



ONEOK Inc. (OKE)

Updated October 31th, 2018 by Jonathan Weber

Key Metrics

Current Price:	\$63	5 Year CAGR Estimate:	10.8%	Volatility Percentile:	92.4%
Fair Value Price:	\$56	5 Year Growth Estimate:	7.7%	Momentum Percentile:	85.1%
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.2%	Growth Percentile:	70.9%
Dividend Yield:	5.4%	5 Year Price Target	\$81	Valuation Percentile:	24.1%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	52.5%

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 \$26 billion.

ONEOK reported its third quarter earnings results on October 30. The company grossed revenues of \$3.4 billion, an increase of 16.9% year over year, driven by new growth projects and the roll-up of its MLP. ONEOK was able to grow its EBITDA at a very attractive pace of 26% compared to the previous year's third quarter. ONEOK has updated its distributable cash flow guidance for 2018. The company now forecasts DCF of \$1.86 billion, 34% more than during 2017. ONEOK earned \$0.75 per share during the third quarter, an increase of 74% year over year. ONEOK has declared a quarterly dividend of \$0.855 per share during October, an increase of 3.6% compared to the previous quarter.

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
Shares	210	212	214	207	205	207	208	210	211	389	415	425

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. The most recent quarterly results showed a 74% earnings-per-share 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, as dividend payments are easily covered by distributable cash flows. ONEOK has guided for annual dividend increases of 9% to 11% through 2021.

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	23.5	21.0
Avg. Yld.	3.7%	5.2%	3.9%	3.1%	2.9%	2.9%	3.5%	6.2%	6.0%	5.1%	5.4%	5.7%

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ONEOK's valuation has been in a very wide range over the last decade. Right now shares trade with a price to earnings multiple in the mid-20s. We believe that this valuation is too high, and that shares would be more fairly valued at a price to earnings multiple of slightly more than 20. Investors get a quite compelling dividend yield of 5.4% at current prices.

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 high and rising 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 low interest coverage ratio to improve moving forward as earnings rise. Shares of ONEOK offer a high dividend yield, but even though the dividend payout ratio is significantly above what investors usually want to see, ONEOK's dividends look quite safe. Cash flows cover the dividend easily.

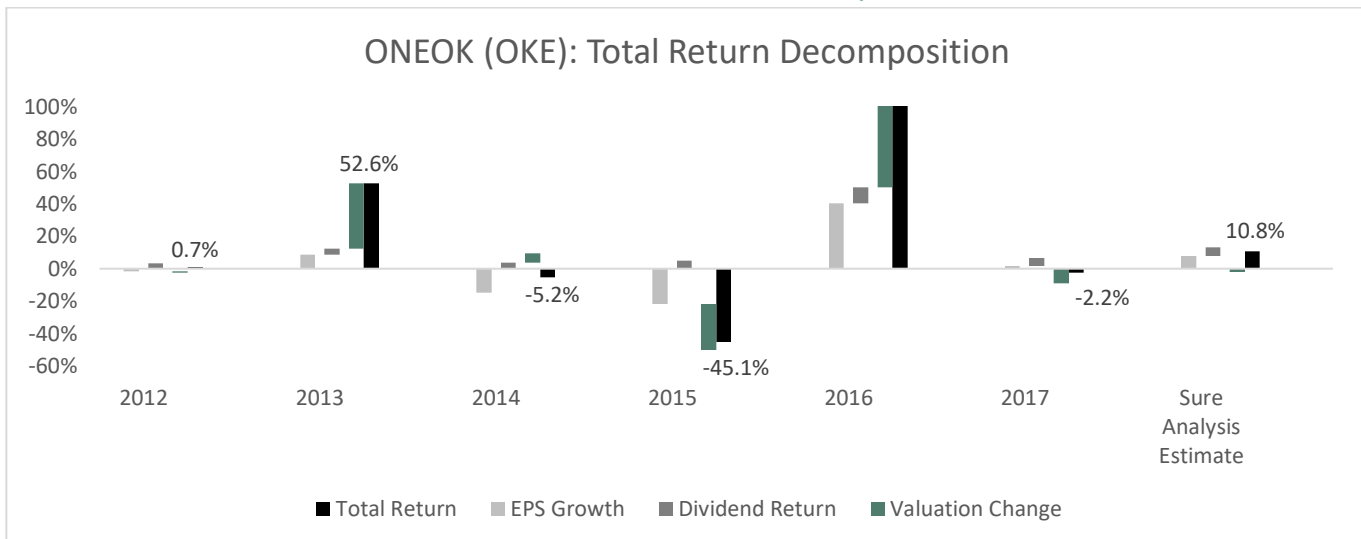
Most of ONEOK's revenues, especially after the roll-up of its MLP, are fee-based, which makes the company less sensitive to commodity price swings. This is another reason why ONEOK can operate with a high leverage without being in dangerous territory. The fee-based nature of its revenues is what makes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

Final Thoughts & Recommendation

ONEOK is not active in a high-growth industry, but through the roll-up of its MLPs and several growth projects ONEOK should be able to grow its earnings-per-share as well as its cash flows considerably over the coming years.

ONEOK offers a relatively high dividend yield which looks well-covered, and which should not be too vulnerable during a recession. ONEOK also offers solid share price growth prospects, although the high valuation will be a headwind for total returns going forward. Due to the fact that shares are trading above fair value we rate ONEOK a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	16157	11112	12679	14806	10184	11872	12195	7763	8921	12174
Gross Profit	1936	2016	1755	2068	1438	1410	1812	1768	2033	2230
Gross Margin	12.0%	18.1%	13.8%	14.0%	14.1%	11.9%	14.9%	22.8%	22.8%	18.3%
D&A Exp.	244	289	307	312	336	384	306	355	392	406
Operating Profit	915	890	924	1160	947	869	1137	1074	1276	1396
Op. Margin	5.7%	8.0%	7.3%	7.8%	9.3%	7.3%	9.3%	13.8%	14.3%	11.5%
Net Profit	312	305	335	361	361	267	314	245	352	388
Net Margin	1.9%	2.7%	2.6%	2.4%	3.5%	2.2%	2.6%	3.2%	3.9%	3.2%
Free Cash Flow	-997	661	251	20	-882	-962	-494	-165	729	803
Income Tax	194	207	214	226	181	166	151	137	212	447

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	13126	12828	12499	13697	15855	17741	15262	15446	16139	16846
Cash & Equivalents	510	29	30	66	584	146	173	98	249	37
Acc. Receivable	1265	1438	1284	1340	1349	1110	745	594	872	1203
Inventories	859	583	707	550	517	188	190	205	201	433
Goodwill & Int.	1038	1031	1023	1014	996	1025	1015	1017	1005	993
Total Liabilities	9959	9382	8578	9897	11623	12896	11256	11680	12710	11161
Accounts Payable	1123	1240	1212	1342	1333	1273	891	616	875	1141
Long-Term Debt	6501	5484	4887	5736	7343	8329	8216	8981	9441	9139
Total Equity	2088	2207	2449	2239	2130	2338	592	336	189	5528
D/E Ratio	3.11	2.48	2.00	2.56	3.45	3.56	13.88	26.74	50.02	1.65

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	2.6%	2.4%	2.6%	2.8%	2.4%	1.6%	1.9%	1.6%	2.2%	2.4%
Return on Equity	15.4%	14.2%	14.4%	15.4%	16.5%	11.9%	21.4%	52.8%	134%	13.6%
ROIC	3.6%	3.3%	3.8%	3.9%	3.4%	2.2%	2.5%	2.0%	2.7%	2.8%
Shares Out.	210	212	214	207	205	207	208	210	211	389
Revenue/Share	76.39	52.26	58.82	69.03	48.33	56.62	57.95	36.87	42.00	40.61
FCF/Share	-4.72	3.11	1.17	0.09	-4.19	-4.59	-2.35	-0.79	3.43	2.68

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

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