S&P Global Ratings affirmed its 'B+' corporate credit rating to Philadelphia-based **Philadelphia Energy Solutions** Refining and Marketing LLC (PES) and revised the outlook to negative from stable.

In addition, S&P affirmed the 'BB-' issue-rating on the senior secured debt. The '2' recovery rating on this debt indicates S&P's expectation for substantial (70%-90%, upper half of the range) recovery if a payment default occurs.

"The rating action reflects our view that the oil refiner's credit measures will be elevated due to weak crack spreads," said S&P Global Ratings credit analyst Mike Llanos. An oversupply of refined products due to weak demand has depressed pricing which S&P believes will result in refining margins in the mid-single digits. As a result, S&P projects adjusted debt leverage to be about 3x in 2016 and then potentially above 3.5x (S&P's downgrade trigger) in outer years, if current conditions continue. Further pressuring margins is the relatively weak PADD I (U.S. East Coast) market where the company operates. Over the past number of years several unprofitable East Coast refiners have been shuttered or sold because of weak economics in the region. Further, in S&P's view, the PES refineries have less optionality due to their ability to run mainly light-sweet crude. Historically the company has enjoyed a cost advantage of being able to rail Bakken crude to their refineries, however in the current market environment with the price differential between WTI to Brent having narrowed, this advantage has diminished.

The negative outlook reflects S&P's expectation weak "crack" spreads will pressure credit measures resulting in adjusted debt to EBITDA of about 3x.

S&P could lower the rating if crack spreads are lower-than-expected or if the refineries experience operating underperformance, leading to adjusted debt to EBITDA materially above 3.5x.

S&P could revise the outlook to stable if crack spreads improve or if the refiner is able to lower operating costs such that adjusted debt to EBITDA is sustained below 3x.

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