ONEOK (OKE)

Updated May 1st, 2018 by Jonathan Weber

Key Metrics

Current Price:	$60	**5 Year CAGR Estimate:**	9.0%	**Quality Percentile:**	N/A
Fair Value Price:	$49	**5 Year Growth Estimate:**	7.7%	**Momentum Percentile:**	N/A
% Fair Value:	121%	**5 Year Valuation Multiple Estimate:**	-3.8%	**Total Return Percentile:**	N/A
Dividend Yield:	5.1%	**5 Year Price Target**	$71	**Valuation Percentile:**	N/A

Overview & Current Events

ONEOK is a natural gas focused company that has operations in the following activities: Gathering, processing, storing, transporting and marketing natural gas. The Tulsa, Oklahoma based company was founded in 1906 and is currently valued at $25 billion.

ONEOK's most recent quarterly results were announced at the end of February: The company reported adjusted EPS of $0.52 per share (versus $0.43 in the previous year), based on revenues of $3.8 billion (up 43% year over year). The high revenue growth rate can, at least partially, be attributed to the consolidation of its MLP (for which a sizeable amount of shares were issued, which is why EPS growth is lower than total revenue growth).

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.48	$1.44	$1.55	$1.67	$1.64	$1.78	$1.52	$1.19	$1.67	$1.70	***$2.35***	***$3.40***
DPS	$0.78	$0.82	$0.91	$1.08	$1.27	$1.48	$2.13	$2.43	$2.46	$2.72	***$3.15***	***$4.15***

ONEOK's earnings growth track record is not overly convincing: After many ups and downs profits in 2017 were just slightly higher than in 2008. When we focus on the 2015 to 2017 time frame, the picture improves a lot, though. Since the oil price crash (which started in 2014 and accelerated through 2015), ONEOK's earnings have recovered considerably. The most recent quarterly results, which showed a 21% EPS growth rate were convincing as well. Due to the roll-up of the MLP ONEOK should be able to generate higher margins going forward (better economics of scale and cost savings due to some positions not being required twice). At the same time new projects from ONEOK are coming online, which is why the company has guided for increases in almost all fundamentals. The company sees gathered volumes for natural gas rising by 16% during 2018, whilst processed volumes of natural gas are forecasted to rise by 18% during the current year. For the NGL business growth rates for gathered volumes as well as for fractionation volume are forecasted at 14% and 11%, respectively. ONEOK thus is growing its business at a strong pace this year, and with some operating leverage it is quite likely that its earnings growth will be very compelling as well. The takeover of ONEOK's MLP will further result in savings when it comes to tax payments, the company has guided for no corporate tax payments through 2021 (thus EPS growth during the next couple of years will be boosted further).

ONEOK's dividend grew by 14.9% a year during the 2008 to 2017 time frame, despite lackluster earnings growth performance. This was possible due to ongoing dividend payout ratio increases, since 2014 ONEOK has paid out more in dividends than it earned in every single year. This is somewhat misleading, though, as ONEOK's huge asset base results in high depreciation expenses which lower the company's profits, but not its cash flows. During 2017, for example, dividends (totaling $830 million) were easily covered by ONEOK's distributable cash flows (operating cash flows minus the capex portion that is required for the maintenance of assets) of $1.38 billion. ONEOK has guided for annual dividend increases of 9% to 11% through 2021, thus the dividend growth outlook is very good over the next couple of years.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	14.1	11.0	15.1	20.8	26.6	28.2	40.5	32.7	24.5	31.5	***25.5***	***21.0***
Avg. Yld.	3.7%	5.2%	3.9%	3.1%	2.9%	2.9%	3.5%	6.2%	6.0%	5.1%	***5.1%***	***5.6%***

ONEOK's valuation has been moving considerably, which is partially due to the share price swings, but also due to the big moves (up and down) in the company's EPS numbers. Right now shares are valued at 25.5 times this year's expected EPS, which is a bit higher than the 10-year median PE ratio of 22. The dividend yield currently is higher than it was on average over the last decade, although it is not as high as it was at the nadir of the oil price slump.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	14.8%	15.7%	14.0%	15.1%	9.1%	7.9%	11.9%	11.5%	12.6%	13.2%	***14.0%***	***15.0%***
Debt/A	75.9%	73.1%	68.6%	72.3%	73.3%	72.7%	73.8%	75.5%	78.8%	66.2%	***66.0%***	***63.0%***
Int. Cov.	4.0	3.3	3.6	4.3	4.6	3.8	3.3	2.3	3.0	3.1	***3.5***	***4.0***
Payout	52.7%	56.9%	58.7%	64.7%	77.4%	83.1%	140%	204%	147%	160%	***134%***	***122%***
Std. Dev.	34.5%	40.6%	22.4%	22.3%	16.2%	31.3%	27.0%	36.7%	41.8%	16.9%	***21.0%***	***23.0%***

ONEOK's balance sheet holds a high amount of liabilities, which is the reason for its rather low interest coverage ratio (which has been moving between three and four and a half over the last decade, when we exclude 2015, the peak of the oil price crisis). On the other hand ONEOK owns assets that are much more valuable than what they are valued at on ONEOK's balance sheet (due to mandatory depreciation), and the company produces stable and high cash flows. Since cash flows are significantly higher than earnings it looks like ONEOK is not too overleveraged. We expect the company's fairly low interest coverage ratio to improve moving forward.

Most of ONEOK's revenues, especially after the roll-up of its MLP, are fee-based, which makes the company less sensitive to commodity price swings. This is another reason why ONEOK can operate with a high leverage without being in dangerous territory (financially speaking), and it is what makes ONEOK relatively recession-proof.

Shares of ONEOK offer a high dividend yield, but even though the dividend payout ratio is significantly above what investors usually want to see from their income stocks, ONEOK's dividends look quite safe. Cash flows, which, due to the impact of depreciation are much higher than earnings, cover the dividend easily. Shares have been quite volatile over the last decade, especially relative to other income stocks. For long term holders this is not necessarily a problem, as the ups and downs of the company's shares do not impact its ability to pay dividends.

Final Thoughts & Recommendation

ONEOK is active in a rather unexciting industry, but the company has provided attractive total returns in the past and has the ability to do so in the future, too. The company's 5.1% dividend yield, combined with a strong dividend growth outlook and solid dividend coverage thanks to high cash flows makes ONEOK a stock worthy of consideration for income focused investors.

Total Return Breakdown by Year