



Kinder Morgan, Inc. (KMI)

Updated April 19th, 2019 by Samuel Smith

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|---------------------------------|-------|
| Current Price: | \$19 | 5 Year CAGR Estimate: | 11.8% | Volatility Percentile: | 52.2% |
| Fair Value Price: | \$22 | 5 Year Growth Estimate: | 4.0% | Momentum Percentile: | 85.0% |
| % Fair Value: | 86% | 5 Year Valuation Multiple Estimate: | 2.6% | Growth Percentile: | 23.3% |
| Dividend Yield: | 5.2% | 5 Year Price Target | \$27 | Valuation Percentile: | 75.0% |
| Dividend Risk Score: | F | Retirement Suitability Score: | C | Total Return Percentile: | 70.3% |

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-April (4/17/19) Kinder Morgan reported first-quarter financial results and reaffirmed expectations for 2019. Distributable cash flow (DCF) increased 10% year-over-year and the company hiked its dividend by 25% from the previous quarter and has now grown its dividend payout to double the level that it was at following its 2016 cut. The company also announced that it had paid off \$1.3 billion of maturing bond debt with proceeds from the Trans Mountain pipeline sale as part of its balance sheet fortification program. As an indication of management's bullishness on the company's forward prospects, Kinder Morgan's founder and executive chairman has purchased an incredible \$73.2 million worth of stock year-to-date.

Growth on a Per-Share Basis

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|--------------------------|------|------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| DCFPS¹ | ---- | ---- | \$1.42 | \$1.55 | \$1.65 | \$2.00 | \$2.14 | \$2.02 | \$2.00 | \$2.12 | \$2.20 | \$2.68 |
| DPS | ---- | ---- | \$0.74 | \$1.34 | \$1.56 | \$1.70 | \$1.93 | \$0.50 | \$0.50 | \$0.72 | \$1.00 | \$1.75 |
| Shares | ---- | ---- | 801 | 1036 | 1031 | 2125 | 2229 | 2230 | 2217 | 2216 | 2200 | 2200 |

Kinder Morgan's biggest growth catalyst for the future is new pipeline and terminals projects. Natural gas is a compelling growth catalyst. According to Kinder Morgan, demand for natural gas rose 11% in the U.S. last year. Natural gas is rapidly replacing coal, which gives Kinder Morgan a major advantage. The company plans to invest \$3.1 billion in growth projects and joint ventures in 2019, to be funded with internally generated cash flow without the need to access capital markets. For 2019, Kinder Morgan expects DCF of approximately \$5.0 billion, or \$2.20 per common share. This would represent 4% growth in 2019, though EBITDA might come in a little bit shy of its original target of \$7.8 billion due to regulatory settlements and a slight in-service delay at an LNG facility. Kinder Morgan has also returned to aggressive dividend growth. The company is on pace to pay a \$1.00 per share dividend for 2019, up 25% from 2018 and is targeting a \$1.25 per share dividend by next year. We expect the company to grow DCF by 4% per year over the next five years, supporting its aggressive dividend growth.

Valuation Analysis

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Now | 2024 |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| 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% | 5.2% | 6.5% |

¹ DCFPS stands for Distributable Cash Flow Per Share.



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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 given the current oil and gas pricing environment. This is a reasonable estimate of fair value, now that Kinder Morgan is on more solid financial ground and has returned to growth.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|--------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Payout | ---- | ---- | 74.0% | 86.5% | 94.6% | 85.0% | 90.2% | 24.8% | 25.0% | 34.0% | 45.5% | 65.3% |

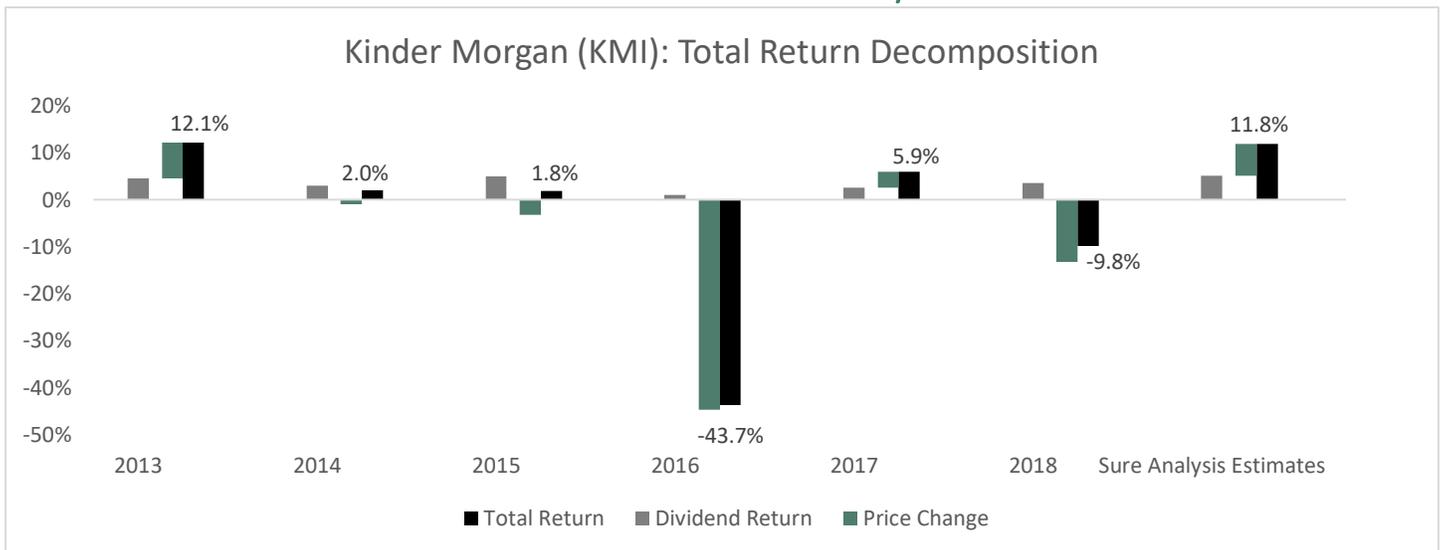
Kinder Morgan is not a low-risk company, as it operates in the cyclical energy sector. Kinder Morgan has a fairly low interest coverage ratio, and its elevated level of debt prompted the company’s dividend cut in 2016. The good news is the new dividend payout level seems to be secure, and the company utilized the savings from the dividend reduction to pay down debt and improve its balance sheet. Kinder Morgan has been deleveraging and the company received a credit rating upgrade from Standard & Poor’s and Moody’s.

Kinder Morgan has significant networking and economies of scale competitive advantages as one of the largest energy companies in the U.S. and the largest natural gas transporter, moving 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 turnaround. The company took on too much debt, which caused it to cut its dividend when capital markets closed off during the oil and gas industry downturn of 2014-2016. Now that the company is back on track, the stock is once again attractive for value and income. The combination of DCF growth, dividends, and valuation expansion could result in total returns of 11.8% per year through 2024, which earns Kinder Morgan a buy recommendation at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 7185 | 7852 | 7943 | 9973 | 14070 | 16226 | 14403 | 13058 | 13705 | 14144 |
| Gross Profit | 2957 | 3291 | 3597 | 5497 | 7011 | 7908 | 8035 | 7420 | 7099 | 7426 |
| Gross Margin | 41.2% | 41.9% | 45.3% | 55.1% | 49.8% | 48.7% | 55.8% | 56.8% | 51.8% | 52.5% |
| SG&A Exp. | 373 | 631 | 515 | 929 | 613 | 610 | 690 | 669 | 673 | 601 |
| Operating Profit | 1407 | 1133 | 1423 | 2593 | 3892 | 4722 | 4516 | 3959 | 3557 | 3961 |
| Operating Margin | 19.6% | 14.4% | 17.9% | 26.0% | 27.7% | 29.1% | 31.4% | 30.3% | 26.0% | 28.0% |
| Net Profit | 495 | -41 | 594 | 315 | 1193 | 1026 | 253 | 708 | 183 | 1609 |
| Net Margin | 6.9% | -0.5% | 7.5% | 3.2% | 8.5% | 6.3% | 1.8% | 5.4% | 1.3% | 11.4% |
| Free Cash Flow | 263 | 907 | 1166 | 786 | 753 | 850 | 1417 | 1913 | 1413 | N/A |
| Income Tax | 327 | 166 | 361 | 139 | 742 | 648 | 564 | 917 | 1938 | 587 |

Balance Sheet Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 27581 | 28908 | 30717 | 68245 | 75185 | 83049 | 84104 | 80305 | 79055 | 78866 |
| Cash & Equivalents | 166 | 502 | 411 | 714 | 598 | 315 | 229 | 684 | 264 | 3280 |
| Acc. Receivable | N/A | N/A | 914 | 1333 | 1721 | 1641 | 1315 | 1370 | 1448 | N/A |
| Inventories | 115 | 94 | 172 | 374 | 430 | 459 | 407 | 357 | 424 | N/A |
| Goodwill & Int. | 5004 | 5170 | 6259 | 24803 | 26942 | 26956 | 27341 | 25470 | 25261 | 21965 |
| Total Liabilities | 18736 | 20369 | 22149 | 44145 | 46900 | 48623 | 48701 | 45503 | 43931 | 44335 |
| Accounts Payable | 621 | 648 | 728 | 1248 | 1676 | 1588 | 1192 | 1257 | 1340 | N/A |
| Long-Term Debt | 14009 | 15861 | 17278 | 34401 | 36193 | 42814 | 43227 | 40050 | 37843 | 37324 |
| Total Equity | 4171 | 3439 | 3321 | 13866 | 13093 | 34076 | 35119 | 34431 | 33636 | 33678 |
| D/E Ratio | 3.36 | 4.61 | 5.20 | 2.48 | 2.76 | 1.26 | 1.23 | 1.16 | 1.13 | 1.11 |

Profitability & Per Share Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------|-------|-------|-------|-------|-------|-------|------|------|------|------|
| Return on Assets | N/A | -0.1% | 2.0% | 0.6% | 1.7% | 1.3% | 0.3% | 0.9% | 0.2% | 2.0% |
| Return on Equity | N/A | -1.1% | 17.6% | 3.7% | 8.9% | 4.4% | 0.7% | 2.0% | 0.5% | 4.8% |
| ROIC | N/A | -0.2% | 2.4% | 0.7% | 1.9% | 1.4% | 0.3% | 0.9% | 0.2% | 2.2% |
| Shares Out. | N/A | N/A | 801 | 1036 | 1031 | 2125 | 2229 | 2230 | 2217 | 2216 |
| Revenue/Share | 36.30 | 39.67 | 11.22 | 10.98 | 13.58 | 14.27 | 6.57 | 5.86 | 6.15 | 6.38 |
| FCF/Share | 1.33 | 4.58 | 1.65 | 0.87 | 0.73 | 0.75 | 0.65 | 0.86 | 0.63 | N/A |

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

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