



ONEOK Inc. (OKE)

Updated May 27th, 2022 by Jonathan Weber

Key Metrics

Current Price:	\$67	5 Year CAGR Estimate:	6.1%	Market Cap:	\$29B
Fair Value Price:	\$61	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	07/30/22
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.0%	Dividend Payment Date:	08/13/22
Dividend Yield:	5.6%	5 Year Price Target	\$70	Years Of Dividend Growth:	18
Dividend Risk Score:	C	Retirement Suitability Score:	A	Rating:	Hold

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 first quarter earnings results on May 3. The company reported that it generated revenues of \$5.4 billion during the quarter, which was 68% more than the revenues that ONEOK generated during the previous year's quarter. The large revenue increase compared to the prior year's quarter 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 ONEOK's 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 \$860 million, which was up 11% compared to the previous year's quarter, despite the revenue growth rate being way higher than that.

ONEOK earned \$0.87 per share during the first quarter, but that includes high depreciation charges that lower its net profits considerably versus the cash flows that ONEOK generates. The company is forecasted to generate earnings-per-share of \$3.90 for the current year, which should translate into cash flow per share of well above \$5. The company is also forecasting EBITDA at \$3.6 billion for the current year, representing a 7% increase versus 2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
DCFPS¹	\$1.64	\$1.78	\$1.52	\$1.19	\$1.67	\$3.56	\$4.35	\$4.84	\$4.23	\$5.25	\$5.50	\$6.38
DPS	\$1.27	\$1.48	\$2.13	\$2.43	\$2.46	\$2.72	\$3.25	\$3.53	\$3.74	\$3.74	\$3.74	\$4.13
Shares²	205	207	208	210	211	389	415	416	444	447	450	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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/DCF	26.6	28.2	40.5	32.7	24.5	15.4	13.1	15.7	9.0	11.2	12.2	11.0
Avg. Yld.	2.9%	2.9%	3.5%	6.2%	6.0%	5.1%	6.0%	4.6%	9.8%	6.3%	5.6%	5.9%

ONEOK has traded at relatively high valuation in the past. Shares are trading for around 12 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, although higher compared to 2020-2021. The growth outlook for the company and the industry is not overly strong, as increasing regulation has made it very difficult to build new pipes. Our fair value target is 11 times cash flows. At current prices, ONEOK trades slightly above our fair value estimate.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	77.4%	83.1%	140%	204%	147%	76.4%	74.7%	72.9%	88.4%	71.2%	68.0%	64.8%

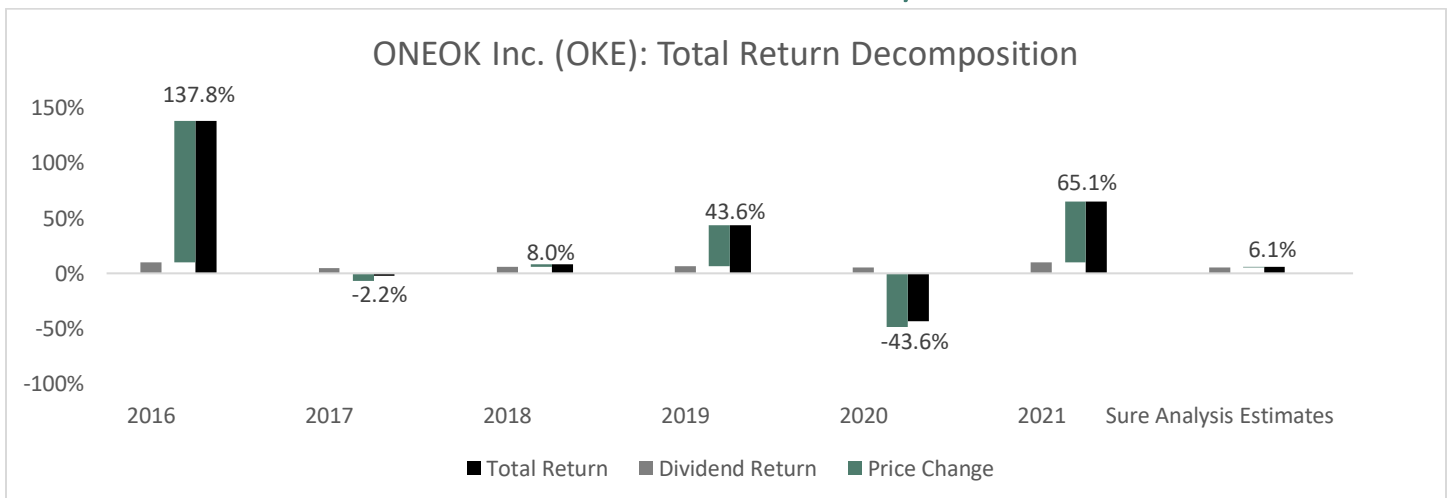
ONEOK paid out more than its net earnings during much of the last decade. Based on distributable cash flows, which we use from 2017 onwards, the dividend has been covered relatively well during the last couple of years, however, and coverage does not look too bad for the future, either. The risk of a 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 further.

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. Therefore 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 in the past. We see ONEOK generating some cash flow growth going forward, but not at the level seen in the past, due to headwinds industry such as harsh regulation. Thanks to the high yield, forecasted total returns are solid, which is why we rate the stock a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	10,184	11,872	12,195	7,763	8,921	12,174	12,593	10,164	8,542	16,540
Gross Profit	1,438	1,410	1,812	1,768	2,033	2,230	2,742	2,900	2,853	3,662
Gross Margin	14.1%	11.9%	14.9%	22.8%	22.8%	18.3%	21.8%	28.5%	33.4%	22.1%
D&A Exp.	336	384	306	355	392	406	429	477	579	622
Operating Profit	947	869	1,137	1,074	1,286	1,407	1,835	1,917	1,967	2,595
Op. Margin	9.3%	7.3%	9.3%	13.8%	14.4%	11.6%	14.6%	18.9%	23.0%	15.7%
Net Profit	361	267	314	245	352	388	1,152	1,279	613	1,500
Net Margin	3.5%	2.2%	2.6%	3.2%	3.9%	3.2%	9.1%	12.6%	7.2%	9.1%
Free Cash Flow	(882)	(962)	(494)	(165)	729	803	45	(1,902)	(296)	1,849
Income Tax	181	166	151	137	212	447	363	372	190	484

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	15,855	17,741	15,262	15,446	16,139	16,846	18,232	21,812	23,079	23,622
Cash & Equivalents	584	146	173	98	249	37	12	21	524	146
Acc. Receivable	1,349	1,110	745	594	872	1,203	819	835	830	1,442
Inventories	517	188	190	205	201	433	438	507	371	581
Goodwill & Int.	996	1,025	1,015	1,017	1,005	993	967	958	774	763
Total Liabilities	11,623	12,896	11,256	11,680	12,710	11,161	11,652	15,586	17,036	17,606
Accounts Payable	1,333	1,273	891	616	875	1,141	1,116	1,210	719	1,332
Long-Term Debt	7,343	8,329	8,216	8,981	9,441	9,139	9,381	12,707	14,236	13,643
Total Equity	2,130	2,338	592	336	189	5,528	6,580	6,226	6,042	6,015
LTD/E Ratio	3.45	3.56	13.88	26.74	50.02	1.65	1.43	2.04	2.36	2.27

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.4%	1.6%	1.9%	1.6%	2.2%	2.4%	6.6%	6.4%	2.7%	6.4%
Return on Equity	16.5%	11.9%	21.4%	52.8%	134.2%	13.6%	19.0%	20.0%	10.0%	24.9%
ROIC	3.4%	2.2%	2.5%	2.0%	2.7%	2.8%	7.5%	7.3%	3.1%	7.5%
Shares Out.	205	207	208	210	211	389	415	416	444	447
Revenue/Share	48.33	56.62	57.95	36.87	42.00	40.61	30.40	24.47	19.78	36.97
FCF/Share	(4.19)	(4.59)	(2.35)	(0.79)	3.43	2.68	0.11	(4.58)	(0.69)	4.13

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

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