



ONEOK Inc. (OKE)

Updated August 18th, 2022 by Jonathan Weber

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|----------|
| Current Price: | \$64 | 5 Year CAGR Estimate: | 7.1% | Market Cap: | \$28B |
| Fair Value Price: | \$61 | 5 Year Growth Estimate: | 3.0% | Ex-Dividend Date: | 10/30/22 |
| % Fair Value: | 106% | 5 Year Valuation Multiple Estimate: | -1.1% | Dividend Payment Date: | 11/13/22 |
| Dividend Yield: | 5.8% | 5 Year Price Target | \$70 | Years Of Dividend Growth: | 18 |
| Dividend Risk Score: | C | Retirement Suitability Score: | B | 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 second quarter earnings results on August 10. The company reported that it generated revenues of \$6.0 billion during the quarter, which was 77% 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 \$890 million, which was up 11% compared to the previous year's quarter, despite the revenue growth rate being way higher than that.

ONEOK earned \$0.92 per share during the second 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 \$3.80 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 the 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

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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 | 11.6 | 11.0 |
| Avg. Yld. | 2.9% | 2.9% | 3.5% | 6.2% | 6.0% | 5.1% | 6.0% | 4.6% | 9.8% | 6.3% | 5.8% | 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% |

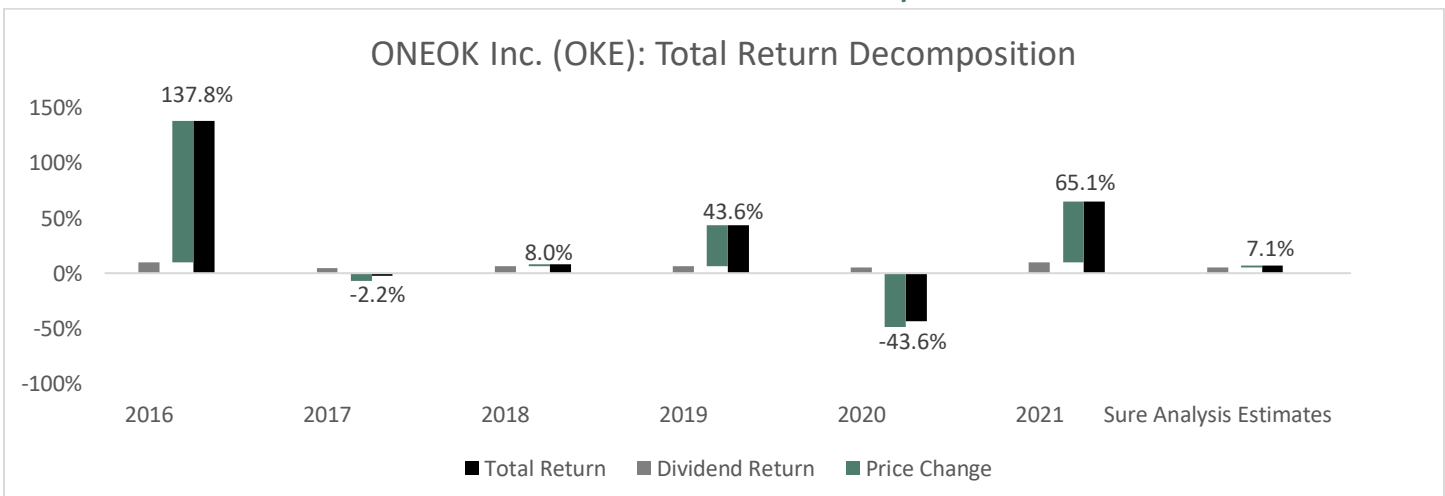
ONEOK paid out more than its net earnings during much of the last decade. Based on distributable cash flows, which we use from 2017 onwards, the dividend has been covered relatively well during the last couple of years, however, and coverage does not look too bad for the future, either. The risk of a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