



ONEOK Inc. (OKE)

Updated October 30th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$70	5 Year CAGR Estimate:	8.9%	Volatility Percentile:	52.7%
Fair Value Price:	\$62	5 Year Growth Estimate:	6.5%	Momentum Percentile:	56.4%
% Fair Value:	113%	5 Year Valuation Multiple Estimate:	-2.4%	Growth Percentile:	70.0%
Dividend Yield:	5.0%	5 Year Price Target	\$85	Valuation Percentile:	45.0%
Dividend Risk Score:	D	Retirement Suitability Score:	C	Total Return Percentile:	64.8%

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, and was founded in 1906. ONEOK is currently valued at \$30 billion.

ONEOK reported its third quarter earnings results on October 29. The company reported that it generated revenues of \$2.26 billion during the quarter, which was 33.3% less than the revenues that ONEOK generated during the previous year's quarter. ONEOK missed the analyst consensus estimate widely, as the analyst community forecasted revenues of that were \$530 million higher than the actual result during the quarter.

Despite a revenue decline compared to the prior year's quarter, ONEOK still managed to remain quite profitable. During the most recent quarter, ONEOK generated adjusted EBITDA of \$650 million, which was unchanged from the company's EBITDA during the previous year's quarter. ONEOK's costs declined in line with its revenues, offsetting each other.

Distributable cash flows, which is operating cash flow minus maintenance capital expenditures, totaled \$480 million during the quarter, and was up slightly on a year-over-year basis. Distributable cash flows came in at \$1.14 on a per-share basis during the third quarter. ONEOK guides for EBITDA of \$2.56 billion to \$2.64 billion for 2019, while management also restated that 2020 should be a year with above-average growth in the 20% range.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
DCFPS¹	\$1.44	\$1.55	\$1.67	\$1.64	\$1.78	\$1.52	\$1.19	\$1.67	\$3.56	\$4.35	\$4.60	\$6.30
DPS	\$0.82	\$0.91	\$1.08	\$1.27	\$1.48	\$2.13	\$2.43	\$2.46	\$2.72	\$3.25	\$3.53	\$5.07
Shares²	212	214	207	205	207	208	210	211	389	419	422	440

ONEOK's growth track record is not overly convincing. Profits in 2016 were just slightly higher than in 2009. 2018 was a strong year for ONEOK, as the company not only substantially grew its profits, but also its distributable cash flows. The strong performance during 2018 can be attributed to the successful 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 during the last couple of years, and the same will hold true in the foreseeable future. The takeover of ONEOK's MLP will result in meaningful tax savings over the coming years, the company has guided for no corporate tax payments through 2021. This will be a tailwind for profits and cash in the foreseeable future.

ONEOK also 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 distributable cash flows will rise by 7% in 2019, while adjusted EBITDA is forecasted to rise by 6% year over year. On top of that management expects EBITDA growth of at least 20% during fiscal 2020, which is why the growth outlook beyond 2019 is quite strong as well.

¹ The table above contains earnings-per-share for 2009 to 2016, and DCF-per-share from 2017 onwards

² In Millions

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/DCF	11.0	15.1	20.8	26.6	28.2	40.5	32.7	24.5	15.4	13.1	15.2	13.5
Avg. Yld.	5.2%	3.9%	3.1%	2.9%	2.9%	3.5%	6.2%	6.0%	5.1%	6.0%	5.0%	6.0%

ONEOK has traded at relatively high price-to-earnings ratios in the past. Shares are trading for just above 15 times this year's forecasted distributable cash flows right now, which is a premium compared to how shares were valued in 2017 and 2018. Due to the solid growth outlook over the coming years, a low-teens DCF multiple seems justified, even though many peers trade at somewhat lower valuations. We believe that shares are slightly overvalued, multiple contraction will thus be a headwind for ONEOK's total returns going forward.

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%	76.4%	74.7%	76.7%	80.4%

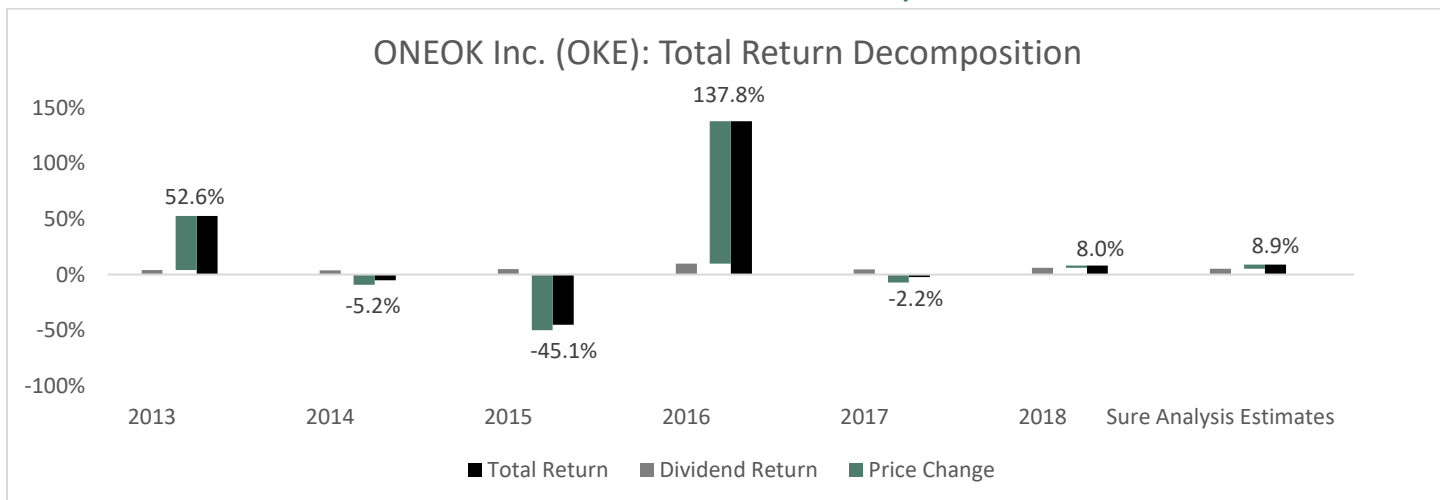
ONEOK paid out more than its net earnings during much of the last decade. Based on distributable cash flows (since 2017), the dividend has been covered relatively well during the last couple of years, and coverage looks solid for the future as well. The risk of a dividend cut by ONEOK is not overly high, we believe, as the coverage ratio was solid in both the most recent quarter (1.31), as well as on a trailing twelve months basis.

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 a natural gas focused infrastructure company, and even though it is not the largest among its peers, 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 solid growth rates going forward, but shares are trading above our fair value estimate. The total return outlook is still solid, and ONEOK does not look like a risky investment, so we rate high-yielding ONEOK a hold 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	11112	12679	14806	10184	11872	12195	7763	8921	12174	12593
Gross Profit	2016	1755	2068	1438	1410	1812	1768	2033	2230	2742
Gross Margin	18.1%	13.8%	14.0%	14.1%	11.9%	14.9%	22.8%	22.8%	18.3%	21.8%
D&A Exp.	289	307	312	336	384	306	355	392	406	429
Operating Profit	890	924	1160	947	869	1137	1074	1286	1407	1835
Op. Margin	8.0%	7.3%	7.8%	9.3%	7.3%	9.3%	13.8%	14.4%	11.6%	14.6%
Net Profit	305	335	361	361	267	314	245	352	388	1152
Net Margin	2.7%	2.6%	2.4%	3.5%	2.2%	2.6%	3.2%	3.9%	3.2%	9.1%
Free Cash Flow	661	251	20	-882	-962	-494	-165	729	803	45
Income Tax	207	214	226	181	166	151	137	212	447	363

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	12828	12499	13697	15855	17741	15262	15446	16139	16846	18232
Cash & Equivalents	29	30	66	584	146	173	98	249	37	12
Acc. Receivable	1438	1284	1340	1349	1110	745	594	872	1203	819
Inventories	583	707	550	517	188	190	205	201	433	438
Goodwill & Int.	1031	1023	1014	996	1025	1015	1017	1005	993	967
Total Liabilities	9382	8578	9897	11623	12896	11256	11680	12710	11161	11652
Accounts Payable	1240	1212	1342	1333	1273	891	616	875	1141	1118
Long-Term Debt	5484	4887	5736	7343	8329	8216	8981	9441	9139	9381
Total Equity	2207	2449	2239	2130	2338	592	336	189	5528	6580
D/E Ratio	2.48	2.00	2.56	3.45	3.56	13.88	26.74	50.02	1.65	1.43

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	2.4%	2.6%	2.8%	2.4%	1.6%	1.9%	1.6%	2.2%	2.4%	6.6%
Return on Equity	14.2%	14.4%	15.4%	16.5%	11.9%	21.4%	52.8%	134%	13.6%	19.0%
ROIC	3.3%	3.8%	3.9%	3.4%	2.2%	2.5%	2.0%	2.7%	2.8%	7.5%
Shares Out.	212	214	207	205	207	208	210	211	389	419
Revenue/Share	52.26	58.82	69.03	48.33	56.62	57.95	36.87	42.00	40.61	30.40
FCF/Share	3.11	1.17	0.09	-4.19	-4.59	-2.35	-0.79	3.43	2.68	0.11

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

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