



# Kinder Morgan, Inc. (KMI)

Updated November 21<sup>st</sup>, 2019 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$20	<b>5 Year CAGR Estimate:</b>	11.1%	<b>Volatility Percentile:</b>	36.5%
<b>Fair Value Price:</b>	\$22	<b>5 Year Growth Estimate:</b>	4.0%	<b>Momentum Percentile:</b>	65.3%
<b>% Fair Value:</b>	91%	<b>5 Year Valuation Multiple Estimate:</b>	1.9%	<b>Growth Percentile:</b>	27.6%
<b>Dividend Yield:</b>	5.0%	<b>5 Year Price Target</b>	\$27	<b>Valuation Percentile:</b>	86.0%
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	88.6%

## 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 and more. Kinder Morgan's transportation assets operate like a 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 (10/16/19) Kinder Morgan reported third-quarter financial results. Q3 distributable cash flow rose 4% Y/Y to \$1.14B thanks to growth in cash flows from the company's natural gas pipelines and products pipelines segments, as well as reduced preferred share dividend obligations. The company's growth pipeline remains strong with a project backlog at the end of Q3 totaling \$4.1B after placing Elba Liquefaction and GCX in service during the quarter. The Permian Highway Pipeline project continues to make good progress as the company has nearly 85% of its right-of-way secured along the route, and construction activities have started on the western end of the route. The CEO also announced that he expects to bring the remaining nine units of its Elba Island liquefied natural gas export facility into service by H1 of next year.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>DCFPS<sup>1</sup></b>	----	----	\$1.42	\$1.55	\$1.65	\$2.00	\$2.14	\$2.02	\$2.00	\$2.12	<b>\$2.20</b>	<b>\$2.68</b>
<b>DPS</b>	----	----	\$0.74	\$1.34	\$1.56	\$1.70	\$1.93	\$0.50	\$0.50	\$0.72	<b>\$1.00</b>	<b>\$1.75</b>
<b>Shares<sup>2</sup></b>	----	----	801	1036	1031	2125	2229	2230	2217	2216	<b>2200</b>	<b>2200</b>

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.

<sup>1</sup> DCFPS stands for Distributable Cash Flow Per Share.

<sup>2</sup> In millions



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## 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	<b>9.1</b>	<b>10.0</b>
Avg. Yld.	----	----	----	2.6%	3.9%	4.2%	4.7%	5.5%	2.6%	2.5%	<b>5.0%</b>	<b>6.5%</b>

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's 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 slight 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%	<b>45.5%</b>	<b>65.3%</b>

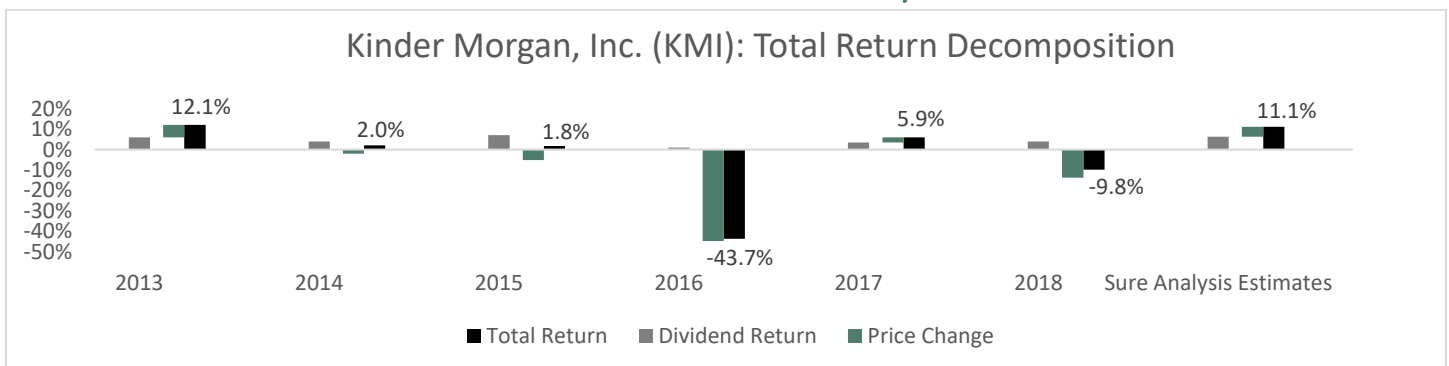
Kinder Morgan is not a low-risk company, as it operates in the cyclical energy sector. Kinder Morgan has a fairly low interest coverage ratio, and its elevated level of debt prompted the company's dividend cut in 2016. The good news is the new dividend payout level seems to be secure, and the company 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 both 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 5% dividend yield, and slight expected annual multiple expansion could result in total returns of 11.1% 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
<b>Revenue</b>	7185	7852	7943	9973	14070	16226	14403	13058	13705	14144
<b>Gross Profit</b>	2957	3291	3597	5497	7011	7908	8035	7420	7099	7426
<b>Gross Margin</b>	41.2%	41.9%	45.3%	55.1%	49.8%	48.7%	55.8%	56.8%	51.8%	52.5%
<b>SG&amp;A Exp.</b>	373	631	515	929	613	610	690	669	673	601
<b>Operating Profit</b>	1407	1133	1423	2593	3892	4722	4516	3959	3557	3961
<b>Operating Margin</b>	19.6%	14.4%	17.9%	26.0%	27.7%	29.1%	31.4%	30.3%	26.0%	28.0%
<b>Net Profit</b>	495	-41	594	315	1193	1026	253	708	183	1609
<b>Net Margin</b>	6.9%	-0.5%	7.5%	3.2%	8.5%	6.3%	1.8%	5.4%	1.3%	11.4%
<b>Free Cash Flow</b>	263	907	1166	786	753	850	1417	1913	1413	N/A
<b>Income Tax</b>	327	166	361	139	742	648	564	917	1938	587

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	27581	28908	30717	68245	75185	83049	84104	80305	79055	78866
<b>Cash &amp; Equivalents</b>	166	502	411	714	598	315	229	684	264	3280
<b>Acc. Receivable</b>	N/A	N/A	914	1333	1721	1641	1315	1370	1448	N/A
<b>Inventories</b>	115	94	172	374	430	459	407	357	424	N/A
<b>Goodwill &amp; Int.</b>	5004	5170	6259	24803	26942	26956	27341	25470	25261	21965
<b>Total Liabilities</b>	18736	20369	22149	44145	46900	48623	48701	45503	43931	44335
<b>Accounts Payable</b>	621	648	728	1248	1676	1588	1192	1257	1340	N/A
<b>Long-Term Debt</b>	14009	15861	17278	34401	36193	42814	43227	40050	37843	37324
<b>Total Equity</b>	4171	3439	3321	13866	13093	34076	35119	34431	33636	33678
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	N/A	-0.1%	2.0%	0.6%	1.7%	1.3%	0.3%	0.9%	0.2%	2.0%
<b>Return on Equity</b>	N/A	-1.1%	17.6%	3.7%	8.9%	4.4%	0.7%	2.0%	0.5%	4.8%
<b>ROIC</b>	N/A	-0.2%	2.4%	0.7%	1.9%	1.4%	0.3%	0.9%	0.2%	2.2%
<b>Shares Out.</b>	N/A	N/A	801	1036	1031	2125	2229	2230	2217	2216
<b>Revenue/Share</b>	36.30	39.67	11.22	10.98	13.58	14.27	6.57	5.86	6.15	6.38
<b>FCF/Share</b>	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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