

# [***Moody's rates Energy Transfer Partners' proposed preferred units Ba2***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5PXB-T2F1-DXCW-D4MT-00000-00&context=1516831)

Plus Company Updates(PCU)

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**Body**

New York: Moody's Investors Service, Inc. has issued the following press release:

Moody's Investors Service, ("Moody's") assigned a Ba2 rating to Energy Transfer Partners, L.P.'s (ETP) proposed Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units and affirmed its Baa3 senior unsecured rating, its Ba1 junior subordinated notes rating and its P-3 commercial paper rating. The rating outlook is negative. Moody's also affirmed Sunoco Logistics Partners Operations L.P. (Sunoco Logistics Partners L.P.) Baa3 senior unsecured rating and its P-3 commercial paper rating. The outlook is also negative.

Assignments:

..Issuer: Energy Transfer Partners, L.P.

....Pref. Stock Preferred Stock, Assigned Ba2

Affirmations:

..Issuer: Energy Transfer Partners, L.P.

....Junior Subordinated Regular Bond/Debenture, Affirmed Ba1

....Commercial Paper, Affirmed P-3

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa3

....Senior Unsecured Shelf, Affirmed (P)Baa3

..Issuer: Sunoco Logistics Partners Operations L.P.

....Senior Unsecured Shelf, Affirmed (P)Baa3

....Commercial Paper, Affirmed P-3

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa3

Outlook Actions:

..Issuer: Energy Transfer Partners, L.P.

....Outlook, Remains Negative

..Issuer: Sunoco Logistics Partners Operations L.P.

....Outlook, Remains Negative

RATINGS RATIONALE

The proposed preferred units are rated Ba2, two notches below the Baa3 senior unsecured rating, reflecting their subordination to all of the company's existing senior unsecured notes, its unsecured revolving credit facility and its subordinated notes. Moody's attributes 50% equity credit to the preferred units.

ETP's Baa3 rating reflects its scale, which ranks among the largest publicly traded midstream master limited partnerships (MLP) in terms of its size, geographic reach and the operational diversification of its businesses. Its $77 billion midstream asset base generates a largely fee-based cash flow stream, approximating $5.8 billion of 12-month EBITDA as of September 30 (proportionately consolidated). However, largely as a function of heavy capital spending, flat EBITDA growth across several operating segments and the delayed in-service dates of several large projects, ETP's leverage deteriorated in 2016, peaking at 6x debt/EBITDA at year-end. The high level of growth capital spending should begin to improve EBITDA in 2018, helping to reverse the trajectory of increased debt leverage. The closing in February of the sale of a 36.75% in the Dakota Access Pipeline, August's $1.0 billion units issuance and October's closing of the sale of a 32.4% stake in ETP's Rover natural gas pipeline together with second and third quarter EBITDA gains have reduced leverage to about 5.5x in Moody's estimation. Run rate leverage could approach 5.1x by year-end 2017. A dependence on EBITDA growth for deleveraging in a low growth midstream energy ***environment*** is subject to greater execution risk. To the extent that a large aggregate of ETP's capital spending is devoted to the completion of several multi-billion dollar pipeline projects, whose construction has been subject to regulatory and permitting delays, EBITDA growth could be lumpy or further delayed.

The terms of the April 28, 2017 closing of Sunoco Logistics Partners L.P. (SXL, Baa3 negative) acquisition of ETP in a units-for-units transaction (and subsequently re-named Energy Transfer Partners, L.P.) effectively re-set ETP's unitholder distribution rate, which together with second and third quarter EBITDA growth restored third quarter and nine-month distribution coverage to 1.13x and 1.14x, respectively. Improved distribution coverage alleviates for now the necessity of future Incentive Distribution Rights (IDR) waivers from ETP's general partner, Energy Transfer Equity, L.P. (ETE, Ba2 negative), or potential distribution cuts, while preserving those options if necessary to support the combined SXL/ETP entity in the future.

Moody's considers ETP to have good liquidity through 2018, a liquidity position enhanced through asset monetizations. At September 30, ETP reported $2.1 borrowed under its aggregate $6.25 billion revolving credit facilities; the October 1 closing of the Rover sale for $1.57 billion further builds ETP's liquidity. Moody's expects ETP's $3.75 billion revolving credit facility and SXL's $2.5 billion revolving credit to be combined into a single facility at an amount something less than the combined $6.25 billion total by year-end. Growth capital spending has alternative sources to supplement its financing if needed including possible joint ventures, limited asset sales and asset level financing. Moody's believes that ETE has options which can be deployed to support ETP's liquidity, among them additional IDR waivers and potential flexibility around the level of cash distributions. In January, ETE issued $568 million of equity which was used to acquire ETP units, injecting cash into ETP. ETP and ETE have a history of consistent support for ETP's investment grade ratings, which Moody's expects will continue to be the case.

**Load-Date:** March 5, 2018

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