

# Corporate Credit > U.S. Investment Grade



## Plains All American Pipeline

Updated: September 3, 2015

### Trade Idea:

- ▶ Buy Plains All American 10-year bonds

### Investment Rationale:

- S&P revised its outlook on the rating on PAA (BBB+) to negative (from stable). S&P cited leverage that it expects to be higher than anticipated through 2016. S&P also noted that it continues to believe PAA is well positioned to benefit from increased oil production, volatility in crude prices (through its trading operation) and oil basis differentials. We see this rating action more of a result of S&P having "overrated" PAA when they raised the rating back in December 2014. Moody's has a stable Baa2 rating and we view PAA as a BBB credit with an improving credit trend. Our improving credit trend is based on the increasing proportion of fee based cash flow and the company's strategic assets in some of the most prolific oil producing regions.
- An oil pipeline off the coast of Santa Monica, CA owned and operated by PAA ruptured last month spilling about 100,000 gallons of heavy crude into the ocean. The company has already commenced clean up of the oil in the water, on the shoreline and excavation of the soil around the area of the rupture. Today the EPA and Coast Guard ordered the company to continue the cleanup of the ocean, beaches, soil and ensure no more oil is released. The company agreed to comply with the order and said it will evaluate the integrity of the pipe at four other locations. The company has stated that it cannot estimate the total cost of the clean-up at this time; however, one "street" analyst put out a best-guess of about \$100MM to \$200MM.
- From a relative value perspective, PAA bonds widened more than some comparably rated MLPs, like EPD, TRPCN and MMP since the oil pipeline explosion in mid-May. We continue to view PPA bonds as good value based on the view that the recent spread widening on PAA offers good value on a name that historically has been one of the tightest in the midstream sector.

### 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.	PAA	3.60	11/1/2024	BBB2	Baa+	USD	750M	4.48	243	203	283	93.46	US72650 RBF8