



Kinder Morgan, Inc. (KMI)

Updated July 28th, 2019 by Samuel Smith

Key Metrics

Current Price:	\$21	5 Year CAGR Estimate:	9.9%	Volatility Percentile:	39.3%
Fair Value Price:	\$22	5 Year Growth Estimate:	4.0%	Momentum Percentile:	83.5%
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.1%	Growth Percentile:	25.6%
Dividend Yield:	4.8%	5 Year Price Target	\$27	Valuation Percentile:	67.6%
Dividend Risk Score:	D	Retirement Suitability Score:	C	Total Return Percentile:	61.3%

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-July (7/17/19) Kinder Morgan reported second-quarter financial results and reaffirmed expectations of generating EBITDA of nearly \$7.8 billion for 2019. Distributable cash flow (DCF) and the quarterly dividend were flat year-over-year. Meanwhile, first half DCF per share of \$1.10 reflects 6% year-over-year growth and puts it on pace to meet our full-year projection of \$2.20 DCF per share. The company's \$5.7 billion backlog of growth projects gives the company a strong growth pipeline to meet its goal of \$1.25 in annual dividend payouts by the end of 2020. The company is also looking to potentially add a \$1 billion growth project through a third Permian pipeline project which could boost the long-term growth runway even further.

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 and continued to drive growth in the first half of this year. 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	9.5	10.0
Avg. Yld.	----	----	----	2.6%	3.9%	4.2%	4.7%	5.5%	2.6%	2.5%	4.8%	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. As a result, we expect 1.1% annual multiple expansion over the next five years.

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%

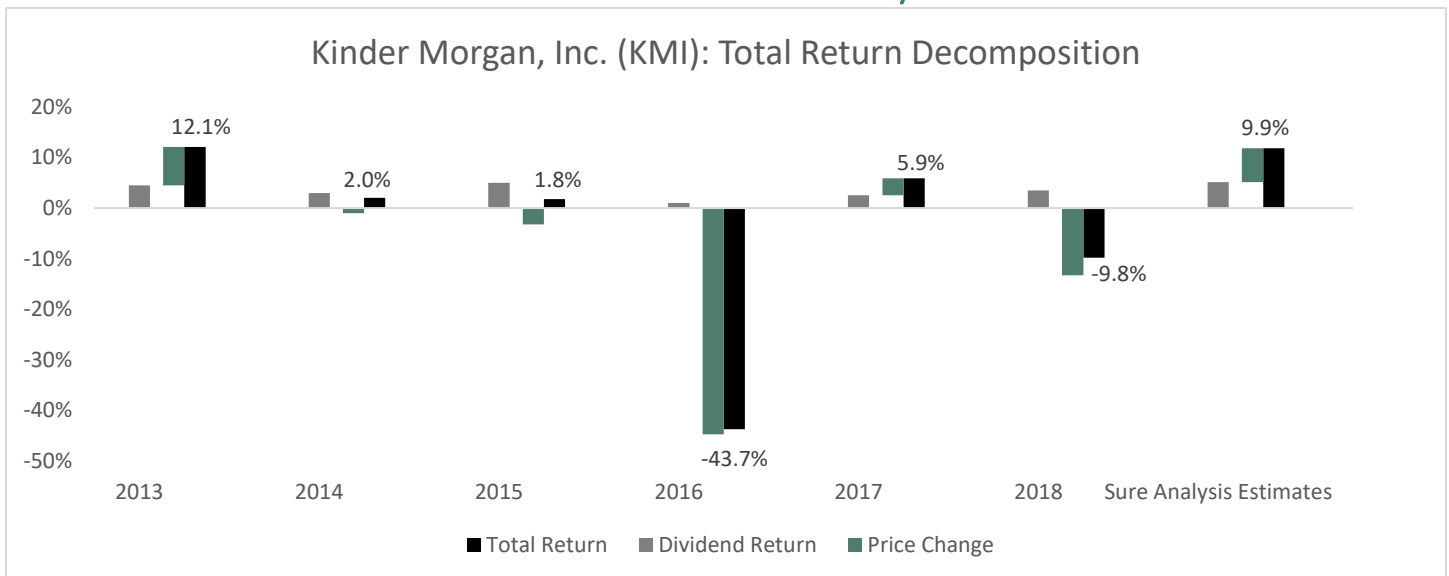
Kinder Morgan is not a low-risk company, as it operates in the cyclical energy sector. Kinder Morgan has a fairly low interest coverage ratio, and its elevated level of debt prompted the company’s dividend cut in 2016. The good news is the new dividend payout level seems to be secure, and the company 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 4% expected annual DCF growth, the 4.8% dividend yield, and 1.1% expected annual multiple expansion could result in total returns of 9.9% 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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