



ONEOK Inc. (OKE)

Updated March 2nd, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$68	5 Year CAGR Estimate:	12.3%	Market Cap:	\$28B
Fair Value Price:	\$72	5 Year Growth Estimate:	6.5%	Ex-Dividend Date:	04/26/20
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.0%	Dividend Payment Date:	05/15/20
Dividend Yield:	5.5%	5 Year Price Target	\$98	Years Of Dividend Growth:	18
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	8.7%

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 reported its fourth quarter earnings results on February 25. The company reported that it generated revenues of \$2.66 billion during the quarter, which was 15.3% less than the revenues that ONEOK generated during the previous year's quarter. ONEOK missed the analyst consensus estimate slightly, as the analyst community forecasted revenues of that were \$60 million higher than the actual result during the quarter. Despite a revenue decline compared to the prior year's quarter, which can be explained by commodity price movements, ONEOK still managed to remain quite profitable. During the most recent quarter, ONEOK generated adjusted EBITDA of \$660 million, which was up 6% versus the previous year's quarter. This can be explained by the fact that commodity prices are mainly a pass-through item for the company, which means that not only its revenues, but also its costs decline when gas prices are dropping.

Distributable cash flows, which is operating cash flow minus maintenance capital expenditures, totaled \$490 million during the quarter, which was up slightly on a year-over-year basis. Distributable cash flows came in at \$1.18 on a per-share basis during the fourth quarter. ONEOK guides for EBITDA of \$3.22 billion for 2020, which represents a growth rate of 25% year over year, while management also announced that growth spending would be ramped up as well.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
DCFPS¹	\$1.55	\$1.67	\$1.64	\$1.78	\$1.52	\$1.19	\$1.67	\$3.56	\$4.35	\$4.84	\$5.50	\$7.54
DPS	\$0.91	\$1.08	\$1.27	\$1.48	\$2.13	\$2.43	\$2.46	\$2.72	\$3.25	\$3.53	\$3.74	\$5.37
Shares²	214	207	205	207	208	210	211	389	415	416	417	420

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.

ONEOK grew its business at a strong pace during the last couple of years, and the same will hold true in the foreseeable future. This is due to many new growth projects coming online in 2020 and beyond, such as pipelines and fractionation services in the Williston and Permian basins. ONEOK continues to spend billions on these growth capital expenditures, and the company is guiding for capital expenditures of \$2.5 billion during 2020, which would be 32% more than what the company invested during the previous year. This growth investment spending bodes well for ONEOK's future earnings and cash flow outlook. ONEOK's management forecasts that adjusted EBITDA will grow by 25% during fiscal 2020, while the outlook for 2021 includes another 20% increase in the adjusted EBITDA that the company plans to generate. This heavy growth spending that is poised to result in growing cash flows is why we forecast a meaningful long-term growth rate for the company's distributable cash flows, at 6% - 7% annually.

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

² In Millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/DCF	15.1	20.8	26.6	28.2	40.5	32.7	24.5	15.4	13.1	15.7	12.4	13.0
Avg. Yld.	3.9%	3.1%	2.9%	2.9%	3.5%	6.2%	6.0%	5.1%	6.0%	4.6%	5.5%	5.5%

ONEOK has traded at relatively high price-to-earnings ratios in the past. Shares are trading for just above 12 times this year's forecasted distributable cash flows right now, which is a discount compared to how shares were valued in 2017, 2018, and 2019. 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 undervalued, multiple expansion will thus be a small tailwind for ONEOK's total returns going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	58.7%	64.7%	77.4%	83.1%	140%	204%	147%	76.4%	74.7%	72.9%	68.0%	71.3%

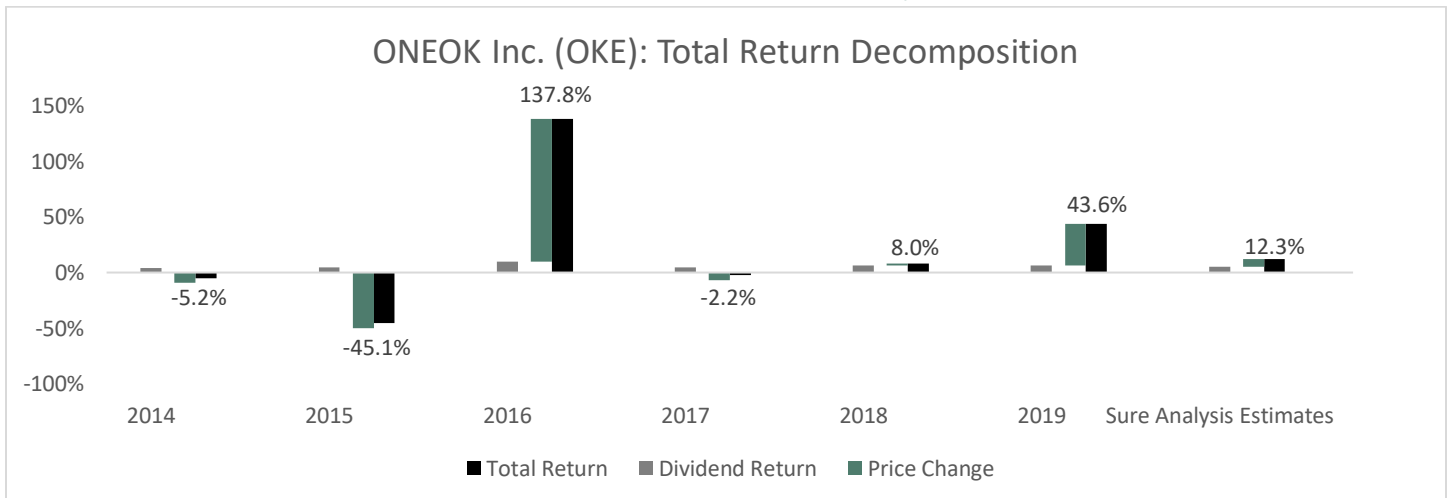
ONEOK paid out more than its net earnings during much of the last decade. Based on distributable cash flows, which we use from 2017 onwards, the dividend has been covered relatively well during the last couple of years, and coverage looks solid for the future, too. The risk of a dividend cut by ONEOK is not very high, we believe, as the coverage ratio was very solid during the last year, while coverage has even improved for 2020.

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 in North America. ONEOK's roll-up of its MLP and a pace of heavy growth spending will continue to drive cash flow growth over the coming years, and shares are trading slightly below our fair value estimate. The total return outlook is very solid, and ONEOK does not look like a risky investment, so we rate high-yielding ONEOK a buy at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	12,679	14,806	10,184	11,872	12,195	7,763	8,921	12,174	12,593	10,164
Gross Profit	1,755	2,068	1,438	1,410	1,812	1,768	2,033	2,230	2,742	2,900
Gross Margin	13.8%	14.0%	14.1%	11.9%	14.9%	22.8%	22.8%	18.3%	21.8%	28.5%
D&A Exp.	307	312	336	384	306	355	392	406	429	477
Operating Profit	924	1,160	947	869	1,137	1,074	1,286	1,407	1,835	1,917
Op. Margin	7.3%	7.8%	9.3%	7.3%	9.3%	13.8%	14.4%	11.6%	14.6%	18.9%
Net Profit	335	361	361	267	314	245	352	388	1,152	1,279
Net Margin	2.6%	2.4%	3.5%	2.2%	2.6%	3.2%	3.9%	3.2%	9.1%	12.6%
Free Cash Flow	251	20	(882)	(962)	(494)	(165)	729	803	45	(1,902)
Income Tax	214	226	181	166	151	137	212	447	363	372

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	12,499	13,697	15,855	17,741	15,262	15,446	16,139	16,846	18,232	21,812
Cash & Equivalents	30	66	584	146	173	98	249	37	12	21
Acc. Receivable	1,284	1,340	1,349	1,110	745	594	872	1,203	819	835
Inventories	707	550	517	188	190	205	201	433	438	507
Goodwill & Int.	1,023	1,014	996	1,025	1,015	1,017	1,005	993	967	958
Total Liabilities	8,578	9,897	11,623	12,896	11,256	11,680	12,710	11,161	11,652	15,586
Accounts Payable	1,212	1,342	1,333	1,273	891	616	875	1,141	1,116	1,210
Long-Term Debt	4,887	5,736	7,343	8,329	8,216	8,981	9,441	9,139	9,381	12,707
Total Equity	2,449	2,239	2,130	2,338	592	336	189	5,528	6,580	6,226
D/E Ratio	2.00	2.56	3.45	3.56	13.88	26.74	50.02	1.65	1.43	2.04

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.6%	2.8%	2.4%	1.6%	1.9%	1.6%	2.2%	2.4%	6.6%	6.4%
Return on Equity	14.4%	15.4%	16.5%	11.9%	21.4%	52.8%	134%	13.6%	19.0%	20.0%
ROIC	3.8%	3.9%	3.4%	2.2%	2.5%	2.0%	2.7%	2.8%	7.5%	7.3%
Shares Out.	214	207	205	207	208	210	211	389	415	416
Revenue/Share	58.82	69.03	48.33	56.62	57.95	36.87	42.0	40.61	30.40	24.47
FCF/Share	1.17	0.09	(4.19)	(4.59)	(2.35)	(0.79)	3.43	2.68	0.11	(4.58)

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

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