

Corporate Credit > U.S. Investment Grade



American Electric Power (AEP)

Updated: November 2, 2015

Trade Idea:

- Buy AEP Indiana Michigan Power 8-year bond.

Investment Rationale:

- We think there may be some performance potential based mainly on credit momentum and the assumption that the Ohio merchant generation assets will be sold or spun-off. We believe there is a relatively high probability that the company will separate the merchant generation assets and the headline should cause spreads to tighten for the AEP complex. Within the complex, we think the best value and the most performance potential is in the regulated opco AEP Indiana Michigan Power 3.20% bonds due 3/15/23, which are currently quoted only slightly inside of the AEP, D and SRE parent level bonds, which we think represents good value.
- AEP noted that it is still evaluating the sale/spin options for its unregulated OH generation assets. They are waiting for more clarity around the OH regulators decision on PPAs and the results of the PJM auction which would help determine asset values. Nonetheless, the company will not wait indefinitely and may decide by year-end if those issues are not resolved. The company also noted the pending EPA regulation should not have a material impact on the plant valuations given their dual-fuel capabilities. In our opinion, we think the company will ultimately dispose of these assets, which we believe supports our bullish view on the AEP credit profile.
- In the unlikely event that the company decides not to dispose of the unregulated generation assets; we still believe the company will maintain a credit profile that maintains the ratings through the period of heavy capital spending.

Recommendation(s):

View	Trade Horizon	Ticker	CPN	Maturity	Ratings		CCY	Issue Size (mm)	Yield	Spread			Cash Price	ISIN
					S&P	Moody's				Entry	Target	Loss		
Outperform	6-12 months	AEP	3.20	3/15/23	Baa1	BBB	USD	250	3.29	135	115	155	99.40	US454889AP14