



# Kinder Morgan, Inc. (KMI)

Updated February 9<sup>th</sup>, 2021 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$14.2	<b>5 Year CAGR Estimate:</b>	11.7%	<b>Market Cap:</b>	\$32B
<b>Fair Value Price:</b>	\$18.2	<b>5 Year Growth Estimate:</b>	1.0%	<b>Ex-Dividend Date:</b>	1/29/21
<b>% Fair Value:</b>	78%	<b>5 Year Valuation Multiple Estimate:</b>	5.2%	<b>Dividend Payment Date:</b>	2/16/21
<b>Dividend Yield:</b>	7.6%	<b>5 Year Price Target</b>	\$19.1	<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 90% of Kinder Morgan's cash flow is fee-based.

On January 20<sup>th</sup>, 2021 Kinder Morgan reported its fourth-quarter financial results. The company reported a quarterly dividend of \$0.2625/share and reaffirmed its planned 3% hike in the annual dividend for 2021 to \$1.08 per share. Fourth quarter's distributable cash flow per share decreased by 8% to \$0.55 from \$0.59 year-over-year. Adjusted EBITDA fell by 9% to \$4,993 million from \$7,618 million year-over year. That said, the company expects to spend \$800M on its 2021 expansion projects and contributions to joint ventures. The company also expects net earnings of \$2.1B for 2021. Meanwhile, KMI's Permian Highway pipeline went into full commercial service on January 1, 2021.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>DCFPS<sup>1</sup></b>	\$1.42	\$1.55	\$1.65	\$2.00	\$2.14	\$2.02	\$2.00	\$2.12	\$2.20	\$2.02	<b>\$2.14</b>	<b>\$2.25</b>
<b>DPS</b>	\$0.74	\$1.34	\$1.56	\$1.70	\$1.93	\$0.50	\$0.50	\$0.72	\$1.00	\$1.05	<b>\$1.08</b>	<b>\$1.15</b>
<b>Shares<sup>2</sup></b>	801	1036	1031	2125	2229	2230	2217	2216	2200	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 2021 and they expect to fully fund it with internally generated cash flow without the need to access capital markets. For 2021, we expect Kinder Morgan to generate DCF per share of approximately \$2.14. The company grew its dividend by 5% in 2020 and is targeting a \$1.08 per share dividend in 2021. We expect the company to grow DCF/share by ~1% per year over the next five years, supporting slow dividend growth.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
<b>Avg P/DCF</b>	22.7	22.8	21.8	21.2	7.0	10.3	9.0	8.8	9.0	4.9	<b>6.6</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%	9.1%	<b>7.6%</b>	<b>6.0%</b>

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

<sup>1</sup> DCFPS stands for Distributable Cash Flow Per Share.

<sup>2</sup> In millions



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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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	74.0%	86.5%	94.6%	85.0%	90.2%	24.8%	25.0%	34.0%	45.5%	52.0%	<b>50.5%</b>	<b>51.1%</b>

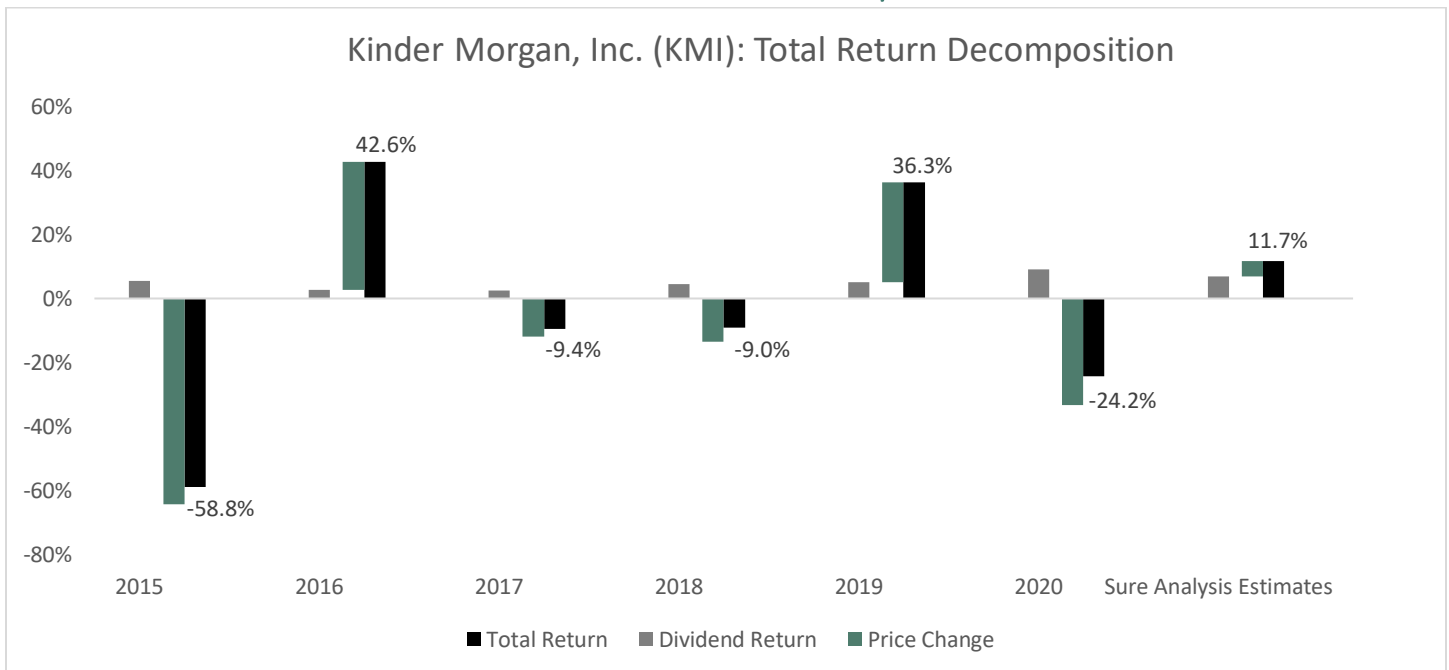
Kinder Morgan is not a low-risk company, as it operates in the cyclical energy sector. Kinder Morgan has a fairly low interest coverage ratio, and its elevated level of debt prompted the company’s dividend cut in 2016. The good news is the new dividend payout level seems to be secure, and the company 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 7.6% dividend yield, and expected annual multiple expansion could result in average total returns of 11.7% per year through 2026, which earns Kinder Morgan a buy recommendation at current prices.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	7,943	9,973	14,070	16,226	14,403	13,058	13,705	14,144	13,209	11,700
<b>Gross Profit</b>	3,597	5,497	7,011	7,908	8,035	7,420	7,099	7,426	7,535	6,991
<b>Gross Margin</b>	45.3%	55.1%	49.8%	48.7%	55.8%	56.8%	51.8%	52.5%	57.0%	59.8%
<b>SG&amp;A Exp.</b>	515	929	613	610	690	703	688	601	590	648
<b>Operating Profit</b>	1,417	2,580	3,891	4,723	4,513	3,924	3,541	3,961	3,931	3,492
<b>Operating Margin</b>	17.8%	25.9%	27.7%	29.1%	31.3%	30.1%	25.8%	28.0%	29.8%	29.8%
<b>Net Profit</b>	594	315	1,193	1,026	253	708	183	1,609	2,190	119
<b>Net Margin</b>	7.5%	3.2%	8.5%	6.3%	1.8%	5.4%	1.3%	11.4%	16.6%	1.0%
<b>Free Cash Flow</b>	1,166	786	753	850	1,417	1,876	1,413	2,139	2,478	2,843
<b>Income Tax</b>	361	139	742	648	564	917	1,938	587	926	481

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	30,717	68,245	75,185	83,049	84,104	80,305	79,055	78,866	74,157	71,973
<b>Cash &amp; Equivalents</b>	411	714	598	315	229	684	264	3,280	185	1,184
<b>Acc. Receivable</b>	914	1,333	1,721	1,641	1,315	1,370	1,448	1,498	1,379	1,293
<b>Inventories</b>	172	374	430	459	407	357	424	385	371	348
<b>Goodwill &amp; Int.</b>	6,259	24,803	26,942	26,956	27,341	25,470	25,261	24,845	24,127	22,304
<b>Total Liabilities</b>	22,149	44,145	46,900	48,623	48,701	45,503	43,931	44,335	40,071	40,135
<b>Accounts Payable</b>	728	1,248	1,676	1,588	1,192	1,257	1,340	1,337	914	837
<b>Long-Term Debt</b>	17,278	34,401	36,193	42,814	43,227	40,050	37,843	37,324	34,292	34,689
<b>Total Equity</b>	3,321	13,866	13,093	34,076	35,119	34,431	33,636	33,678	33,742	31,436
<b>D/E Ratio</b>	5.20	2.48	2.76	1.26	1.23	1.16	1.13	1.11	1.02	1.10

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	2.0%	0.6%	1.7%	1.3%	0.3%	0.9%	0.2%	2.0%	2.9%	0.2%
<b>Return on Equity</b>	17.6%	3.7%	8.9%	4.4%	0.7%	2.0%	0.5%	4.8%	6.5%	0.4%
<b>ROIC</b>	2.4%	0.7%	1.9%	1.4%	0.3%	0.9%	0.2%	2.2%	3.1%	0.2%
<b>Shares Out.</b>	801	1036	1031	2125	2229	2230	2217	2216	2200	2200
<b>Revenue/Share</b>	11.22	10.98	13.58	14.27	6.57	5.86	6.15	6.38	5.83	5.17
<b>FCF/Share</b>	1.65	0.87	0.73	0.75	0.65	0.84	0.63	0.97	1.09	1.26

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

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