policy.

On the earnings front, SCGC contributes about 40%-45% of SCC's consolidated EBITDA under normal circumstances. Furthermore, SCGC represents about 40%-45% of SCC's total assets. Although SCGC's EBITDA contribution decreased to about 7% in 2024 due to persistent adverse industry conditions, we consider SCGC to remain of high strategic importance to the group. In our view, the group's earnings revival will largely rely on the turnaround of SCGC.

The strong group support is evident from SCC providing additional shareholder loans to refinance bank loans in connection with SCGC's investment in the Vietnam-based Long Son Petrochemicals complex (LSP). This meaningfully helped SCGC reduce financing costs and improve liquidity. As of March 2025, the loan from SCC accounted for about 42% of SCGC's total debt. We believe SCC will remain committed to providing financial support to SCGC amidst the protracted cyclical trough of petrochemicals industry. Also, we view the investment in the LSP enhancement (LSPE) project, which is expected to largely be funded by the group's internal cash flow, will be vital to strengthen SCGC's long-term competitiveness.

Leading market position

SCGC's strong business profile is underpinned by its leading industry position in Thailand and Southeast Asia. The company ranks as the second largest in the polyolefins value chain in Thailand, with a total capacity of about 6.5 million tonnes per annum (MTA), including capacity form it joint ventures. SCGC's polyolefins value chain encompasses the upstream olefin cracker and extends to the downstream polymer such as high-density polyethylene (HDPE), low density polyethylene (LDPE), linear low-density polyethylene (LLDPE), and polypropylene (PP). This integration along the value chain is expected to benefit SCGC through cost optimization, operational efficiency, and flexibility.

Additionally, SCGC is Thailand's dominant PVC producer, with total capacity of 530 thousand tonnes per annum (KTA). The leading position should help SCGC to achieve economies of scale, thereby lowering production costs and maintaining or increasing its market share.

Diversified production and customer base

SCGC's business profile also benefits from multiple production assets in Thailand and diversified production bases in Indonesia and Vietnam. This diversification helps to ensure continuous production and supply to customers, even if one facility encounters operational challenges. Additionally, having production based in key market like Indonesia and Vietnam help reduce risk and increase resilience against supply chain disruptions and market-specific economic fluctuations. The proximity of these facilities to end users also contributes to cost efficiency and position SCGC to capture opportunities of long-term growth in these countries.

SCGC also benefits from a diverse customer base with long established customers across multiple industries, including packaging and container related to consumer products, building materials and automotive industries. This diversification helps to ensure resilient demand from customers and enables SCGC to maintain high capacity-utilization rate, even during the petrochemicals industry's downcycle. In 2024, SCGC's capacity-utilization rate were about 84% for olefins, nearly 73% for polyolefins in Thailand and about 85% for PVC.

HVA to support earnings improvement

SCGC's strong research and development (R&D) team significantly contributes to improving earnings through the launch of HVA products. These HVA products typically command a premium over the commodity-grade products. In 2024, HVA products accounted for about 32% of SCGC's total revenues. The company aims to increase this proportion over the long term to enhance its earnings, particularly during this downturn period.

Earnings weakness amidst lingering oversupply

In 2024, SCGC experienced a year of sharp decline in performance primarily due to the ongoing oversupply situation, which lowered the product spread (the difference between product prices and feedstock costs). For instance, the HDPE spread dropped to USD339 per tonne in 2024, from USD394 per tonne in 2023 and USD418 per tonne in 2022. The lower product spread not only affected earnings but also caused SCGC to pause operations at the LSP facilities for almost the entire year of 2024 while bearing fixed cost throughout the year. As a result, SCGC's EBITDA plunged to THB3.8 billion in 2024, from about THB12.9 billion a year earlier.

We forecast SCGC's performance to remain weak in 2025-2026 as we expect a prolonged cyclical trough in the petrochemical industry. However, we expect gradual recovery in product spread over the forecast period in anticipation of improved supply-demand dynamics. We forecast the spread between polyethylene (PE) price and naphtha price to increase towards USD400 per tonne in 2026 and exceed USD400 per tonne in 2027, enabling the LSP facilities to resume operation in 2026 and generate cash for the company. Therefore, we project EBTIDA to increase to about THB9-THB10 billion in 2026 and about THB18 billion in 2027. We also expect further improvement in the company's EBITDA in 2028, when LSPE project comes on stream. The LSPE project will enable the company to import ethane as a feedstock from the US, enhancing its earnings. Currently, ethane is cheaper than naphtha, another feedstock, by about USD250 per tonne.

Surge in financial leverage

SCGC's weak financial profile results from a combination of its weak operating results and the hefty debt load to fund capital expenditure needs. The company spent a total of USD5.2 billion on the LSP project over the past five years, with immaterial return from the project due to unfavorable market conditions. With that, its adjusted debt soared from around THB65.8 billion in 2020 to about THB184.8 billion in 2024. Meanwhile, weak earnings caused by low product spreads elevated the debt to EBITDA ratio to 48.4 times in 2024, up from 13 times in 2023.

We expect SCGC's debt to EBITDA ratio to remain high in 2025-2026 due to unfavorable market conditions and its capital expenditures (CAPEX) plan. However, we project the ratio to decrease to around 10-12 times in 2027, as we expect earnings to gradually improve.

SCGC's CAPEX is projected to be approximately THB37.0 billion over 2025-2027, mostly earmarked to fund the LSPE project. We believe that SCC will provide financial support for this CAPEX plan due to the project's significance in enhancing long-term competitiveness.

Manageable liquidity

We assess SCGC's liquidity to be manageable over the next 12 months. As of March 2025, debentures and long-term debts maturing within 12 months totaled THB13.05 billion. Liquidity sources included THB6.16 billion cash on hand and short-term investment, estimated THB1.5-THB1.7 billion in funds from operations (FFO), plus ample undraw bank credit facilities. We believe that any funding gap to meet debt repayments and CAPEX needs will be supported by SCC. The short-term bank loans of THB33.21billion are expected to be rolled over.

Debt structure

As of March 2025, SCGC's consolidated debt was THB180.25 billion. The priority debt totaled THB44.64 billion, most of which were debts at the subsidiary level. As a result, the priority debt ratio was 24.8% as of March 2025.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast (consolidated basis) during 2025-2027 are as follows:

- Sales volume from existing plant to flat.
- Dubai crude oil price to be at around USD70 per barrel on average.
- EBITDA margin to gradually improve to around 4% in 2025-2026 and 8% in 2027.
- LSP to resume operation in 2026 onward.
- Total capital spending to add up to about THB37 billion.

RATING OUTLOOK

The "stable" outlook on SCGC mirrors that on SCC. We expect SCGC will maintain its group status and the degree of group support to remain intact. Furthermore, we expect SCGC's performance to be in line with our base-case scenario, with a gradual improvement in the product spread as projected. We expect LSP to resume operation in 2026, to lift cash generation.

RATING SENSITIVITIES

The ratings and outlook on SCGC will follow those on SCC. A revision to the ratings is subject to changes in SCGC's strategic relevance to the group, or the credit profile of SCC.

We are unlikely to raise the SACP over the next 12-18 months. Conversely, a lower SACP could be triggered if SCGC's performance materially deviates from our expectations. This may result from slower-than-expected recovery in earnings and further deterioration in financial profile. An indication of this would be deficit FFO or negative operating cash flow. The downward scenario could occur if the LSP facilities does not resume operation as expected, or the adverse market conditions persist.

COMPANY OVERVIEW

SCGC has a long track record in polyolefins industry, when its first plant commencing operation in 1983. SCGC is wholly owned by SCC. SCGC, is one of the largest integrated chemicals companies in Thailand and a key industry leader in Southeast Asia offers a full range of petrochemical products ranging from upstream production of olefins to downstream production of three main plastics resins; polyethylene, polypropylene and polyvinyl chloride.

Currently, SCGC owns and operate olefins crackers (4.75 MTA), polyolefins plants (3.53 MTA) and PVC plants (0.89 MTA) across Thailand, Indonesia and Vietnam. SCGC's customers base spans Southeast Asia. In 2024, Its revenue distribution was as follows: Thailand (53%), Vietnam (9%), Indonesia (6%), other Southeast Asian countries (8%), and the rest (24%) from other countries in Asia, including China, and the rest of the world.

To better serve customers' requirements, SCG assigns prime importance to the development of new technology and innovation for the creation of HVA.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2025		-------------Year Ended 31 December		----------
		2024	2023	2022	2021
Total operating revenues	50,614	211,293	192,221	237,332	238,847
Earnings before interest and taxes (EBIT)	(2,009)	(8,340)	1,830	1,056	38,188
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,317	3,820	12,902	14,827	41,300
Funds from operations (FFO)	(580)	(6,612)	3,903	6,559	33,637
Adjusted interest expense	1,563	8,869	7,354	6,161	3,837
Capital expenditures	1,509	12,306	18,662	23,337	46,305
Total assets	377,539	382,698	389,603	387,154	377,174
Adjusted debt	184,347	184,898	167,643	149,748	123,299
Adjusted equity	160,925	164,916	181,225	189,348	191,082
Adjusted Ratios					
EBITDA margin (%)	2.6	1.8	6.7	6.2	17.3
Pretax return on permanent capital (%)	(2.5) **	(2.3)	0.5	0.3	13.2
EBITDA interest coverage (times)	0.8	0.4	1.8	2.4	10.8
Debt to EBITDA (times)	47.0 **	48.4	13.0	10.1	3.0
FFO to debt (%)	(3.7) **	(3.6)	2.3	4.4	27.3
Debt to capitalization (%)	53.4	52.9	48.1	44.2	39.2

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

RELATED CRITERIA

- Issue Rating Criteria, 26 December 2024
- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

SCG Chemicals PLC (SCGC)

Company Rating:	A
Issue Ratings:	
SCGC259A: THB10,200 million senior unsecured debentures due 2025	A
SCGC264A: THB30,000 million senior unsecured debentures due 2026	A
SCGC279A: THB11,689 million senior unsecured debentures due 2027	A
SCGC289A: THB1,800 million senior unsecured debentures due 2028	A
SCGC329A: THB4,030 million senior unsecured debentures due 2032	A
SCGC349A: THB1,890 million senior unsecured debentures due 2034	A
Rating Outlook:	Stable

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