



Kinder Morgan, Inc. (KMI)

Updated January 24th, 2023 by Samuel Smith

Key Metrics

Current Price:	\$18.7	5 Year CAGR Estimate:	7.3%	Market Cap:	\$41.9B
Fair Value Price:	\$18.1	5 Year Growth Estimate:	2.6%	Ex-Dividend Date:	01/30/23
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.6%	Dividend Payment Date:	02/15/23
Dividend Yield:	5.9%	5 Year Price Target	\$21	Years Of Dividend Growth:	5
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Hold

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 (CO₂) 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 18th, the Kinder Morgan reported its FY 2022 results and announced that its board of directors approved an increase in KMI's share repurchase authorization from \$2.0 billion to \$3.0 billion. Since the program's inception, KMI has repurchased approximately \$943 million worth of shares at an average price of \$17.40 per share, leaving a remaining capacity of approximately \$2.1 billion. The company also provided its 2023 outlook. It expects to generate net income attributable to KMI of \$2.5 billion (\$1.12 per share in line with the consensus) and declare dividends of \$1.13 per share, a 2% increase from the dividends declared for 2022. The company also budgeted to generate 2023 DCF of \$4.8 billion (\$2.13 per share) and Adjusted EBITDA of \$7.7 billion and to end 2023 with a Net Debt-to-Adjusted EBITDA ratio of 4.0 times, well below our long-term target of 4.5 times.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
DCFPS¹	\$1.65	\$2.00	\$2.14	\$2.02	\$2.00	\$2.12	\$2.19	\$2.02	\$2.40	\$2.22	\$2.13	\$2.42
DPS	\$1.56	\$1.70	\$1.93	\$0.50	\$0.50	\$0.72	\$1.00	\$1.05	\$1.07	\$1.10	\$1.11	\$1.29
Shares²	1031	2125	2229	2230	2217	2216	2200	2200	2267	2248	2249	2200

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 2023 and they expect to fully fund it with internally generated cash flow without the need to access capital markets. For 2023, we expect Kinder Morgan to generate DCF per share of approximately \$2.13. We expect the company's DCF per share to increase steadily over the next half decade due to continued incremental growth projects and share repurchases.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg P/DCF	21.8	21.2	7.0	10.3	9.0	8.8	9.0	4.9	7.3	7.9	8.8	8.5
Avg. Yld.	4.3%	4.0%	12.9%	2.4%	2.8%	3.9%	5.1%	10.6%	6.2%	6.3%	5.9%	6.3%

¹ DCFPS stands for Distributable Cash Flow Per Share.

² In millions



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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 remain elevated for an extended period of time, 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 with recession risks rising. This is a reasonable estimate of fair value now that Kinder Morgan is on more solid financial ground and has returned to dividend growth. As a result, we expect slight multiple compression over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	86.5%	94.5%	85.0%	90.2%	24.8%	25.0%	34.0%	45.7%	52.0%	44.6%	52.1%	53.3%

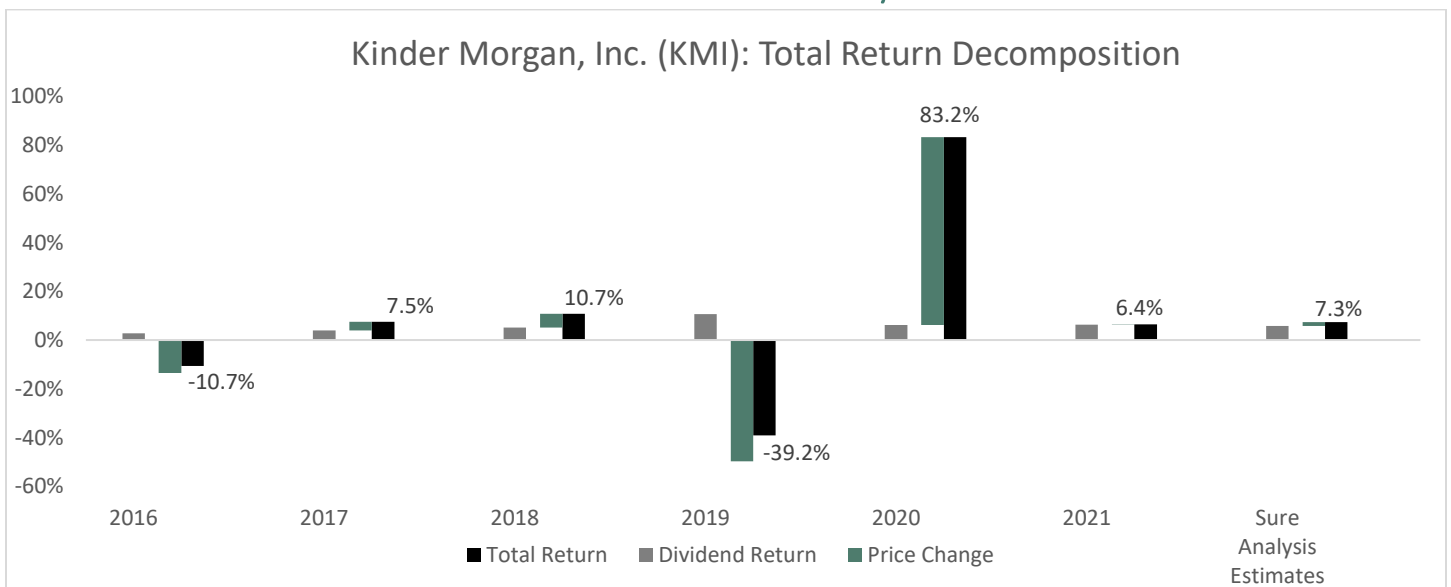
Kinder Morgan operates in the cyclical energy sector, but its business model still enables it to generate fairly stable cash flows. Kinder Morgan has a fairly low interest coverage ratio, and its elevated level of debt prompted the company's dividend cut in 2016. The good news is the new dividend payout 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 network 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 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 somewhat attractive for value and income. The combination of the 5.9% dividend yield and expected steady per share distributable cash flow growth could result in annualized total returns of 7.3% per year through 2028, which earns Kinder Morgan a Hold recommendation at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	14,070	16,226	14,403	13,058	13,705	14,144	13,209	11,700	16,610	19,200
Gross Profit	7,011	7,908	8,035	7,420	7,099	7,426	7,535	6,991	7,982	7,759
Gross Margin	49.8%	48.7%	55.8%	56.8%	51.8%	52.5%	57.0%	59.8%	48.1%	40.4%
SG&A Exp.	613	610	690	703	688	601	590	648	655	637
Operating Profit	3,891	4,723	4,513	3,924	3,541	3,961	3,931	3,492	4,533	4,026
Operating Margin	27.7%	29.1%	31.3%	30.1%	25.8%	28.0%	29.8%	29.8%	27.3%	21.0%
Net Profit	1,193	1,026	253	708	183	1,609	2,190	119	1,784	2,548
Net Margin	8.5%	6.3%	1.8%	5.4%	1.3%	11.4%	16.6%	1.0%	10.7%	13.3%
Free Cash Flow	753	850	1,417	1,876	1,413	2,139	2,478	2,843		
Income Tax	742	648	564	917	1,938	587	926	481	369	710

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	75,185	83,049	84,104	80,305	79,055	78,866	74,157	71,973	70,416	70,078
Cash & Equivalents	598	315	229	684	264	3,280	185	1,184	1,140	745
Acc. Receivable	1,721	1,641	1,315	1,370	1,448	1,498	1,379	1,293	1,611	
Inventories	430	459	407	357	424	385	371	348	562	
Goodwill & Int.	26,942	26,956	27,341	25,470	25,261	24,845	24,127	22,304	19,914	19,965
Total Liabilities	46,900	48,623	48,701	45,503	43,931	44,335	40,071	40,135	38,495	37,964
Accounts Payable	1,676	1,588	1,192	1,257	1,340	1,337	914	837		
Long-Term Debt	36,193	42,814	43,227	40,050	37,732	37,103	34,071	34,468	33,320	31,788
Total Equity	13,093	34,076	35,119	34,431	33,636	33,678	33,742	31,436	30,823	30,742
LTD/E Ratio	2.76	1.26	1.23	1.16	1.12	1.10	1.01	1.10	1.08	1.03

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.7%	1.3%	0.3%	0.9%	0.2%	2.0%	2.9%	0.2%	2.5%	3.6%
Return on Equity	8.9%	4.4%	0.7%	2.0%	0.5%	4.8%	6.5%	0.4%	5.7%	8.3%
ROIC	1.9%	1.4%	0.3%	0.9%	0.2%	2.2%	3.1%	0.2%	2.7%	3.9%
Shares Out.	1031	2125	2229	2230	2217	2216	2200	2200	2267	2248
Revenue/Share	13.58	14.27	6.57	5.86	6.15	6.38	5.83	5.17	7.33	8.50
FCF/Share	0.73	0.75	0.65	0.84	0.63	0.97	1.09	1.26		3.6%

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

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