



# Kinder Morgan, Inc. (KMI)

Updated May 8<sup>th</sup>, 2021 by Samuel Smith

## Key Metrics

|                             |        |  |      |                                  |                      |
|-----------------------------|--------|--|------|----------------------------------|----------------------|
| <b>Current Price:</b>       | \$17.6 | <b>5 Year CAGR Estimate:</b>               | 7.0% | <b>Market Cap:</b>               | \$40 B               |
| <b>Fair Value Price:</b>    | \$19.0 | <b>5 Year Growth Estimate:</b>             | 0.1% | <b>Ex-Dividend Date:</b>         | 7/29/21 <sup>1</sup> |
| <b>% Fair Value:</b>        | 92%    | <b>5 Year Valuation Multiple Estimate:</b> | 1.7% | <b>Dividend Payment Date:</b>    | 8/17/21 <sup>2</sup> |
| <b>Dividend Yield:</b>      | 6.1%   | <b>5 Year Price Target</b>                 | \$19 | <b>Years Of Dividend Growth:</b> | 4                    |
| <b>Dividend Risk Score:</b> | D      | <b>Retirement Suitability Score:</b>       | B    | <b>Last Dividend Increase:</b>   | 3%                   |

## 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 83,000 miles of pipelines and 144 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 April 21<sup>st</sup>, 2021 Kinder Morgan reported its first-quarter financial results. The company reported Q1 Non-GAAP earnings-per-share of \$0.60 and GAAP earnings-per-share of \$0.62. The quarterly dividend increased by 3% to \$0.27/share. Net income attributable to KMI totaled \$1.41 billion, compared to a net loss of \$306 million in the year-ago period. First quarter's distributable cash flow per share increased to \$1.02 from \$0.47 year-over-year.

Meanwhile, the company's natural gas transport volumes declined 3% year-over-year. That said, Kinder Morgan expects to produce a net income of \$2.7B-\$2.9B, declared dividends of \$1.08/share, distributable cash flow of \$5.3B, and adjusted EBITDA of \$7.6B-\$7.7B, and aims to end 2021 with a 3.9-4.0 net debt-to-adjusted EBITDA ratio.

## Growth on a Per-Share Basis

| Year                      | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021          | 2026          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>DCFPS<sup>3</sup></b>  | \$1.42 | \$1.55 | \$1.65 | \$2.00 | \$2.14 | \$2.02 | \$2.00 | \$2.12 | \$2.20 | \$2.02 | <b>\$2.24</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>4</sup></b> | 801    | 1036   | 1031   | 2125   | 2229   | 2230   | 2217   | 2216   | 2200   | 2200   | <b>2200</b>   | <b>2200</b>   |

Kinder Morgan's biggest growth catalysts for the future are 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. Unfortunately for them, new pipeline projects face severe political headwinds for the foreseeable future so growth for the company will likely slow significantly.

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 \$2.24. 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 ~0.1% per year over the next five years, supporting slow dividend growth.

<sup>1</sup> Estimate

<sup>2</sup> Estimate

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

<sup>4</sup> In millions



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## Valuation Analysis

| Year      | 2011 | 2012 | 2013 | 2014 | 2015  | 2016 | 2017 | 2018 | 2019 | 2020  | Now         | 2026        |
|-----------|------|------|------|------|-------|------|------|------|------|-------|-------------|-------------|
| Avg P/DCF | 22.7 | 22.8 | 21.8 | 21.2 | 7.0   | 10.3 | 9.0  | 8.8  | 9.0  | 4.9   | <b>7.8</b>  | <b>8.5</b>  |
| Avg. Yld. | 2.3% | 3.8% | 4.3% | 4.0% | 12.9% | 2.4% | 2.8% | 3.9% | 5.1% | 10.6% | <b>6.1%</b> | <b>6.0%</b> |

Since Kinder Morgan, Inc. became a publicly traded stock its valuation has fluctuated wildly. 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 energy prices surge again, Kinder Morgan stock could return to its 10-year average valuation.

However, a more conservative view values KMI at a price-to-DCF ratio of 8.5 given the current uncertain 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 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>48.2%</b> | <b>51.1%</b> |

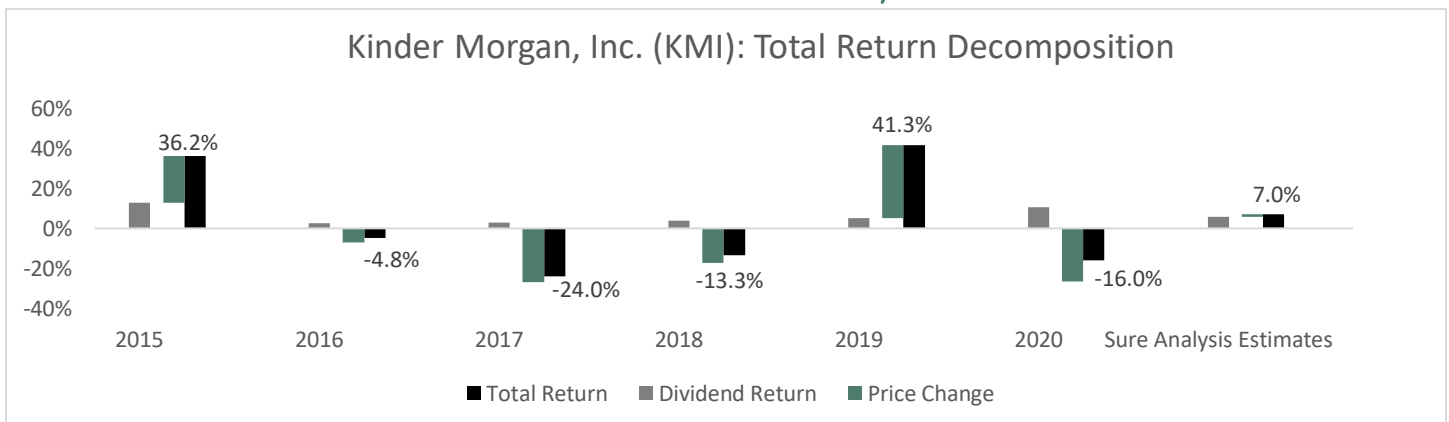
Kinder Morgan is not a low-risk company, as it operates in the cyclical energy sector. Kinder Morgan has a fairly low interest coverage ratio, and its elevated level of debt prompted the company's dividend cut in 2016. The good news is the new dividend payout level seems to be secure, and the company 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 slight forecasted DCF growth, the 6.1% dividend yield, and expected annual multiple expansion could result in annualized total returns of 7% per year through 2026, which earns Kinder Morgan a hold 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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