



# Kinder Morgan, Inc. (KMI)

Updated November 9<sup>th</sup>, 2020 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$11.5	<b>5 Year CAGR Estimate:</b>	18.9%	<b>Market Cap:</b>	\$25.9B
<b>Fair Value Price:</b>	\$19.7	<b>5 Year Growth Estimate:</b>	2.0%	<b>Ex-Dividend Date:</b>	1/30/21 <sup>1</sup>
<b>% Fair Value:</b>	58%	<b>5 Year Valuation Multiple Estimate:</b>	11.6%	<b>Dividend Payment Date:</b>	2/16/20 <sup>2</sup>
<b>Dividend Yield:</b>	9.1%	<b>5 Year Price Target</b>	\$21.8	<b>Years Of Dividend Growth:</b>	3
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	5%

## 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 (CO<sub>2</sub>) 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.

On October 21<sup>st</sup>, Kinder Morgan reported its third-quarter financial results. The company reported a \$455M profit for Q3, 10% less compared to year-ago quarter. Revenue fell 9% year-over-year, as weaker natural gas prices hurt production and transportation of fuel caused by the pandemic. The company's distributable cash flow also fell to 5% year-over-year to \$1.08B and reiterates that it expects DCF to be below the planned \$5.1B by slightly more than 10%. Adjusted EBITDA is also expected to come in below the \$7.6B originally forecast by slightly more than 8%. That said, the company expects to spend 30% (or \$680M) less on its 2020 expansion projects and contribution to joint ventures. Despite a decrease in revenue and third-quarter earnings, its \$2B Permian Highway pipeline project is now 97% complete and will begin service in early 2021.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>DCFPS<sup>3</sup></b>	---	\$1.42	\$1.55	\$1.65	\$2.00	\$2.14	\$2.02	\$2.00	\$2.12	\$2.20	<b>\$2.32</b>	<b>\$2.56</b>
<b>DPS</b>	---	\$0.74	\$1.34	\$1.56	\$1.70	\$1.93	\$0.50	\$0.50	\$0.72	\$1.00	<b>\$1.05</b>	<b>\$1.15</b>
<b>Shares<sup>4</sup></b>	---	801	1036	1031	2125	2229	2230	2217	2216	2200	<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. Natural gas is rapidly replacing coal, which gives Kinder Morgan a major advantage.

The company plans to continue investing 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, we expect Kinder Morgan to generate DCF per share of approximately \$2.32. The company grew its dividend by 25% in 2019 and is targeting a \$1.05 per share dividend in 2020. We expect the company to grow DCF by ~2% per year over the next five years, supporting continued dividend growth.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
<b>Avg P/DCF</b>	---	22.7	22.8	21.8	21.2	7.0	10.3	9.0	8.8	9.0	<b>4.9</b>	<b>8.5</b>
<b>Avg. Yld.</b>	---	2.6%	3.9%	4.2%	4.7%	5.5%	2.6%	2.5%	4.5%	5.0%	<b>9.1%</b>	<b>5.3%</b>

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> DCFPS stands for Distributable Cash Flow Per Share.

<sup>4</sup> In millions



# Kinder Morgan, Inc. (KMI)

Updated November 9<sup>th</sup>, 2020 by Samuel Smith

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 8.5 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 significant 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%	<b>45.2%</b>	<b>44.9%</b>

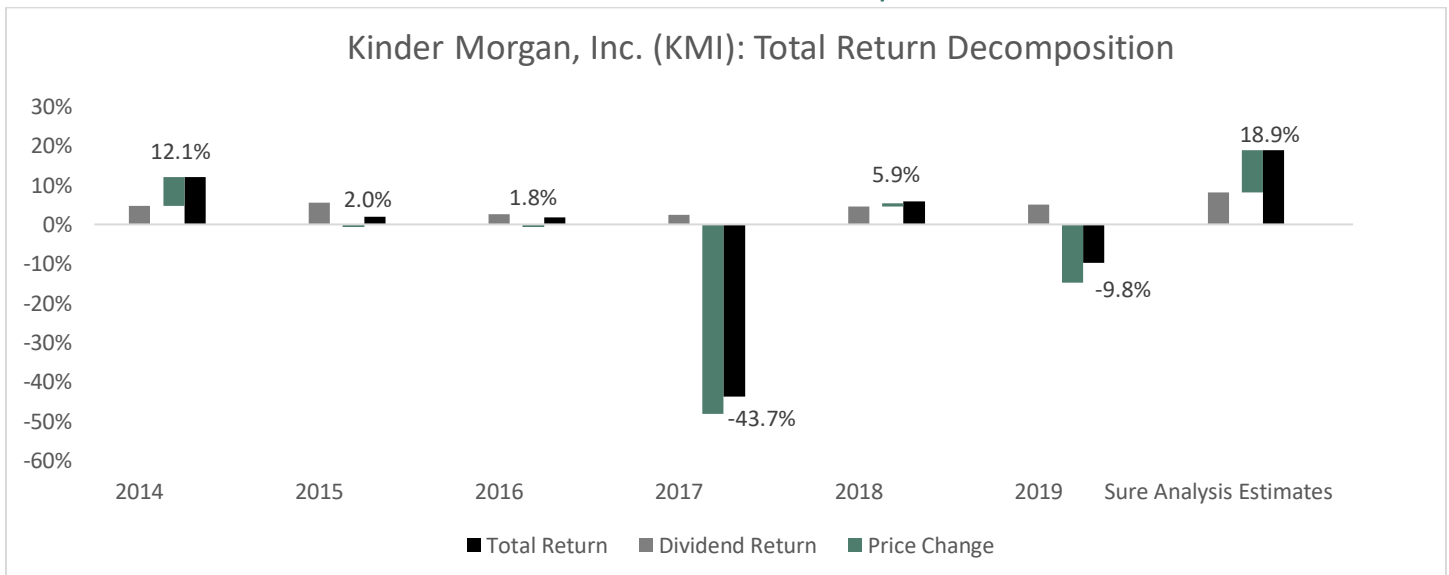
Kinder Morgan is not a low-risk company, as it operates in the cyclical energy sector. Kinder Morgan has a fairly low interest coverage ratio, and its elevated level of debt prompted the company’s dividend cut in 2016. The good news is the new dividend payout level seems to be secure, and the company 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 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 forced 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 expected DCF growth, the 7% dividend yield, and expected annual multiple expansion could result in average total returns of 18.9% per year through 2025, which earns Kinder Morgan a buy recommendation at current prices.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)



# Kinder Morgan, Inc. (KMI)

Updated November 9<sup>th</sup>, 2020 by Samuel Smith

## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	7,185	7,852	7,943	9,973	14,070	16,226	14,403	13,058	13,705	14,144
<b>Gross Profit</b>	2,957	1,918	2,106	3,795	4,899	5,751	5,642	5,048	4,627	4,904
<b>Gross Margin</b>	41.2%	24.4%	26.5%	38.1%	34.8%	35.4%	39.2%	38.7%	33.8%	34.7%
<b>SG&amp;A Exp.</b>	373	631	515	929	613	610	690	703	688	601
<b>Operating Profit</b>	1,407	1,133	1,423	2,593	3,892	4,722	4,516	3,925	3,542	3,961
<b>Operating Margin</b>	19.6%	14.4%	17.9%	26.0%	27.7%	29.1%	31.4%	30.1%	25.8%	28.0%
<b>Net Profit</b>	495	(41)	594	315	1,193	1,026	253	708	183	1,609
<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	1,166	786	753	850	1,417	1,876	1,413	2,119
<b>Income Tax</b>	327	166	361	139	742	648	564	917	1,938	587

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	27,581	28,908	30,717	68,245	75,185	83,049	84,104	80,305	79,055	78,866
<b>Cash &amp; Equivalents</b>	166	502	411	714	598	315	229	684	264	3,280
<b>Acc. Receivable</b>			914	1,333	1,721	1,641	1,315	1,370	1,448	1,498
<b>Inventories</b>	115	94	172	374	430	459	407	357	424	385
<b>Goodwill &amp; Int.</b>	5,004	5,170	6,259	24,803	26,942	26,956	27,341	25,470	25,261	24,845
<b>Total Liabilities</b>	18,736	20,369	22,149	44,145	46,900	48,623	48,701	45,503	43,931	44,335
<b>Accounts Payable</b>	621	648	728	1,248	1,676	1,588	1,192	1,257	1,340	1,337
<b>Long-Term Debt</b>	14,009	15,861	17,278	34,401	36,193	42,814	43,227	40,050	37,843	37,324
<b>Total Equity</b>	4,171	3,439	3,321	13,866	13,093	34,076	35,119	34,431	33,636	33,678
<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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>		-0.1%	2.0%	0.6%	1.7%	1.3%	0.3%	0.9%	0.2%	2.0%
<b>Return on Equity</b>		-1.1%	17.6%	3.7%	8.9%	4.4%	0.7%	2.0%	0.5%	4.8%
<b>ROIC</b>		-0.2%	2.4%	0.7%	1.9%	1.4%	0.3%	0.9%	0.2%	2.2%
<b>Shares Out.</b>	198	198	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	0.84	0.63	0.96

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.