



ONEOK Inc. (OKE)

Updated November 6th, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$65	5 Year CAGR Estimate:	5.6%	Market Cap:	\$28B
Fair Value Price:	\$57	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	01/30/22
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.7%	Dividend Payment Date:	02/13/22
Dividend Yield:	5.8%	5 Year Price Target	\$66	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 August 3. The company reported that it generated revenues of \$4.5 billion during the quarter, which was 109% more than the revenues that ONEOK generated during the previous year's quarter. The revenue increase compared to the prior year's quarter, and also compared to the second quarter of 2021, can be explained by commodity price movements, as natural gas and natural gas liquids moved a lot higher during the period. ONEOK's input costs rose as well, however, as those expenses are also partially commodity-price based. This is why cash flows and EBITDA did not grow as much as one might think when looking at the huge revenue increase. During the most recent quarter, ONEOK generated adjusted EBITDA of \$870 million, which was up 16%, despite the revenue growth rate being way higher than that.

ONEOK earned \$0.88 per share during the third quarter, although that includes high depreciation charges that lower its net profits considerably versus the cash flows that ONEOK generates. The company is forecasting earnings-per-share of \$3.33 for the current year, which should translate into cash flow per share of more than \$5. The company is also forecasting EBITDA at \$3.4 billion for the current year, representing a sizeable increase versus 2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
DCFPS¹	\$1.67	\$1.64	\$1.78	\$1.52	\$1.19	\$1.67	\$3.56	\$4.35	\$4.84	\$4.23	\$5.15	\$5.97
DPS	\$1.08	\$1.27	\$1.48	\$2.13	\$2.43	\$2.46	\$2.72	\$3.25	\$3.53	\$3.74	\$3.74	\$4.13
Shares²	207	205	207	208	210	211	389	415	416	444	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, which led to record cash flows in 2019, on a company-wide basis and on a per-share basis. This is due to new growth projects coming online in recent years, such as pipelines and fractionation services in the Permian basins. 2020's cash flows were down slightly, and an increase in the company's share count diluted shareholders, which further pressured ONEOK's DCF-per-share. Nevertheless, the company continued to cover its dividend payments with its cash flows even during this pandemic-stricken year. ONEOK has reduced its growth spending in the near term, due to lower oil production volumes, and since this will allow ONEOK to pay down debt in coming years. Overall, growth spending should still allow for some cash flow growth over the coming years. ONEOK will grow its cash flows meaningfully in 2021, and we expect some further growth in 2022 and beyond, although not at the level seen in previous years, as we deem a low-single digits growth rate more likely.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/DCF	20.8	26.6	28.2	40.5	32.7	24.5	15.4	13.1	15.7	9.0	12.6	11.0
Avg. Yld.	3.1%	2.9%	2.9%	3.5%	6.2%	6.0%	5.1%	6.0%	4.6%	9.8%	5.8%	6.3%

ONEOK has traded at relatively high valuation in the past. Shares are trading for around 12-13 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. The growth outlook for the company and the American energy industry has deteriorated to some degree, however, due to factors such as increasing regulation, which hurts producers, which is why we have reduced our fair value target to 11 times cash flows. At current prices, ONEOK trades above our fair value estimate.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	64.7%	77.4%	83.1%	140%	204%	147%	76.4%	74.7%	72.9%	88.4%	72.6%	69.2%

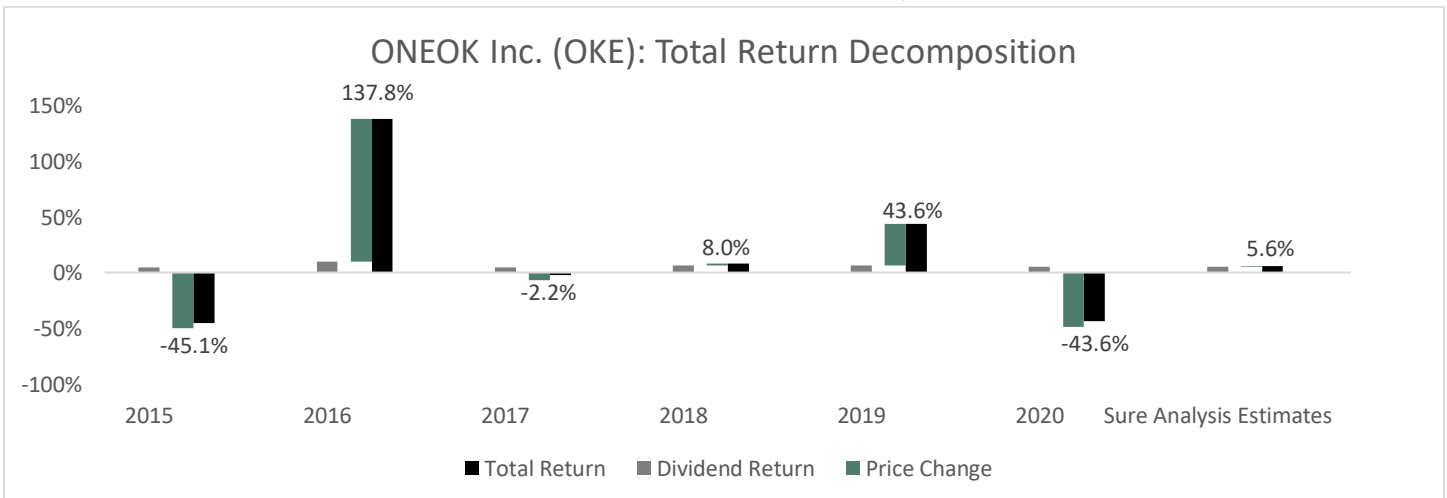
ONEOK paid out more than its net earnings during much of the last decade. Based on distributable cash flows, which we use from 2017 onwards, the dividend has been covered relatively well during the last couple of years, however, and coverage does not look too bad for the future, either. The risk of a dividend cut by ONEOK is not extremely high, but a cut should not be ruled out, as management may decide to focus on improving the balance sheet 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 headwinds for the natural gas industry. The total return outlook is solid, which is why we rate the stock a hold 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
Revenue	14,806	10,184	11,872	12,195	7,763	8,921	12,174	12,593	10,164	8,542
Gross Profit	2,068	1,438	1,410	1,812	1,768	2,033	2,230	2,742	2,900	2,853
Gross Margin	14.0%	14.1%	11.9%	14.9%	22.8%	22.8%	18.3%	21.8%	28.5%	33.4%
D&A Exp.	312	336	384	306	355	392	406	429	477	579
Operating Profit	1,160	947	869	1,137	1,074	1,286	1,407	1,835	1,917	1,967
Op. Margin	7.8%	9.3%	7.3%	9.3%	13.8%	14.4%	11.6%	14.6%	18.9%	23.0%
Net Profit	361	361	267	314	245	352	388	1,152	1,279	613
Net Margin	2.4%	3.5%	2.2%	2.6%	3.2%	3.9%	3.2%	9.1%	12.6%	7.2%
Free Cash Flow	20	(882)	(962)	(494)	(165)	729	803	45	(1,902)	(296)
Income Tax	226	181	166	151	137	212	447	363	372	190

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	13,697	15,855	17,741	15,262	15,446	16,139	16,846	18,232	21,812	23,079
Cash & Equivalents	66	584	146	173	98	249	37	12	21	524
Acc. Receivable	1,340	1,349	1,110	745	594	872	1,203	819	835	830
Inventories	550	517	188	190	205	201	433	438	507	371
Goodwill & Int.	1,014	996	1,025	1,015	1,017	1,005	993	967	958	774
Total Liabilities	9,897	11,623	12,896	11,256	11,680	12,710	11,161	11,652	15,586	17,036
Accounts Payable	1,342	1,333	1,273	891	616	875	1,141	1,116	1,210	719
Long-Term Debt	5,736	7,343	8,329	8,216	8,981	9,441	9,139	9,381	12,707	14,236
Total Equity	2,239	2,130	2,338	592	336	189	5,528	6,580	6,226	6,042
D/E Ratio	2.56	3.45	3.56	13.88	26.74	50.02	1.65	1.43	2.04	2.36

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.8%	2.4%	1.6%	1.9%	1.6%	2.2%	2.4%	6.6%	6.4%	2.7%
Return on Equity	15.4%	16.5%	11.9%	21.4%	52.8%	134%	13.6%	19.0%	20.0%	10.0%
ROIC	3.9%	3.4%	2.2%	2.5%	2.0%	2.7%	2.8%	7.5%	7.3%	3.1%
Shares Out.	207	205	207	208	210	211	389	415	416	444
Revenue/Share	69.03	48.33	56.62	57.95	36.87	42.00	40.61	30.40	24.47	19.78
FCF/Share	0.09	(4.19)	(4.59)	(2.35)	(0.79)	3.43	2.68	0.11	(4.58)	(0.69)

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

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