



ONEOK Inc. (OKE)

Updated February 26th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$68	5 Year CAGR Estimate:	11.5%	Volatility Percentile:	86.9%
Fair Value Price:	\$64	5 Year Growth Estimate:	7.7%	Momentum Percentile:	84.3%
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.3%	Growth Percentile:	74.5%
Dividend Yield:	5.1%	5 Year Price Target	\$92	Valuation Percentile:	50.1%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	77.5%

Overview & Current Events

ONEOK is an energy company that engages in the gathering and processing of natural gas, as well as a natural gas liquids business and natural gas pipelines (interstate and intrastate). ONEOK also owns storage facilities for natural gas. ONEOK is headquartered in Tulsa, Oklahoma, the company was founded in 1906. ONEOK is currently valued at \$27.8 billion.

ONEOK has reported its fourth quarter and full year earnings results on February 25. The company reported that it generated revenues of \$3.14 billion during the fourth quarter of 2018, which was 17.2% less than the revenues that ONEOK has produced during the previous year's quarter.

Despite a revenue decline compared to the prior year's quarter, ONEOK still managed to grow its profitability as well as its cash flows compared to the fourth quarter of 2017. During the most recent quarter, ONEOK generated adjusted EBITDA of \$625 million, which was 14% more than the adjusted EBITDA of \$547 million that ONEOK generated during the fourth quarter of 2017. Distributable cash flows, which is operating cash flow minus maintenance capital expenditures, totaled \$465 million during the fourth quarter, which represents an increase of 27% compared to the previous year's level. ONEOK's earnings-per-share totaled \$0.70 during the fourth quarter, but the company's distributable-cash-flows-per-share were substantially higher, at \$1.11, which is more than enough to cover ONEOK's dividend, which stands at \$0.86 per share per quarter right now.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.44	\$1.55	\$1.67	\$1.64	\$1.78	\$1.52	\$1.19	\$1.67	\$1.70	\$2.78	\$3.03	\$4.39
DPS	\$0.82	\$0.91	\$1.08	\$1.27	\$1.48	\$2.13	\$2.43	\$2.46	\$2.72	\$3.25	\$3.50	\$5.00
Shares	212	214	207	205	207	208	210	211	389	419	422	440

ONEOK's earnings growth track record is not overly convincing. After many ups and downs, profits in 2016-2017 were just slightly higher than in 2010-2011. During 2018 ONEOK has generated very attractive earnings-per-share growth, though, as that year's net profits were up 64% year over year on a per-share basis.

The strong performance during 2018 can be attributed to the roll-up of ONEOK's MLP. At the same time, new projects from ONEOK are coming online, which is why the company saw improvements in its fundamentals. Gathered volumes of natural gas as well as processed volumes rose by double digits during fiscal 2018.

ONEOK grew its business at a strong pace last year, and the same will hold true in the foreseeable future. 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 continues to spend billions on growth capital expenditures, which bodes well for ONEOK's future earnings and cash flow growth. ONEOK's management forecasts that net earnings will rise by 10% during 2019, while adjusted EBITDA is forecasted to rise by 6% year over year.

ONEOK's dividend grew by 16.6% a year during the 2009 to 2018 time frame, despite lackluster earnings growth. ONEOK guides for annual dividend increases of 9%-11% through at least 2021.

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.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	11.0	15.1	20.8	26.6	28.2	40.5	32.7	24.5	31.5	19.4	22.4	21.0
Avg. Yld.	5.2%	3.9%	3.1%	2.9%	2.9%	3.5%	6.2%	6.0%	5.1%	6.0%	5.1%	5.4%

ONEOK trades at roughly 22 times this year's forecasted earnings, which is a relatively high valuation on an absolute basis. ONEOK has traded at above-average valuations (compared to the broad market) for many years, though, and the current valuation is just marginally above our fair value estimate. Investors should note that the Great Recession wasn't kind to ONEOK's valuation, as the business it is in is highly cyclical and will suffer during downturns. Despite the relatively high valuation, investors still get a high dividend yield of more than 5% from ONEOK.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	56.9%	58.7%	64.7%	77.4%	83.1%	140%	204%	147%	160%	117%	116%	114%

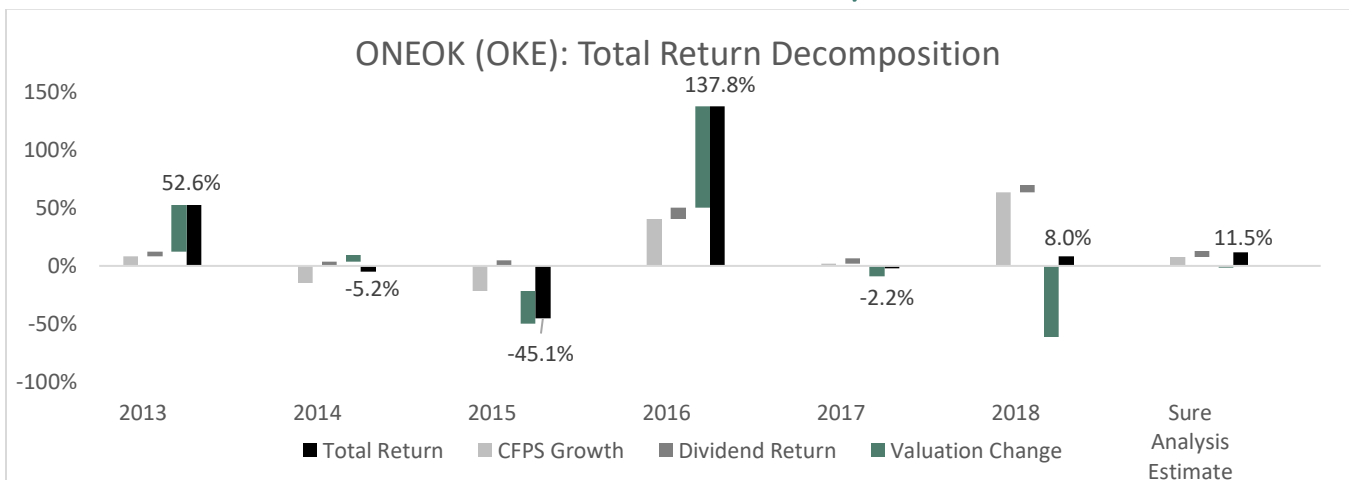
ONEOK has paid out more than its net earnings for several years in a row, but that is not necessarily a problem. The company has high non-cash expenses for depreciation, which is why its cash flows are substantially higher than its net profits. ONEOK's dividend is well-covered by distributable cash flows; during Q4 the coverage ratio was 1.32, and during all of 2018 the coverage ratio was 1.37. The risk of a dividend cut is thus not overly high.

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 why ONEOK can operate with considerable leverage without being in dangerous territory, as its cash flows are not cyclical, but rather easily projectable. The fee-based nature of ONEOK's revenues and non-cyclical demand for natural gas (e.g. for heating) is what makes ONEOK relatively recession-proof.

Final Thoughts & Recommendation

ONEOK is not among the largest pipeline companies in the US, but the company should nevertheless be able to benefit from the long-term trend of rising natural gas production. ONEOK's roll-up of its MLP and a pace of heavy growth spending will result in compelling growth rates going forward, but shares look a bit expensive here. The total return outlook is strong as well at 11.5% annually, so we rate ONEOK a buy. The company's high yield and strong growth prospects are a compelling combination.

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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