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CREDIT OPINION
26 April 2018

Update

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RATINGS

EMG Utica, LLC

Domicile	Texas, United States
Long Term Rating	B1
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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EMG Utica, LLC

Update to credit analysis - steady Utica volumes will help maintain low leverage

Summary

EMG Utica LLC (EMG Utica) is constrained by its concentration in Utica region, structural complexity arising from the holdco structure and the small size and scale of the MarkWest Utica EMG, L.L.C (JV). EMG Utica's ability to service its debt is dependent on the performance and distributions from the JV, which the borrower does not own 100%. Although the volumes in the midstream systems of the JV have remained steady and assets in a highly economic gas basin in North America, the JV is not immune to the single basin concentration risk. Additionally, JV's customers consist entirely of non-investment grade entities.

EMG Utica benefits from low leverage, the JV's 100% fee based contracts with acreage dedication and Minimum Volume Commitments (MVC), good visibility on the 2018 and 2019 production profiles of the JV's customers in the Utica region, which has been significantly de-risked. We expect the volumes from Gulfport Energy Corporation's (Gulfport, Ba3 stable) and Antero Resources Corporation's (Antero, Ba2 positive) respective Utica acreage positions to grow through 2018 allowing the JV to maintain its distributions to EMG Utica. EMG Utica also benefits from the significant equity contributions by both The Energy & Minerals Group (EMG) and MarkWest Energy Partners, L.P. (MarkWest), a subsidiary of MPLX, LP (Baa3 stable) to the JV.

Credit Strengths

» Very low leverage

» Growing Utica volumes

» Expectation of steady distributions

» Strong asset coverage

Credit Challenges

» Non-operating holdco structure

» Non-investment grade average customer quality

» Small size

Rating Outlook

The stable outlook is based on our expectation that the JV will maintain its volumes, and distribute the expected cash flows to EMG Utica required to service its debt and maintain compliance with its covenants with a reasonable covenant cushion.

Factors that Could Lead to an Upgrade

» A consideration for a further upgrade of EMG Utica is unlikely due to the company's reliance on the performance and distributions from the JV, the structural complexity arising from the holdco structure, relatively small size and scale, and the concentration in Utica

Factors that Could Lead to a Downgrade

» Production volumes from the JV's core customers in Utica drop significantly

» Producers' credit profile weakens meaningfully

» Change in MPLX LP's credit ratings or outlook

» Material changes at the JV level leading to adverse credit implications for EMG Utica

Profile

EMG Utica, LLC (EMG Utica) is a private holding company formed by energy private equity firm The Energy & Minerals Group (EMG) to hold its equity interest in the JV - a joint venture with MarkWest Energy Partners, L.P. a subsidiary of MPLX, LP. EMG Utica currently holds approximately 44% equity interest in the joint venture. The JV has developed a significant amount of integrated midstream infrastructure in the Utica region, including natural gas gathering, processing and natural gas liquids fractionation, as producer customers continue successful upstream development in the Utica Shale in Ohio.

Detailed Credit Considerations

STRONG CREDIT METRICS WILL BE MAINTAINED DESPITE FLAT VOLUMES IN 2017

Although the gathering, processing and fractionation volumes through the JV's systems in 2017 remained almost flat as compared to 2016, EMG Utica will be able to maintain its low leverage and strong credit metrics through 2018 and forward.

Despite increased drilling activity in the Utica region, the JV's main customers Antero, Gulfport and Ascent Resources Utica Holdings, LLC (Ascent Utica, B2 stable) focused their drilling activity mainly on their dry gas windows, leaving the JV's systems that service the rich gas and dry gas windows of these customers with flat volumes. Despite no increase in cash distributions to EMG Utica through 2017, the company was able to pay down $43 million of its debt, mostly through voluntary prepayments. At year-end 2017, EMG Utica's financial leverage was 2x and its outstanding debt balance was $167 million. Given its low financial leverage the company is not required to make any further excess cash flow sweep payments to reduce debt.

Given the low outstanding debt balance, EMG Utica will comfortably meet its debt service requirements even in a scenario where the JV underperforms substantially in 2018 as compared to 2017. We expect the JV's performance to be roughly about the same as 2017.

NON-INVESTMENT GRADE CUSTOMER BASE AND UTICA CONCENTRATION RISKS MITIGATED BY GROWING ACTIVITY

While the JV's concentration in the Utica Shale is a key risk, production results have generally been promising and the service territory of the JV is in the core area of the Utica. The ramp-up in production has directly translated into increasing demand for the JV's services. The processing volumes for the JV have more or less remained flat through 2017 as compared to 2016. We expect the volumes to grow through 2018 based on the capital spending of the producers in the region.

The JV's primary customers are non-investment grade companies with the highest rated company being Antero and the other two major customers being Gulfport and Ascent Utica. Together, these customers accounted for approximately 80% of the JV's 2017 revenue, demonstrating a good degree of customer concentration risk. However, Antero and Gulfport have demonstrated a significant credit profile improvement through 2017 as reflected in their credit ratings. Although Antero has its own midstream company that provides gathering services, its midstream company does not include any processing and fractionation facilities and Antero relies on these services by the Utica JV. Gulfport accounts for a high proportion of the gathering volumes of the Ohio Gathering System (OGC), an entity in which the JV has 60% ownership interest and receives distributions in the same proportion. We expect Antero, Gulfport and Ascent Utica to continue growing its production through 2018.

EMG UTICA'S RELIANCE ON THE JV'S DISTRIBUTIONS AND THE JV'S SCALE CONSTRAIN THE RATINGS.

Although EMG Utica's leverage metrics place the company in the investment grade range for the financial metrics factors, its EBITDA and the size of the asset constrain its ratings significantly. Moreover, the holdco nature of the company with its reliance on the performance and distributions from the JV, is also factored into EMG Utica's ratings. The JV entity with its combined EBITDA (including distributions from OGC) of roughly $200 million and combined asset value of about $2.1 billion would rate in Ba to B rating category with similar debt burden as EMG Utica. Size of the entity and concentration in Utica region would offset the benefit of low leverage in its rating considerations. EMG Utica is further subordinated to the JV constraining the company's credit profile in the current structure and context.

Liquidity Analysis

We expect EMG Utica will maintain adequate liquidity. EMG Utica is a holding company with no operations of its own and does not have a revolving credit facility to provide additional liquidity. The company utilizes the JV distributions to service its debt and capital needs. The term loan amortizes at a rate of 1% per annum of the outstanding loan payable. As of December 31, 2017, the company had an outstanding term loan balance of $167 million and $5.4 million in cash and restricted cash. Based on our expectation of the JV's distributions to EMG Utica, the company will continue to generate positive free cash flow after covering debt service and any capital expenditure spend. The term loan requires the company to comply with several financial covenants under its credit agreement – a maximum total debt to JV capitalization ratio below 35%, an interest coverage ratio of above 3.0x and a leverage ratio below 4.50x. We expect the company to be in compliance with its covenants. The term loan also has a leverage-based cash flow sweep provision, but given the company's leverage of below 3.5x threshold, there is no obligation for the company to comply with the sweep provision. We expect a significant portion of the excess cash flow to be distributed to EMG Utica's parent.

Structural Considerations

The term loan was issued by EMG Utica which is a holding company that owns EMG's equity interests in the JV. Consequently, any debt issued at the JV level including trade payables will be structurally senior to EMG Utica's debt. The JV agreement allows for relatively minimal debt at the JV thereby limiting the amount of debt it can incur. EMG Utica's senior secured term loan is the only class of debt in its capital structure and therefore it is rated B1, the same as its CFR.

Rating Methodology and Scorecard Factors

Under Moody's Midstream Energy methodology, EMG Utica maps to a Ba1 outcome over the next 12-18 month period, using Moody's forward view (see rating methodology factor grid below). The assigned B1 rating considers EMG Utica's small size, Utica concentration and the holdco structure.

Exhibit 1

Rating Factors		
EMG Utica, LLC -Private		
Energy, Oil & Gas - Midstream [MLP] Industry Grid [1][2]	Current FY 12/31/2017	Moody's 12-18 Month Forward View [3]
Factor 1 : Scale (25%)	**Score**	**Score**
a) Net Property Plant and Equipment (USD Million)	Ca	Ca
b) EBITDA (USD Million)	Caa	Caa
Factor 2 : Business Profile (25%)		
a) Estimated Price & Volume Risk Exposure	Ba	Ba
Factor 3 : Financial Leverage & Distribution Profile (40%)		
a) EBITDA / Interest Expense	Baa	Baa
b) Debt / EBITDA	A	A
c) (FFO - Maintenance CAPEX) / Distributions	A	A
Factor 4 : Financial Policy (10%)		
a) Financial Policy	Ba	Ba
Rating:		
a) Indicated Rating from Grid	Ba1	Ba1
b) Actual Rating Assigned		B1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 12/31/2017; Source: Moody's Financial Metrics™

[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures

Ratings

Exhibit 2

Category	Moody's Rating
EMG UTICA, LLC	
Outlook	Stable
Corporate Family Rating	B1
Sr Sec Bank Credit Facility	B1/LGD4

Source: Moody's Investors Service

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