



Kinder Morgan, Inc. (KMI)

Updated October 18th, 2018 by Bob Ciura

Key Metrics

Current Price:	\$18	5 Year CAGR Estimate:	13.1%	Volatility Percentile:	88.8%
Fair Value Price:	\$20	5 Year Growth Estimate:	6.0%	Momentum Percentile:	43.7%
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.6%	Growth Percentile:	48.0%
Dividend Yield:	4.5%	5 Year Price Target	\$27	Valuation Percentile:	68.4%
Dividend Risk Score:	C	Retirement Suitability Score:	C	Total Return Percentile:	74.8%

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 (CO₂) 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-October (10/17/18) Kinder Morgan reported third-quarter financial results. Revenue of \$3.52 billion increased 7.3% from the same quarter a year ago, but missed analyst expectations by \$50 million. Distributable cash flow of \$1.1 billion increased 4% year-over-year. Distributable cash flow also rose 4% on a per-share basis.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
CPS	----	----	----	\$1.42	\$1.55	\$1.65	\$2.00	\$2.14	\$2.02	\$2.00	\$2.05	\$2.74
DPS	----	----	----	\$0.74	\$1.34	\$1.56	\$1.70	\$1.93	\$0.50	\$0.50	\$0.80	\$1.29
Shares	----	----	----	801	1036	1031	2125	2229	2230	2217	2200	2200

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. 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. 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/C	----	----	----	22.7	22.8	21.8	21.2	7.0	10.3	9.0	8.8	10.0
Avg. Yld.	----	----	----	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 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.

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



Kinder Morgan, Inc. (KMI)

Updated October 18th, 2018 by Bob Ciura

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/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	----	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	----	----	----	74.0%	86.5%	94.6%	85.0%	90.2%	24.8%	25.0%	39.0%	47.1%
Std. Dev.	----	----	----	22.1%	24.4%	14.4%	19.2%	38.2%	32.3%	16.8%	17.0%	17.0%

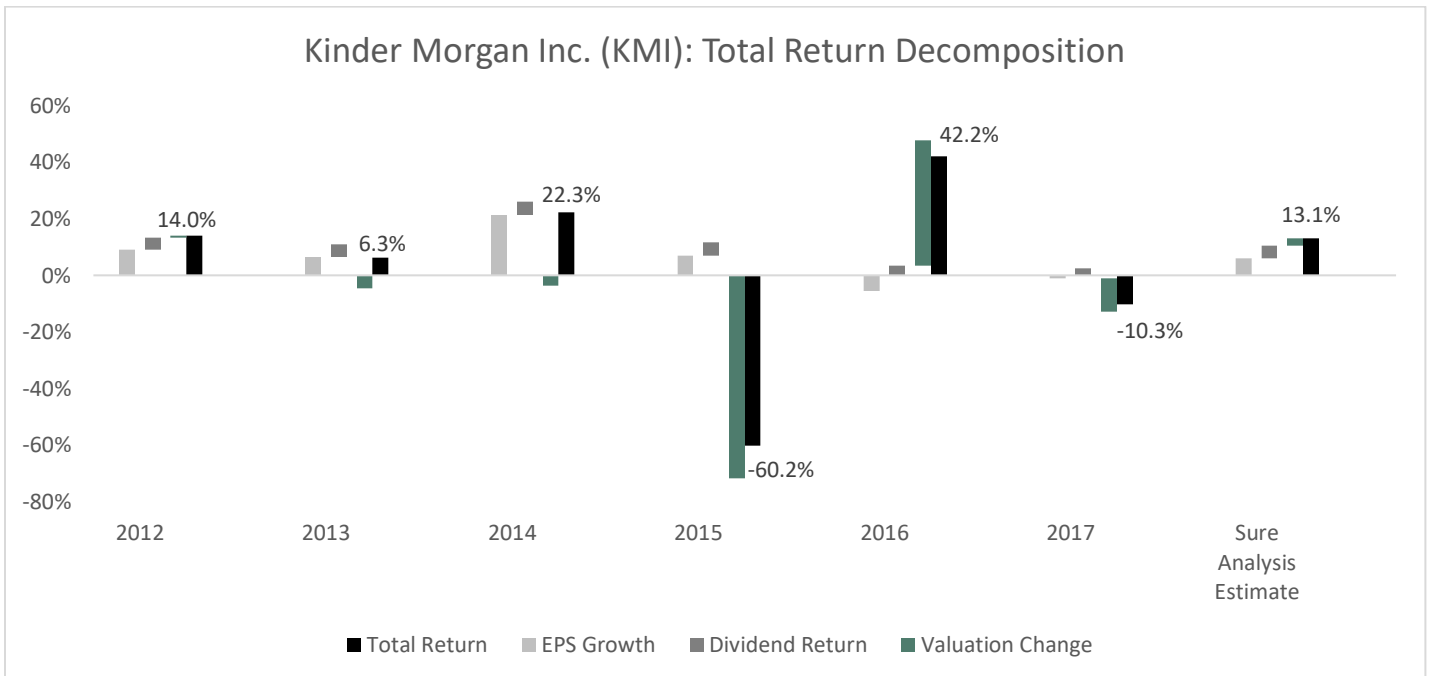
Kinder Morgan is not a low-risk company, as it operates in the cyclical energy sector. Kinder Morgan has a fairly low interest coverage ratio, and its elevated level of debt prompted the company's dividend cut in 2016. The good news is the new dividend payout level seems to be secure, and the company utilized the savings from the dividend reduction to pay down debt and improve its balance sheet. Today, Kinder Morgan earns C ratings for both Dividend Safety and Retirement Suitability.

One major positive for Kinder Morgan is its competitive advantage. It is among the largest energy companies in the U.S., with a huge network of assets. 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, and the largest independent terminals operator.

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 earns Kinder Morgan a buy recommendation at current prices.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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



Kinder Morgan, Inc. (KMI)

Updated October 18th, 2018 by Bob Ciura

Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	12094	7185.2	7852	7943	9973	14070	16226	14403	13058	13705
Gross Profit	3033	2956.8	3291	3597	5497	7011	7908	8035	7420	7099
Gross Margin	25.1%	41.2%	41.9%	45.3%	55.1%	49.8%	48.7%	55.8%	56.8%	51.8%
SG&A Exp.	352.5	373	631	515	929	613	610	690	669	673
Operating Profit	1561	1407.2	1133	1423	2593	3892	4722	4516	3959	3557
Op. Margin	12.9%	19.6%	14.4%	17.9%	26.0%	27.7%	29.1%	31.4%	30.3%	26.0%
Net Profit	-3599	495	-41	594	315	1193	1026	253	708	183
Net Margin	-30%	6.9%	-0.5%	7.5%	3.2%	8.5%	6.3%	1.8%	5.4%	1.3%
Free Cash Flow	N/A	263.2	907	1166	786	753	850	1417	1913	1413
Income Tax	304.3	326.6	166	361	139	742	648	564	917	1938

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	N/A	27581	28908	30717	68245	75185	83049	84104	80305	79055
Cash & Equivalents	N/A	165.6	502.4	411	714	598	315	229	684	264
Accounts Receivable	N/A	N/A	N/A	914	1333	1721	1641	1315	1370	1448
Inventories	N/A	115.4	94.2	172	374	430	459	407	357	424
Goodwill & Int. Ass.	N/A	5004.1	5170.1	6259	24803	26942	26956	27341	25470	25261
Total Liabilities	N/A	18736	20369	22149	44145	46900	48623	48701	45503	43931
Accounts Payable	N/A	620.8	647.5	728	1248	1676	1588	1192	1257	1340
Long-Term Debt	N/A	14009	15861	17278	34401	36193	42814	43227	40050	37843
Shareholder's Equity	N/A	4170.5	3439.1	3321	13866	13093	34076	35119	34431	33636
D/E Ratio	N/A	3.3592	4.6118	5.2026	2.481	2.7643	1.2564	1.2309	1.1632	1.1251

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	N/A	N/A	-0.1%	2.0%	0.6%	1.7%	1.3%	0.3%	0.9%	0.2%
Return on Equity	N/A	N/A	-1.1%	17.6%	3.7%	8.9%	4.4%	0.7%	2.0%	0.5%
ROIC	N/A	N/A	-0.2%	2.4%	0.7%	1.9%	1.4%	0.3%	0.9%	0.2%
Shares Out.	N/A	N/A	N/A	801	1036	1031	2125	2229	2230	2217
Revenue/Share	61.11	36.30	39.67	11.22	10.98	13.58	14.27	6.57	5.86	6.15
FCF/Share	N/A	1.33	4.58	1.65	0.87	0.73	0.75	0.65	0.86	0.63

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.