



Kinder Morgan, Inc. (KMI)

Updated January 28th, 2020 by Samuel Smith

Key Metrics

Current Price:	\$21	5 Year CAGR Estimate:	10.3%	Market Cap:	\$48.2B
Fair Value Price:	\$22	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	1/31/20
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.2%	Dividend Payment Date:	2/18/20
Dividend Yield:	6.0%	5 Year Price Target	\$27	Years Of Dividend Growth:	2
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	25%

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 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-January (1/23/20) Kinder Morgan reported strong fourth-quarter financial results. Profits rose 26% year-over-year thanks to strong growth in Permian Basin gas takeaway via Kinder's 2 billion cf/day Gulf Coast Express pipeline. Natural gas transport volumes surged by 14% year-over-year, extending the company's quarterly double-digit growth streak to eight quarters. The weighted average natural gas liquids price fell by 19% to \$5.34/bbl while the realized weighted average crude oil price declined by 10% to \$49.9/bbl.

Distributable cash flow grew a healthy 6% year-over-year to \$0.59 per share (\$2.36 annualized), enabling Kinder to retain \$785 million after paying the dividend. For fiscal 2020, KMI projects paying out \$1.25 per share in dividends while generating a total of \$2.24 per share in Distributable Cash Flow, enabling it to retain considerable funds to invest in expansion projects and joint ventures. As a result, they will have no need to access equity markets. The company also vows to exercise discipline, stating that it will not be chasing acquisitions or expansion projects that do not meet strict criteria for delivering solid and transparent returns.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
DCFPS¹	---	\$1.42	\$1.55	\$1.65	\$2.00	\$2.14	\$2.02	\$2.00	\$2.12	\$2.20	\$2.24	\$2.73
DPS	---	\$0.74	\$1.34	\$1.56	\$1.70	\$1.93	\$0.50	\$0.50	\$0.72	\$1.00	\$1.25	\$1.52
Shares²	---	801	1036	1031	2125	2229	2230	2217	2216	2200	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 continue investing heavily in growth projects and joint ventures in 2020, to be funded with internally generated cash flow without the need to access capital markets. For 2020, Kinder Morgan expects DCF per share of approximately \$2.24. This would represent 1.8% growth in 2020. Kinder Morgan has also returned to aggressive dividend growth. The company grew its dividend by 25% in 2019 and is targeting a \$1.25 per share dividend in 2020, another 25% hike. We expect the company to grow DCF by 4% per year over the next five years, supporting its aggressive dividend growth.

¹ DCFPS stands for Distributable Cash Flow Per Share.

² In millions



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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/C	---	22.7	22.8	21.8	21.2	7.0	10.3	9.0	8.8	9.0	9.4	10.0
Avg. Yld.	---	2.6%	3.9%	4.2%	4.7%	5.5%	2.6%	2.5%	4.5%	5.0%	6.0%	5.6%

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 slight annual multiple expansion over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	74.0%	86.5%	94.6%	85.0%	90.2%	24.8%	25.0%	34.0%	45.5%	55.8%	55.7%

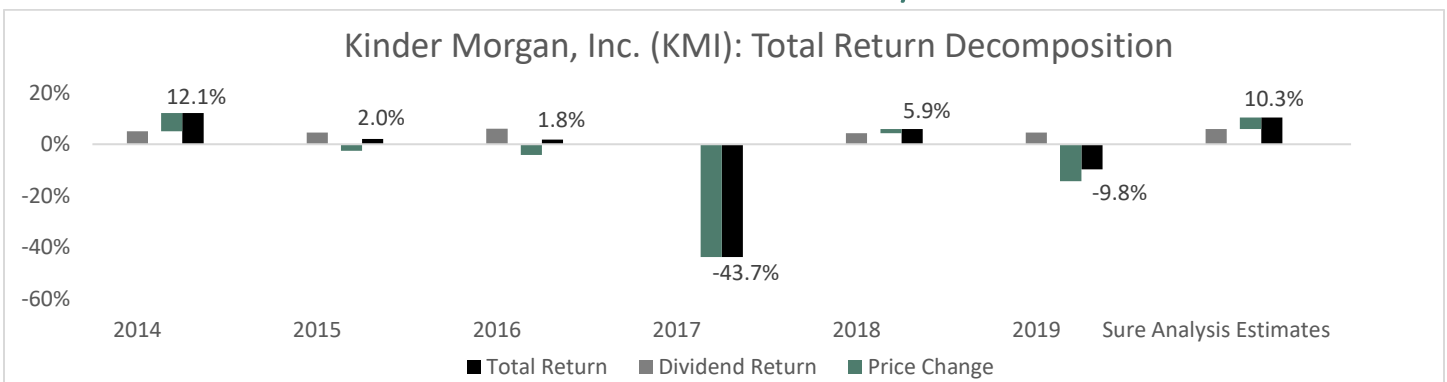
Kinder Morgan is not a low-risk company, as it operates in the cyclical energy sector. Kinder Morgan has a fairly low interest coverage ratio, and its elevated level of debt prompted the company's dividend cut in 2016. The good news is the new dividend payout level seems to be secure, and the company 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 6% dividend yield, and slight expected annual multiple expansion could result in total returns of 10.3% per year through 2025, 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	7,185	7,852	7,943	9,973	14,070	16,226	14,403	13,058	13,705	14,144
Gross Profit	2,957	1,918	2,106	3,795	4,899	5,751	5,642	5,048	4,627	4,904
Gross Margin	41.2%	24.4%	26.5%	38.1%	34.8%	35.4%	39.2%	38.7%	33.8%	34.7%
SG&A Exp.	373	631	515	929	613	610	690	703	688	601
Operating Profit	1,407	1,133	1,423	2,593	3,892	4,722	4,516	3,925	3,542	3,961
Operating Margin	19.6%	14.4%	17.9%	26.0%	27.7%	29.1%	31.4%	30.1%	25.8%	28.0%
Net Profit	495	(41)	594	315	1,193	1,026	253	708	183	1,609
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	1,166	786	753	850	1,417	1,876	1,413	2,119
Income Tax	327	166	361	139	742	648	564	917	1,938	587

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	27,581	28,908	30,717	68,245	75,185	83,049	84,104	80,305	79,055	78,866
Cash & Equivalents	166	502	411	714	598	315	229	684	264	3,280
Acc. Receivable			914	1,333	1,721	1,641	1,315	1,370	1,448	1,498
Inventories	115	94	172	374	430	459	407	357	424	385
Goodwill & Int.	5,004	5,170	6,259	24,803	26,942	26,956	27,341	25,470	25,261	24,845
Total Liabilities	18,736	20,369	22,149	44,145	46,900	48,623	48,701	45,503	43,931	44,335
Accounts Payable	621	648	728	1,248	1,676	1,588	1,192	1,257	1,340	1,337
Long-Term Debt	14,009	15,861	17,278	34,401	36,193	42,814	43,227	40,050	37,843	37,324
Total Equity	4,171	3,439	3,321	13,866	13,093	34,076	35,119	34,431	33,636	33,678
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		-0.1%	2.0%	0.6%	1.7%	1.3%	0.3%	0.9%	0.2%	2.0%
Return on Equity		-1.1%	17.6%	3.7%	8.9%	4.4%	0.7%	2.0%	0.5%	4.8%
ROIC		-0.2%	2.4%	0.7%	1.9%	1.4%	0.3%	0.9%	0.2%	2.2%
Shares Out.	198	198	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	0.84	0.63	0.96

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

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