ONEOK (OKE)

Updated August 1st, 2018 by Jonathan Weber

Key Metrics

Current Price:	$71	**5 Year CAGR Estimate:**	7.8%	**Volatility Percentile:**	92.6%
Fair Value Price:	$56	**5 Year Growth Estimate:**	7.7%	**Momentum Percentile:**	83.3%
% Fair Value:	127%	**5 Year Valuation Multiple Estimate:**	-4.5%	**Valuation Percentile:**	27.4%
Dividend Yield:	4.6%	**5 Year Price Target**	$81	**Total Return Percentile:**	54.8%

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 $29 billion.

ONEOK reported its most recent quarterly results on July 31. The company earned $0.68 per share during Q2 (an increase of 106%), distributable cash flows per share totaled $1.10. Distributable cash flows were up by 38% year over year. ONEOK managed to grow its revenues by 8% to $3.0 billion.

ONEOK increased its dividend by 3.8% to $0.825 on July 25, which results in a dividend yield of 4.6%.

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	***$2.68***	***$3.88***
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.

ONEOK's most recent quarterly results showed a 106% EPS growth rate, which points towards better earnings growth in the future. Due to the roll-up of the MLP ONEOK should be able to generate higher margins going forward. 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, while processed volumes of natural gas are forecasted to rise by 18% during the current year.

ONEOK thus is growing its business at a strong pace this year and in the foreseeable future, 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. This will boost net profit and earnings per share growth during the next couple of years.

ONEOK's dividend grew by 14.9% a year during the 2008 to 2017 time frame, despite lackluster earnings growth. 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. Thanks to strong cash generation, this is not a problem, though. During 2017, for example, dividends - totaling $830 million - were easily covered by ONEOK's distributable cash flows of $1.38 billion. Dividend coverage was very solid, at 1.39, during the second quarter of 2018, and at 1.38 during H1.

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	***26.5***	***21.0***
Avg. Yld.	3.7%	5.2%	3.9%	3.1%	2.9%	2.9%	3.5%	6.2%	6.0%	5.1%	***4.6%***	***5.6%***

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

There have been significant movements in ONEOK's valuation. Shares are presently on the expensive side. At 26.5 times this year's earnings shares are looking overvalued, we believe that ONEOK's valuation will come down over the coming years. This will be a headwind for total returns. Investors get, however, an attractive dividend yield of 4.6% right here.

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%	***118%***	***107%***
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. On the other hand ONEOK produces stable and high cash flows. Since cash flows are significantly higher than earnings it looks like ONEOK is not too overleveraged. Based on ONEOK's debt to EBITDA multiple of 3.4 the company is financed in a very solid way. 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. The fee-based nature of its revenues is what makes ONEOK relatively recession-proof.

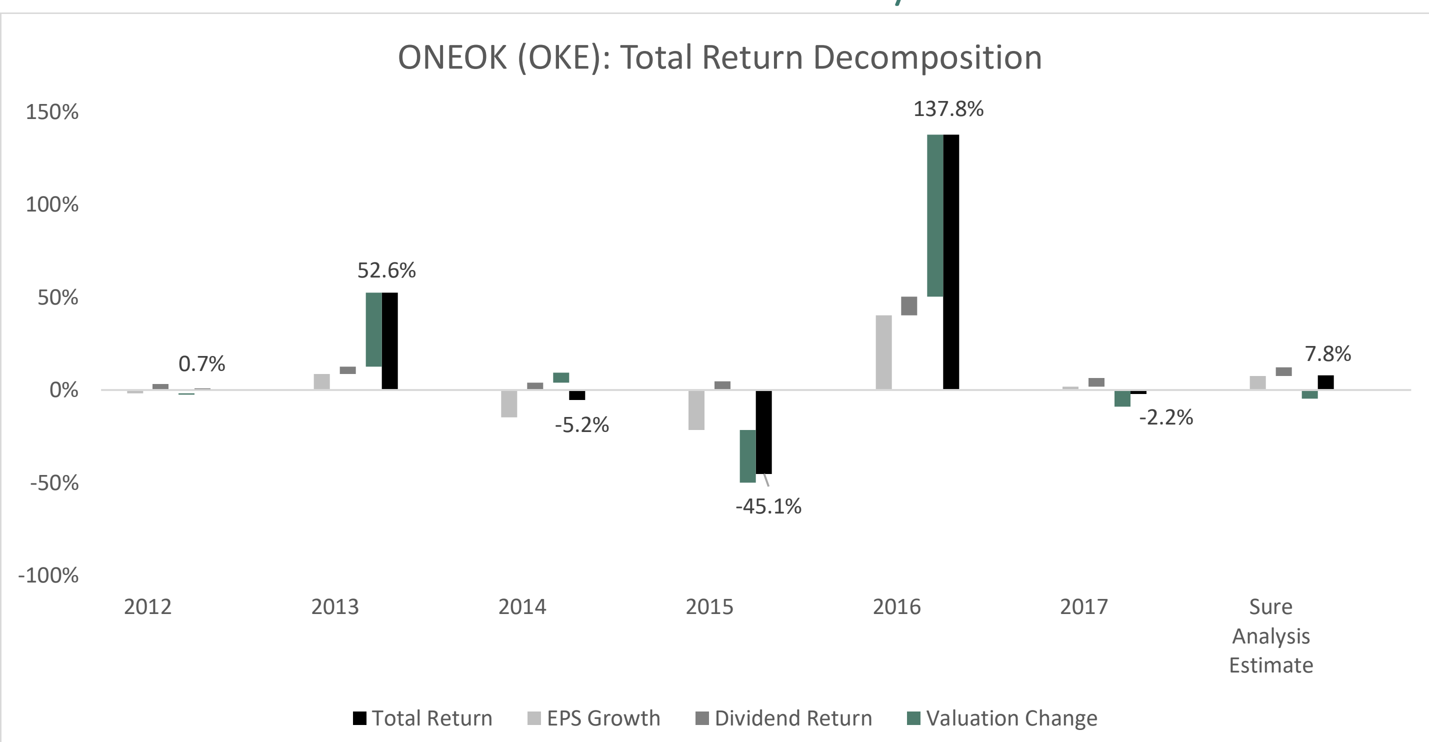
Shares of ONEOK offer a high dividend yield, but even though the dividend payout ratio is significantly above what investors usually want to see from their income stocks, ONEOK's dividends look quite safe. Cash flows cover the dividend easily.

Final Thoughts & Recommendation

ONEOK's industry is not a high-growth industry per se, and it is one that is not overly exciting. The company nevertheless will produce solid earnings growth over the coming years, while also paying out a compelling dividend to its owners.

Due to the relatively high valuation we do not rate ONEOK a buy. Shares are a hold at current prices.

Total Return Breakdown by Year



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