

# Corporate Credit > U.S. Investment Grade



## FirstEnergy Corp.

Updated: November 2, 2015

### Trade Idea:

- ▶ Buy FirstEnergy Solutions 5-year bonds

### Investment Rationale:

- From an investment perspective, we continue to believe FE bonds offer good value. While we acknowledge that the company's operating results over the past few quarters has been lackluster, we think the steps being taken to improve the credit profile should eventually help bond performance. In addition, we believed the market may have been pricing in some concern that FE may consider "monetizing" the unregulated assets, much like PPL Energy Supply, which we view as unfounded.
- FE reported EBITDA of \$1.9 billion for the six-months ended 6/30/15, up 48% from the same period last year. Interest expense increased only 7%, which allowed EBITDA/interest coverage to improve to 3.35x from 2.41x last year. Leverage also improved to 4.92x as of 6/30/15 compared to 6.96x at YE 2014. FFO/interest expense was 2.34x and FFO/TD was 14.21% for YTD 2Q 2015.
- We see value within the entire FE complex; however, we think the best value is in the FE Solutions bonds, which are currently quoted 45 bps (G-spread) behind the JCP&L opco bonds. FE Solutions bonds are also over 40 bps behind FE parent level bonds, which are already five-B rated. In addition, FE Solutions bonds look cheap compared to PDS and SCG, which are also low-BBB rated.

View	Trade Horizon	Ticker	CPN	Maturity	Ratings		CCY	Issue Size	Yield	Spread			Cash Price	ISIN
					S&P	Moody's				Entry	Target	Loss		
Outperform	6 mo	FE	6.05	8/15/2021	BBB-	Baa3	USD	332M	4.51	287	247	327	107.77	US33766JAD54