

# RatingsDirect®

---

**Research Update:**

## **PNG Cos. LLC Outlook Revised To Positive From Stable On Improving Financial Measures; 'BBB-' Ratings Affirmed**

**Primary Credit Analyst:**

Safina Ali, CFA, New York (1) 212-438-1877; safina.ali@spglobal.com

**Secondary Contact:**

Gerrit W Jepsen, CFA, New York (1) 212-438-2529; gerrit.jepsen@spglobal.com

### **Table Of Contents**

---

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Ratings List

## Research Update:

# PNG Cos. LLC Outlook Revised To Positive From Stable On Improving Financial Measures; 'BBB-' Ratings Affirmed

## Overview

- We expect U.S.-based intermediate holding company PNG Cos. LLC's profitability and financial measures to improve and expect management to maintain its focus on the utility operations.
- We are affirming our 'BBB-' issuer credit rating on PNG and revising the outlook to positive from stable.
- The positive outlook reflects the potential for higher ratings over the next 12 months if the consolidated group's financial and profitability measures improve and it maintains its focus on the regulated utility operations.

## Rating Action

On March 27, 2017, S&P Global Ratings affirmed its ratings on PNG Cos. LLC (PNG), including the 'BBB-' issuer credit rating, and revised the outlook to positive from stable.

## Rationale

The positive outlook on PNG reflects the potential for higher ratings if the consolidated group's financial and profitability measures improve and it continues to focus on its regulated utility operations.

PNG is an intermediate holding company that operates utility subsidiary Peoples Natural Gas Co. in Pennsylvania and regulated natural gas distribution subsidiaries that serve in West Virginia and Kentucky. Regulated gas operations contribute almost 100% to PNG's EBITDA, of which Peoples Natural Gas operations in Pennsylvania contributes about 98%. PNG's ultimate owner, LDC Funding LLC, is wholly owned by two funds that are affiliated with SteelRiver Infrastructure Partners (not rated), an investment management firm.

PNG's excellent business risk profile reflects the low-operating-risk, U.S.-based gas distribution operations, a credit-supportive regulatory environment, a relatively small service territory with modest customer growth, and a lack of geographic or operating diversity. Peoples Natural Gas serves roughly 640,000 customers in Pennsylvania. Residential customers contribute about 90% to total customers, providing stability to revenues and cash flow.

Our financial risk profile for PNG reflects our base-case forecast in which we expect funds from operations (FFO) to total debt to range from 16%-18% over the next few years. This incorporates primarily steady cash flow from the regulated operations and financing for the Delta transaction. Our base-case forecast assumes that PNG will continue to pursue additional rate increases and cost-recovery mechanisms that reflect timely recovery of capital spending and manage distributions in a way that does not adversely affect the capital structure. We gauge financial risk based on slightly eased financial benchmarks compared with standard corporate issuers due to the more stable, regulated utility operations such as those of PNG.

## **Liquidity**

We assess PNG's liquidity as adequate since we believe the company's liquidity sources are likely to cover its uses by more than 1.1x over the next 12 months and to meet cash outflows even with a 10% decline in EBITDA. The liquidity assessment also reflects the company's generally prudent risk management, sound relationship with banks, and a generally satisfactory standing in the credit markets.

Principal liquidity sources:

- Cash FFO of about \$185 million; and
- Available revolving credit facility of \$300 million.

Principal liquidity uses:

- Debt maturities of about \$280 million;
- Capital spending (maintenance) of about \$90 million; and
- Dividends of roughly \$65 million.

## **Group influence**

We consider PNG to be a core subsidiary of LDC Funding LLC, reflecting our view that PNG is highly unlikely to be sold, has a strong long-term commitment from senior management, is successful at what it does, and contributes meaningfully to the group. At the same time, we consider PNG to be insulated from LDC Funding through provisions that, along with PNG's stand-alone credit profile, support a one-notch differential between our issuer credit rating on PNG and the consolidated profile of LDC Funding. These provisions for PNG include separateness of operations and funds and an independent director whose vote is required for asset sales and to voluntarily file PNG into bankruptcy.

## **Outlook**

The positive outlook reflects the potential for higher ratings over the next 12 months if the consolidated group's financial and profitability measures improve and the company continues to focus on its regulated utility operations. Under our base-case scenario, we expect PNG would maintain adjusted FFO to debt of 16%-18% over the next few years. The base case also includes our expectation that the current insulation measures at PNG will remain intact.

### **Downside scenario**

We could revise the outlook to stable if the improvement in the credit quality of the group does not materialize as we expect or if the company expands into non-utility operations such that business risk materially increases. We could also lower ratings if the group's credit quality does not improve and, in our opinion, there is material degradation in the current insulation measures that currently support a one-notch difference at PNG.

### **Upside scenario**

We could raise ratings if the consolidated group's financial and profitability measures improve and if those of PNG, as the largest contributor to the group, remain consistent with our base-case expectations. We could also raise ratings if we consider management's strategic focus on growing utilities in a credit-supportive manner as sustainable, with a limited risk of expansion in non-regulated operations.

## **Ratings Score Snapshot**

Corporate Credit Rating: BBB-/Positive/--

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very Low
- Competitive position: Strong

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: a-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Negative (-1 notch)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb+

- Group credit profile (GCP): bb+
- Entity status within the group: Insulated (+1 above the GCP)

### **Issue ratings**

We rate PNG's senior notes (secured by the stock of subsidiaries) the same as the senior unsecured debt. Therefore, we rate these notes the same as the issuer credit rating because priority liabilities are less than 20% of total

assets.

## Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 07, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

## Ratings List

Ratings Affirmed; Outlook Action

	To	From
PNG Cos. LLC Corporate Credit Rating	BBB-/Positive/--	BBB-/Stable/--

Ratings Affirmed

PNG Cos. LLC Senior Secured	BBB-
--------------------------------	------

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [www.spcapitaliq.com](http://www.spcapitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2017 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.