



Kinder Morgan, Inc. (KMI)

Updated October 25th, 2023 by Samuel Smith

Key Metrics

| | | | | | |
|-----------------------------|--------|--------------------------------------------|------|----------------------------------|----------|
| Current Price: | \$16.8 | 5 Year CAGR Estimate: | 9.7% | Market Cap: | \$36 B |
| Fair Value Price: | \$18.1 | 5 Year Growth Estimate: | 2.6% | Ex-Dividend Date: | 10/30/23 |
| % Fair Value: | 93% | 5 Year Valuation Multiple Estimate: | 1.5% | Dividend Payment Date: | 11/15/23 |
| Dividend Yield: | 6.7% | 5 Year Price Target | \$21 | Years Of Dividend Growth: | 6 |
| 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 October 18th, Kinder Morgan reported its Q3 2023 results. KMI reported a net income of \$532 million, a decrease compared to the \$576 million in the third quarter of 2022. Distributable Cash Flow (DCF) was \$1,094 million, slightly less than the \$1,122 million in the same period of the previous year. Adjusted earnings for the quarter were \$562 million, compared to \$575 million in Q3 2022. The company's net Debt-to-Adjusted EBITDA ratio remained at 4.1, aligning with its year-end goal. In the first nine months of 2023, the company's net income attributable to KMI was \$1,797 million, a drop from \$1,878 million in the comparable period in 2022. The DCF also decreased by 6% from \$3,753 million to \$3,544 million in the same period. Revenue for the quarter was reported at \$3.91 billion, marking a year-over-year decline of 24.5%. Earnings per Share (EPS) remained steady at \$0.25. DCF per share was flat compared to the third quarter of 2022. There was strong demand for KMI's natural gas transportation and storage services, with expectations of natural gas demand growing by more than 20% through 2028. The financial contributions from the Natural Gas Pipeline, Products Pipelines, and Terminals business segments were all reportedly up relative to the third quarter of 2022.

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 | \$1.13 | \$1.29 |
| Shares² | 1031 | 2125 | 2229 | 2230 | 2217 | 2216 | 2200 | 2200 | 2267 | 2248 | 2228 | 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.

¹ DCFPS stands for Distributable Cash Flow Per Share.

² In millions



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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 | 7.9 | 8.5 |
| Avg. Yld. | 4.3% | 4.0% | 12.9% | 2.4% | 2.8% | 3.9% | 5.1% | 10.6% | 6.2% | 6.3% | 6.7% | 6.3% |

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 relatively low growth rate and elevated interest rate environment. 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 expansion 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% | 53.1% | 53.3% |

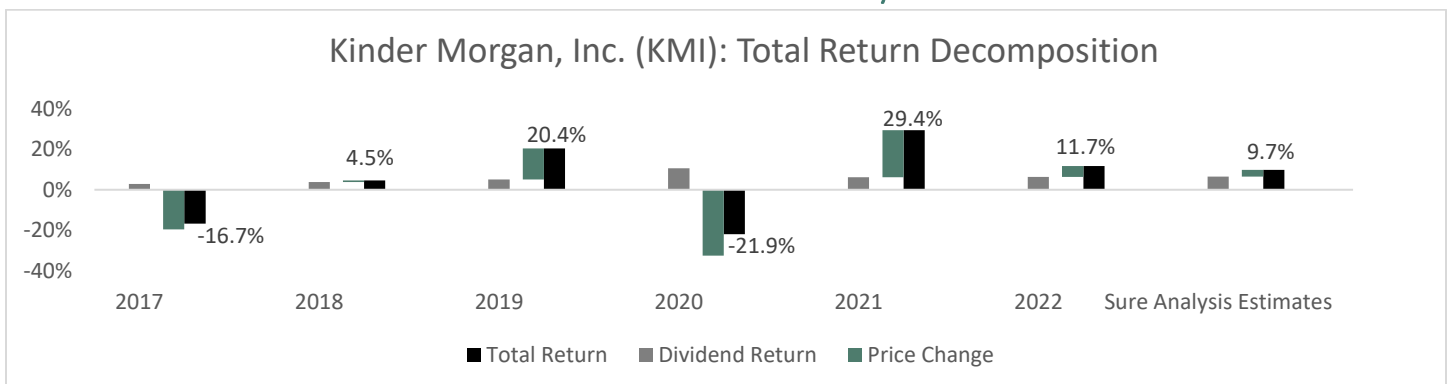
Kinder Morgan operates in the cyclical energy sector, but its business model still enables it to generate fairly stable cash flows. Kinder Morgan has a fairly low interest coverage ratio, and its elevated level of debt prompted the company's dividend cut in 2016. The good news is the new dividend payout 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 6.7% dividend yield and expected steady per share distributable cash flow growth could result in annualized total returns of 9.7% 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 | 4,427 | 3,346 |
| 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 | 1,840 |
| Inventories | 430 | 459 | 407 | 357 | 424 | 385 | 371 | 348 | 562 | 634 |
| 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 | 1,259 | 1,444 |
| 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 | 1.95 | 1.48 |

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

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