

# [***-Fitch Affirms LOOP LLC at 'BBB+'; Outlook Stable***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:66K9-GXB1-JD3Y-Y4NY-00000-00&context=1516831)

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**Body**

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Release date- 07102022 - Fitch Ratings has affirmed Louisiana Offshore Oil Port (LOOP) LLC 's Long-Term Issuer Default Rating (IDR) and senior unsecured ratings at 'BBB+' and the senior secured debt backed by a throughput deficiency (TD) agreement at 'A-'.

Additionally, Fitch affirmed LOOP's Short-Term IDR at 'F2'. The Rating Outlook is Stable.

The affirmation reflects the importance of LOOP's deep-water port and storage assets in the U.S. and to its owners, Royal Dutch Shell plc (46.1%; AA-/Stable), MPLX (40.7%; BBB/Stable), Marathon Petroleum Company (10%; BBB/Stable), and Valero Terminaling and Distribution Company (NR), a wholly owned subsidiary of Valero Energy Corp (3.2%; BBB/Stable). Other strengths include supportive parents and a flexible dividend policy offset by its small size/scale and geographic concentration.

The secured debt rating reflects the security enhancement provided by the TD agreement, which is severally secured by Shell Oil Company (NR), MPLX (BBB/Stable), Marathon (BBB/Stable) and Valero Terminaling and Distribution Company (NR).

Key Rating Drivers

Credit Enhancement Under TD Agreement: LOOP's ratings reflect the benefits provided under the TD agreement and offsets its small size and operating profile. The TD agreement is secured on a several basis by affiliates of LOOP's owners. The obligors are Marathon Petroleum LP (NR) with Marathon Petroleum Corporation (BBB/Stable) as the guarantor (on a several basis, for 50.7%) of its subsidiary's TD agreement obligation. The other obligors are Shell Oil Company (46.1%) and Valero Terminaling and Distribution Company (3.2%). The TD agreement has no maturity.

Under the TD agreement, the guarantors are obligated to ship, or cause to be shipped through LOOP, enough oil for LOOP to meet its operating expenses and senior secured debt service obligations if LOOP cannot. The owners severally agree to make cash payments to LOOP for any deficiency in exchange for a credit for future throughput.

Enhanced Instrument Ratings: The first-stage debt (A-) is secured by the TD agreement and the series 2013B is further enhanced by a letter of credit. LOOP's 'BBB+' unsecured debt does not share the credit enhancement provided by the TD agreement, but it has a cross default provision to the TD backed secured debt. However, Fitch expects throughput volumes from non-owner shippers will continue to provide sufficient cash flow to support LOOP's non-TD-backed debt. In 2021, third-party revenues accounted for 76% of total revenues. Fitch believes there are strong incentives for LOOP's owners not to default the unsecured debt given the cross default and LOOP's strategic importance to its owners in the Gulf Coast. Currently, more than 75% of LOOP's debt is secured by the TD agreement.

Improving Leverage: Fitch's expects leverage (total debt with equity credit to operating EBITDA) will improve throughout the forecast period with the Gulf of Mexico (GOM) production coming back online, after the 2021 Hurricane Ida shutdown production. Fitch calculated leverage was 4.2x at YE 2021. Overall, Fitch believes the currently supportive commodity price ***environment*** and the current global market dynamics are driving higher demand for U.S. exports. Fitch expects leverage to improve to about 3.5x at YE 2023 as cashflow returns to near historic levels and LOOP repays debt, roughly $ 20-25/ year.

Increased Seaborne Crude Exports: LOOP's crude exports from its vessel loading business will continue to be the main driver of cash flow, benefiting incrementally from the expected growing crude production from the GOM. The rise in loading volumes should offset the projected decline in earnings from offloading through Fitch's forecast.

Fitch believes seaborne crude imports into the U.S. will decline as domestic crude production remains robust. Additionally, Canadian heavy crude will likely account for more oil import to the U.S. via long haul pipelines such as Energy Transfer's Dakota Access Pipeline and Enbridge's Mainline. With the completion of the southbound Capline reversal in 4Q21 and the in servicing of eastbound Zydeco and Bayou Bridge pipelines, coupled with the closure of Shell's Convent Refinery, the supply of crude to the St. James Hub exceeds the region's refiner demand. As a result, Fitch believes that these regional dynamics are supportive of increased exports of GOM crude.

Strategic Assets to Sponsors and Refiners: LOOP has strong connections to its sponsor's assets. Through connections to the Endymion and Mars pipeline systems, LOOP provides terminaling services for major offshore fields in the Gulf of Mexico. Both these systems are partially owned by Shell, one of LOOP's owners. Fitch anticipates a slight rise in throughput volumes for both Endymion and Mars pipeline systems due to expansions and development of nearby fields.

The Clovelly hub has a total capacity of 71.5 million barrels (including approximately 60 million barrels of cavern storage) to handle crude volume flowing through these pipeline systems. Its storage facility is also connected to more than 2.3 million barrels per day of refining capacity in the Lower Mississippi River market.

New Exporting Competitors: LOOP remains a key crude oil export hub as the only deep-water port in the U.S. capable of loading very large crude carriers (VLCC) that are too large to access inland port facilities. The crude export market may become more competitive in the near future. Competitors are planning to develop new offshore dock projects, with direct VLCC loading capabilities, along Corpus Christi and Houston. However, most of these projects have experienced delays and/or waiting on approvals from the Federal Maritime Administration.

Supportive Ownership: While there is no explicit parent-subsidiary rating linkage between LOOP and its owners, Fitch believes LOOP's owners will remain supportive and allow the company to operate with a strong balance sheet through a flexible dividend policy. Its owners reduced the dividend in the past when LOOP needs to conserve cash and improve credit metrics. Management cut the dividend in 2020 to offset COVID-19 related impacts and is executing a plan to reduce debt by $ 20 million per year.

Derivation Summary

LOOP LLC's 'BBB+' rating reflects credit enhancement supported by a TD agreement, diversified revenue streams, the strategic importance of its assets, supportive sponsors and a flexible dividend policy. As previously discussed, LOOP has a TD agreement in place backed by its high credit quality owners for all of its first stage debt. LOOP is also well positioned to take advantage of future U.S. oil export opportunities with its strategic offshore location as the only port in the U.S. capable of offloading and loading VLCC's at this point in time.

LOOP has lower leverage relative to its liquid petroleum products and storage business segment peer Buckeye Partners, LP (BPL; BB/Stable). Fitch forecasts LOOP's leverage to be approximately 3.5x at YE 2023, lower than Buckeye's forecast leverage of between 5.5x-6.0x through YE 2023. BPL has much larger size and geographic diversity compared to LOOP. BPL does not have the TD agreements that LOOP has in place by its high credit quality owners.

Another similarly rated investment-grade peer that has a strategic joint venture ownership is Sabal Trail Transmission (BBB+/Stable). Sabal's revenue and cash flow profile is supported, for approximately 90% of its current capacity, by long-term capacity reservation contracts with shippers with high-credit quality. The shipper contracts combine to make Sabal largely insensitive to the volume of natural gas transported. The largest shipper on Sabal is NextEra Energy, Inc.'s (A-/Stable) subsidiary Florida Power Light Company (FPL; senior unsecured A+/Stable). FPL currently has a 67% share of contracted capacity. Relative to LOOP, Sabal has a stronger cashflow profile given the existing contracts but operates at higher leverage level. Fitch forecasts Sabal's leverage to be in the low-4x for the forecast period.

Key Assumptions

Vessel loading expected to increase in 2023, and then plateau in 2024 due to increased oil supply from the Capline reversal and a return of MARS to pre-Hurricane Ida volumes, resulting in crude oil in supply in excess of local refiner demand;

Vessel offloading volumes expected to decline in 2023 and flatten through 2024 with a lower crude import volume;

No major capex, roughly $ 20 million in maintenance capex each year;

Debt repayment of nearly $ 20 million/year;

Dividend to Common Shareholders of $ 20 million-$ 25 million/year;

Fitch price deck for West Texas Intermediate oil price of $ 95/bbl in 2022, $ 81/bbl in 2023 and $ 62/bbl in 2024 and $ 50/bbl thereafter.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

If leverage (defined as total debt with equity credit/operating EBITDA) was expected to remain below 3.0x on a sustained basis, it could result in a positive rating action.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Significant adverse credit events at any of the TD obligors, or the guarantor of a TD obligor;

Materially adverse revisions in LOOP's TD support agreement;

Inability to grow domestic pipelines volumes and/or crude export volumes that pressure future cashflow;

Leverage (defined previously) expected to be above 3.5x for a sustained period.

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [*https://www.fitchratings.com/site/re/10111579*](https://www.fitchratings.com/site/re/10111579).

Liquidity and Debt Structure

Adequate Liquidity: As of June 30, 2022, LOOP had approximately $ 95 million of unrestricted cash and an undrawn revolving credit facility of $ 50 million for total liquidity of $ 145 million. Fitch believes that the company will not draw on the revolving credit facility throughout the forecast period. The revolving credit facility expires on Dec. 31, 2023. LOOP's next effective bond maturity is in October of 2024. Additionally, Fitch views that LOOP also has flexibility in its dividend policy.

Issuer Profile

LOOP owns and operates midstream crude oil infrastructure, including a deep-water oil port offshore of Louisiana, pipelines and storage facilities. The crude oil is destined for onshore storage and pipeline transport to LOCAP LLC, an affiliate, for delivery to refineries in the Gulf Coast and Midwest.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

LOOP LLC has an ESG Relevance Score of '4' for Group Structure due to related party transactions, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [*www.fitchratings.com/esg*](http://www.fitchratings.com/esg).

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