

Corporate Credit > U.S. Investment Grade



ONEOK Partners LP

Updated: November 2, 2015

Trade Idea:

- ▶ Buy ONEOK Partners 10-year bonds

Investment Rationale:

- From a relative value perspective, we are maintaining our outperform relative value recommendation. We think OKS spreads are wider than similar pipeline names due to the market perception that the drop in oil prices will have a greater impact on OKS than some of the pipeline names with less NGL leverage. While that may be true, we think NGL prices likely have limited additional downside from the current levels since they are at a 10-year low. We also believe the market is discounting the increased level of fee-based contracts, which include minimum volume commitments. In addition, when we compare the OKS G-spread to lower-rated pipeline names, like SXX, KMI and ETP, we think OKS bonds look attractive. We think OKS should eventually compress closer to the comparable pipeline names, or at a minimum, limits the downside if the ratings are lowered.
- OKS reported EBITDA of \$701MM for the six-months ended 6/30/15, down 7% from the same period last year. Interest expense increased 18%, which caused EBITDA/interest coverage to drop to 4.20x from 5.32x last year. Leverage was also weaker at 5.58x as of 6/30/15 compared to 4.82x at YE 2014. Despite the weak results for the first half of the year, the company reaffirmed its full-year EBITDA guidance range of \$1.51 billion to \$1.73 billion based on the expectation of new well connection, completion of field compression projects, an increase in the capture of natural gas currently being flared and new natural gas processing plants being connected to the NGL pipelines in the Mid-Continent and Rocky Mountain regions.
- We expect some improvement over the next few quarters based on the factors noted by the company in the reaffirmation of its full-year EBITDA guidance, we need to see some evidence of that improvement. Our rating is also supported by the amount of fee-based cash flow (about 75% in 2015) and commodity hedging, which should help stabilize the overall credit profile. From a financial strategy perspective, we expect the company to continue taking a balanced approach to fund future growth and take comfort in the fact that company continues to stress a commitment to maintaining investment grade ratings.

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.	OKS	4.90	3/15/2025	BBB	Baa2	USD	500M	5.91	385	345	425	92.83	US68268 NAP87