

Corporate Credit > U.S. Investment Grade



PPL Capital Funding Inc

Updated: November 2, 2015

Trade Idea:

- › Buy PPL Capital Funding Inc 10-year bonds

Investment Rationale:

- We are maintaining our outperform relative value recommendation at this time, primarily on the PPL parent level bonds, based on our view that the improved credit profile and recent ratings upgrade should lead to some additional performance. We think PPL parent level bonds look like good value at the current spread levels, which is behind comparably rated NI and behind slightly lower rated CMS. We think PPL bonds should trade closer to, or on top of, NI and CMS, which indicates some spread compression. Within the complex we think the parent level bonds offer the best value since they are currently quoted about 87 bps behind the regulated opco FMBs. We view the secured opco bonds to be closer to fair value, but good, stable holdings for risk adverse accounts.
- PPL reported EBITDA of \$2.0 billion for the six-months ended 6/30/15, up 1% from the same period last year. Interest expense was flat, which allowed EBITDA/interest coverage to improve slightly to 4.62x from 4.56x last year. Leverage also improved slightly to 4.22x as of 6/30/15 compared to 4.23x at YE 2014. FFO/interest was 3.31x and FFO/TD was 16.97% for YTD 2Q 2015. The company generated a cash flow deficit of \$890MM YTD 2Q 2015, but ended the quarter with a cash balance of \$846MM. With the completion of the unregulated generation segment (PPL Energy Supply) on June 1st, the company has completed its transformation into a globally diverse regulated utility with operations in PA, KY and the UK.
- While the credit metrics are slightly weak for the rating level, we believe the lower business risk resulting from the shift to a more regulated business mix mitigates some of our concerns about the credit metrics. In addition, the company operates in regulatory environments that have historically been relatively constructive, as evidenced by the fact that 80% of capital investment though 2019 will earn a return with little or no regulatory lag.

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.	PPL	3.95	3/15/2024	BBB-	Baa2	USD	350M	3.39	139	109	169	102.32	US69352 PAK93