Kinder Morgan, Inc. (KMI)

Updated August 17th, 2018 by Bob Ciura

Key Metrics

Current Price:	$18	**5 Year CAGR Estimate:**	13.1%	**Volatility Percentile:**	89.1%
Fair Value Price:	$20	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	23.9%
% Fair Value:	90%	**5 Year Valuation Multiple Estimate:**	2.6%	**Valuation Percentile:**	78.8%
Dividend Yield:	4.5%	**5 Year Price Target**	$27	**Total Return Percentile:**	84.4%

Overview & Current Events

Kinder Morgan, Inc., in its current form, conducted its initial public offering on 2/10/11. Today, the company is among the largest energy companies in the U.S. It is engaged in storage and transportation of oil and gas, and other products. It owns an interest in or operates approximately 85,000 miles of pipelines and 152 terminals. Its pipelines transport natural gas, refined petroleum products, crude oil, carbon dioxide (CO_2) and more. Kinder Morgan's transportation assets operate like a giant toll road, whereby the company receives a fee for its services, which generally avoids commodity price risk. Approximately 91% of Kinder Morgan's cash flow is fee-based.

In mid-July, Kinder Morgan reported (7/18/18) second-quarter financial results. Revenue of $3.43 billion increased 1.8% from the same quarter a year ago. Second quarter distributable cash flow (DCF) of $1.1 billion increased 9%, while DCF-per-share also increased 9% from the second quarter of 2017. In the most recent quarter, the company saw growth across all major businesses. Earnings rose 11% in natural gas pipelines, 3% in terminals, 10% in products pipelines, 7% for Kinder Morgan Canada, and less than 1% in carbon dioxide. Higher storage and transportation volumes boosted the pipelines and terminals businesses, while higher commodity prices boosted the carbon dioxide segment last quarter.

Per-Share Growth

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
DCFPS	N/A	N/A	N/A	$1.42	$1.55	$1.65	$2.00	$2.14	$2.02	$2.00	***$2.05***	***$2.74***
DPS	N/A	N/A	N/A	$1.05	$1.34	$1.56	$1.70	$1.93	$0.50	$0.50	***$0.80***	***$1.29***

Kinder Morgan's biggest growth catalyst for the future is new pipeline and terminals projects. The company plans to invest $2.4 billion in growth projects during 2018, to be funded with internally generated cash flow without the need to access capital markets. The company has a total project backlog of $6.3 billion, including $4.2 billion for natural gas projects. One major project is the Elba liquefaction facility, which is expected to be placed into service in late 2018 or early 2019. For 2018, Kinder Morgan expects DCF of approximately $4.57 billion, or $2.05 per common share. We expect 10% annual DCF growth for Kinder Morgan through 2023. Kinder Morgan has also returned to dividend growth. The company raised its second-quarter dividend by 60%. Kinder Morgan expects to declare dividends of $0.80 per share for 2018. We expect the company to grow DCF by 6% per year over the next five years, along with 10% dividend growth.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/D	N/A	N/A	N/A	22.7	22.8	21.8	21.2	7.0	10.3	9.0	***8.8***	***10.0***
Avg. Yld.	N/A	N/A	N/A	2.6%	3.9%	4.2%	4.7%	5.5%	2.6%	2.5%	***4.5%***	***4.8%***

Since Kinder Morgan, Inc. became a publicly-traded stock, it has held an average price-to-DCF ratio of 16.4. However, you can see that the valuation has fluctuated wildly since 2011. During the heyday of the oil and gas industry of 2011-2014, Kinder Morgan held a very high valuation. But when the oil and gas markets entered a downturn and Kinder Morgan cut its dividend, the stock valuation dramatically contracted. If oil prices rise back to $100 per barrel, Kinder Morgan stock could return to its 10-year average valuation. However, a more prudent view would be fair value at a

Disclosure: This analyst has a long position in the security discussed in this research report.

price-to-DCF ratio of 10. This is a reasonable estimate of fair value, now that Kinder Morgan is on more solid financial ground and has returned to cash flow growth.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	N/A	10.7%	15.0%	15.2%	10.1%	11.7%	12.0%	9.5%	9.0%	8.7%	***9.0%***	***9.0%***
Debt/A	N/A	67.9%	70.5%	72.1%	64.7%	62.4%	58.5%	57.9%	56.7%	55.6%	***56.0%***	***56.0%***
Int. Cov.	-3.5	3.0	1.4	2.2	1.9	3.0	2.7	2.2	2.2	1.9	***2.0***	***2.0***
Payout	N/A	N/A	N/A	74.0%	86.5%	94.6%	85.0%	90.2%	24.8%	25.0%	***39.0%***	***47.1%***
Std. Dev.	N/A	N/A	N/A	22.1%	24.4%	14.4%	19.2%	38.2%	32.3%	16.8%	***17.0%***	***17.0%***

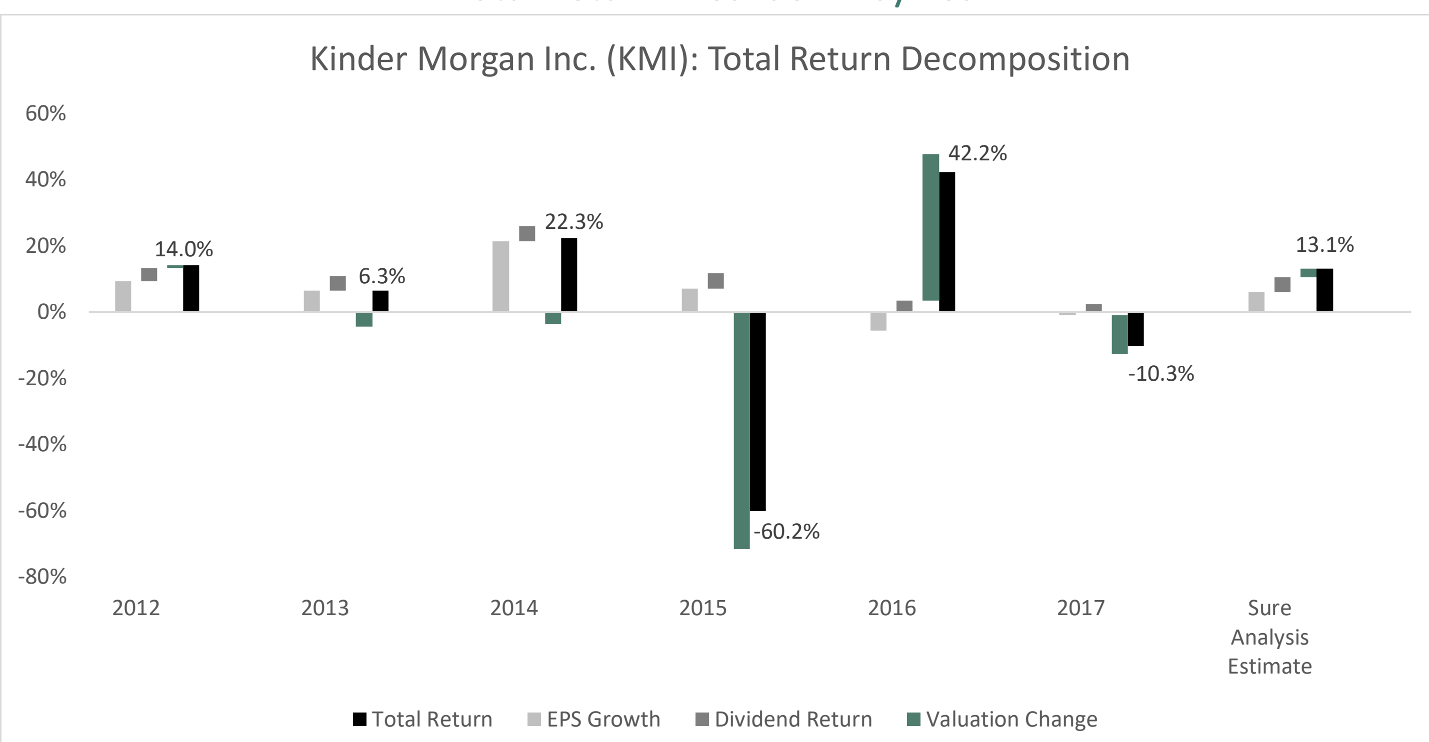
Kinder Morgan is not a low-risk business model, as it operates in the commodities industry, which can be volatile from year to year. Kinder Morgan has a fairly low interest coverage ratio, and its elevated level of debt prompted the company's dividend cut in 2016. The good news is the new dividend payout level seems to be secure, and the company utilized the savings from the dividend reduction to pay down debt and fund its growth projects.

One major positive for Kinder Morgan is its competitive advantage. The company is among the largest energy companies in the U.S., with a huge network of assets. For example, it is the largest natural gas transporter, and the company moves approximately 40% of the natural gas used in the U.S. It is also the largest independent transporter of petroleum products and carbon dioxide. It is also the largest independent terminals operator. These qualities make Kinder Morgan relatively resistant to recessions, although it would see a negative impact if the energy sector enters a downturn.

Final Thoughts & Recommendation

Kinder Morgan is coming off of a multi-year downturn. The company simply took on too much debt, which caused it to slash its dividend. Now that the company is back on track, the stock is once again attractive for value and income. With an improved capital structure and large backlog of future projects, the company should generate positive cash flow growth over the next five years. The combination of DCF growth, dividends, and valuation expansion could result in total returns of 13.1% per year through 2023, which makes Kinder Morgan a buy.

Total Return Breakdown by Year



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