

Corporate Credit > U.S. Investment Grade



Energy Transfer Partners

Updated: November 2, 2015

Trade Idea:

- ▶ Buy Energy Transfer Partners 10-year bonds

Investment Rationale:

- Our view on ETP is based on the recent acquisitions to improve the business risk profile and the additional cash flow will eventually help improve the credit metrics. This WMB transaction further enhances the overall business mix of the company and adds considerable size, scale and diversification. In addition, ETE has completed several large acquisitions over the past few years and has always managed to maintain the IG ratings at the MLP. Therefore, we think the company's statement that this transaction will have no ratings impact on the MLPs has credibility.
- ETE (GP of ETP) officially announced that it has reached an agreement to acquire WMB (GP of WPZ) for \$37.7 billion, which includes the assumption of debt. The WMB units will be purchased by a newly created C-corporation called Energy Transfer Corp, LP. (ETC). The cash portion of the purchase price will be financed with new debt issued by ETC. The transaction will make the combined entity the fifth largest energy company (by enterprise value), behind ExxonMobil, PetroChina, Shell and Chevron.
- From a relative value perspective, ETP bonds appear to be quoted about 30 bps wider on the news. However, most MLPs are quoted about 20 bps wider, so the ETP bonds are only marginally wider. This widening could be the result of the technical overhang of a \$6.0 billion debt offering by ETC that is pushing the complex slightly wider. We see no fundamental credit reason for the spread widening and we believe ETP bonds should tighten as technicals improve after the ETE debt deal is done. In addition, we expect ETP spreads to tighten as it becomes part of a larger, more diversified company. In addition, although the corporate structure has become a bit more complicated, we think announcing this deal removes some of the event risk uncertainty for ETE and WMB, which has been weighing on these names since a deal between these companies was first proposed back in June. Therefore, continue to believe there is performance potential in ETP bonds and we are maintaining our outperform relative value recommendation at this time.

Recommendation(s):

View	Trade Horizon	Ticker	CPN	Maturity	Ratings		CCY	Issue Size	Yield	Spread			Cash Price	ISIN
					S&P	Moody's				Entry	Target	Loss		
Outperform	12 mos.	ETP	4.90	2/1/2024	BBB-	Baa3	USD	350M	5.79	383	343	423	94.20	US29273 RAY53