

Corporate Credit > U.S. Investment Grade



Oncor Electric Delivery

Updated: November 2, 2015

Trade Idea:

- ▶ Buy Oncor 10-year bonds

Investment Rationale:

- On 8/10/15 ONCRTX's parent Energy Future Holdings filed an amended bankruptcy plan stating that it would like to move forward with the InfraREIT proposal since they offered the most cash to certain creditors. However, under the proposed REIT structure, the cost of capital would likely increase (BofA speculates between 120 to 145 bps). The bankruptcy judge has set 11/3/15 as the date for the start of hearings on the proposal.
- Since Texas law requires the commission to ensure that any change of control would be in the "public's interest", we believe the higher cost of capital makes regulatory approval uncertain since this would lead to higher electric delivery rates. Texas utility commissioner, Ken Anderson, has already filed a memo with the commission noting several areas of concern for the commission to consider before voting on the proposal. In addition to the uncertain regulatory approval, several creditor groups have opposed the plan for various reasons. Even if the regulators do approve the REIT structure, we continue to believe they would require the current ring-fencing to remain intact, which should make it generally credit neutral.
- From a credit perspective, we acknowledge the uncertainty related to the proposed REIT structure for ONCRTX. However, we think there are several reasons to believe that the deal is less likely to be approved, and even if it is, the ring-fence will remain in place and make the credit impact relatively neutral.
- From an investment perspective, ONCRTX bonds have widened more than comparable FMBs since the REIT proposal was announced. We think the extent of the spread widening is a bit overdone and prices in a material credit deterioration. The ONCRTX FMBs are priced well behind CNP, BRKHEC, and EXC FMBs and also behind lower rated unsecured PCG bonds. As a result, we think there is performance potential if the REIT uncertainty is resolved in a relatively favorable manner.

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 | 6 mos. | ONCRTX | 4.10 | 6/1/22 | A | Baa1 | USD | 400M | 3.23 | 142 | 112 | 172 | 105.01 | US68233J AR59 |