Economic Alert iQ

First Citizens Research & Analytics

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Phoenix Park Gas Processors Limited Credit Rating Downgrade

Rating Change

- Caribbean Information and Credit Rating Services Limited (CariCRIS) has lowered its corporate credit ratings of Phoenix Park Gas Processors Limited (PPGPL), one notch on its regional rating scale, to CariAA+(Foreign and Local Currency Ratings) from CariAAA (Foreign and Local Currency Ratings).
- On CariCRIS's national rating scale, PPGPL was also downgraded one notch to ttAA+ from ttAAA.

Rating Drivers

- The declining trend in PPGPL's revenue and profitability, which has been observed over the last three years, is expected to continue in 2015:
  - The persistent gas supply shortage emanating from the local upstream sector is not projected to materially improve until 2017/2018 when it is expected than the Juniper and Starship projects come into production.
  - Aggravating the negative impact from the gas supply shortage is the reduced liquid content in the feedstock being processed by PPGPL. In 2014 total feedstock supplied to PPGPL by Atlantic LNG declined by 10.9% which when coupled with the reduced liquid content in the gas supplied, resulted in NGL production slowing by 4% to 32,849 barrels per calendar day which in turn led to an 8.8% drop in sales volumes.
  - PPGPL's top line has not only had to contend with reduced production volumes but falling international prices of its outputs as well. The decline in 2014 prices for Butane (↓13.4%) and Natural Gasoline (↓7.6%), partially offset by an 11% increase in Propane, caused revenues in 2014 to contract by 13.8%.

- Although PPGPL benefits from a partial hedge provided by the indexation of its NGL feedstock costs to Mount Belvieu (MB) prices, it was insufficient to compensate for the fall in revenue and as a result Gross Profit for 2014 declined by 15.3% to TT$292 million.
- PPGPL's profit after tax declined, for a third consecutive year in 2014, to US$166.6 million from US$202 million in 2013.

Gas shortages are expected to persist locally over the medium term, which when combined with the drier gas supplied as feedstock for processing and depressed international NGL prices, should constrain the overall future financial performance of PPGPL.

- Low and declining capacity utilization at PPGPL's fractionating plants and storage facilities represent significant idle capacity at PPGPL which the company should seek to monetize in the face of declining core revenue growth. The company is exploring several options and should implement a plan within another 12-18 months.

- CariCRIS projects that over the medium term, PPGPL may see further loss of market share in the Central American LPG market and the Caribbean LPG market given the abundance of shale gas in the USA. In 2014 3 US operators entered the Caribbean and Central American LPG market and represent a significant threat to PPGPL's market share if they are successful in penetrating these territories.

- PPGPL's natural gasoline has come under scrutiny due to high levels of arsenic and sulfur which prevent importation into the USA. As a result the sole remaining U.S. client has agreed in a 5-Year contract to have its cargoes shipped to Colombia and then to West Africa. Although the new sales arrangement is much more favorable to PPGPL, the reliance on a single client for a major percentage of its natural gasoline sales (29% in 2014) has negatively affected ratings. PPGPL is currently engaging in a Product Purification Project to deal with the contaminants in the natural gasoline; however implementation of the project's results is not expected to take place for another 2-3 years.

- Despite reduced profitability, PPGPL's healthy liquidity and debt servicing metrics supported its rating.

- Low operating costs and break even prices due to operational efficiencies which when coupled with the implicit support from NGC in the event of financial distress provided further rating support.