



ONEOK Inc. (OKE)

Updated October 28th, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$30	5 Year CAGR Estimate:	19.3%	Market Cap:	\$13B
Fair Value Price:	\$47	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	10/30/20
% Fair Value:	65%	5 Year Valuation Multiple Estimate:	9.2%	Dividend Payment Date:	11/13/20
Dividend Yield:	12.5%	5 Year Price Target	\$54	Years Of Dividend Growth:	18
Dividend Risk Score:	C	Retirement Suitability Score:	A	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 third quarter earnings results on October 27. The company reported that it generated revenues of \$1.85 billion during the quarter, which was 5% less than the revenues that ONEOK generated during the previous year's quarter. ONEOK missed the analyst consensus estimate by a lot, as the analyst community forecasted revenues to be \$670 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 managed to remain quite profitable, which can be explained by the fact that its input costs declined as well, as those are also partially commodity-price based. During the most recent quarter, ONEOK generated adjusted EBITDA of \$750 million, which was up 15% versus the previous year's quarter, therefore easily outperforming the top line number.

Distributable cash flows, which is operating cash flow minus maintenance capital expenditures, totaled \$540 million during the quarter, which was up 12% on a year-over-year basis. Distributable cash flows came in at \$1.21 on a per-share basis. ONEOK sees 2020's distributable cash flows declining slightly versus 2019, to ~\$1.95 billion, or roughly \$4.65 per share. ONEOK forecasts improving results going forward on a sequential basis.

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	\$4.65	\$5.39
DPS	\$0.91	\$1.08	\$1.27	\$1.48	\$2.13	\$2.43	\$2.46	\$2.72	\$3.25	\$3.53	\$3.74	\$3.74
Shares²	214	207	205	207	208	210	211	389	415	416	445	460

ONEOK's growth track record is not overly convincing, at least for the 2010-2016 time frame, during which there was no meaningful growth. 2018 was a strong year for ONEOK, as the company grew its profits and its distributable cash flows by a lot. 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 in 2018 and 2019, and generally, further growth is expected during the coming years. This is due to many new growth projects coming online over the coming years, such as pipelines and fractionation services in the Permian basins. ONEOK continues to spend billions on these growth capital expenditures, although the company has reduced its growth spending in the near term, due to the impact of the global oil price crash that hurts some of its customers and results in lower production growth goals. Overall, growth spending should still allow for some cash flow growth over the coming years, even though 2020's distributable cash flows will likely be down versus 2019, according to management's guidance. From the new level that will be set during the current year, the company should be able to grow its cash flows meaningfully over the next couple of years, and we are forecasting a growth rate in the low to mid-single-digits, which is slightly less than what management aims for.

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	6.5	10.0
Avg. Yld.	3.9%	3.1%	2.9%	2.9%	3.5%	6.2%	6.0%	5.1%	6.0%	4.6%	12.5%	6.9%

ONEOK has traded at relatively high price-to-earnings ratios in the past. Shares are trading for less than 7 times this year's forecasted distributable cash flows right now, which is a big discount compared to how shares were valued in 2017, 2018, and 2019. The growth outlook for the company and the American energy industry has deteriorated to some degree due to the low oil price environment, which hurts many producers, which is why we have reduced our fair value target to 10 times cash flows, but this still leaves ample upside potential for ONEOK's shares.

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%	80.4%	69.4%

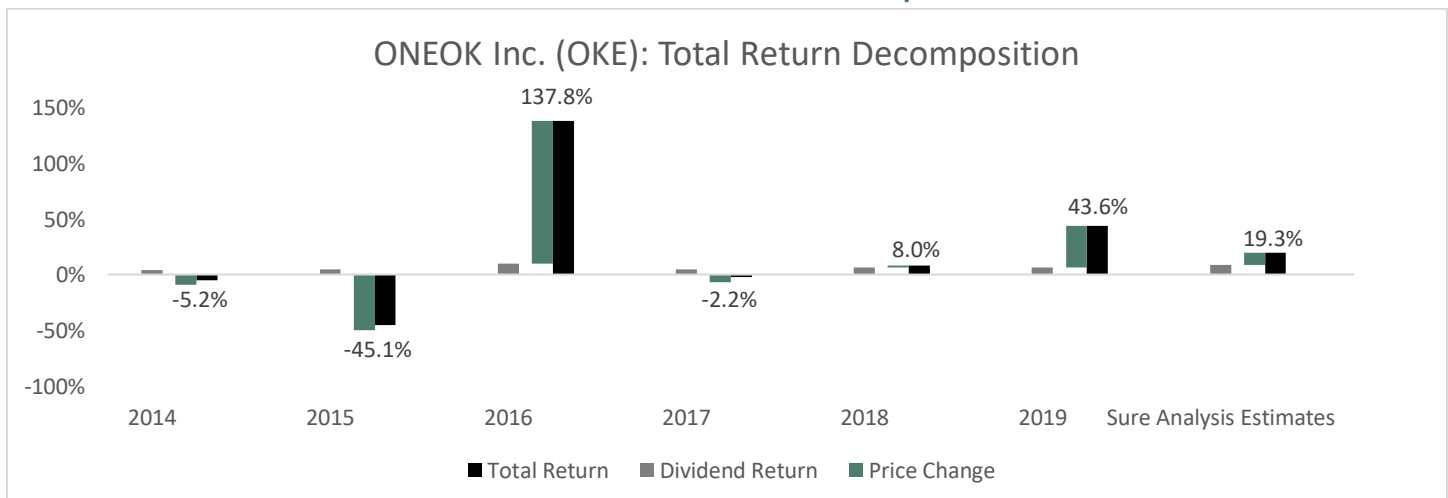
ONEOK paid out more than its net earnings during most of the last decade. Based on distributable cash flows, which we use from 2017 onwards, the dividend has been covered relatively well during the last couple of years, however, and coverage does not look too bad for the future, either. The risk of a dividend cut by ONEOK is not extremely high, but a cut should not be ruled out, as management may decide to focus on balance sheet liquidity in the near term.

A lot of ONEOK's revenues, especially after the roll-up of its MLP, are fee-based or hedged, 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 overly volatile, although they are still impacted by the volumes that are transported by ONEOK. The fee-based nature of ONEOK's revenues and non-cyclical demand for natural gas, e.g. for heating, is what has made ONEOK more or less recession-resilient in the past.

Final Thoughts & Recommendation

ONEOK is a natural gas focused infrastructure company. Even though it is not the largest among its peers, the company has benefited a lot from growing natural gas production in the United States. We see ONEOK generating some cash flow growth going forward, but not at the level seen since 2017, due to some headwinds for the industry. The total return outlook is strong, which is why we rate the stock a buy, but we note that ONEOK's stock will likely remain volatile.

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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