



ONEOK Inc. (OKE)

Updated November 27th, 2023 by Jonathan Weber

Key Metrics

Current Price:	\$67	5 Year CAGR Estimate:	7.3%	Market Cap:	\$39B
Fair Value Price:	\$65	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	01/27/23
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.7%	Dividend Payment Date:	01/13/23
Dividend Yield:	5.7%	5 Year Price Target	\$75	Years Of Dividend Growth:	1
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 third quarter earnings results in November. The company reported that it generated revenues of \$4.2 billion during the quarter, which was 29% less than the revenues that ONEOK generated during the previous year's quarter. The revenue decline compared to the prior year's quarter can be explained by commodity price movements, as natural gas and natural gas liquids moved lower during the period. ONEOK's input costs declined as well, however, as those expenses are also partially commodity-price based. This is why ONEOK's cash flows and EBITDA did not decline compared to the previous year's quarter, as one might think when looking at the revenue decline. During the most recent quarter, ONEOK generated adjusted EBITDA of \$1.001 billion, backing out one-time items, which was up 11% compared to the previous year's quarter, even though revenues were down year-over-year.

ONEOK earned \$0.99 per share during the third quarter, but that number is lower than the company's cash flows due to depreciation charges. The company is forecasting EBITDA at \$5.1 billion for the current year, representing a ~35% increase versus 2022. This increase is partially driven by underlying business growth, but the acquisition of Magellan Midstream partners, which closed just before the end of the third quarter, plays a role as well.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS¹	\$1.78	\$1.52	\$1.19	\$1.67	\$3.56	\$4.35	\$4.84	\$4.23	\$3.34	\$3.84	\$5.40	\$6.26
DPS	\$1.48	\$2.13	\$2.43	\$2.46	\$2.72	\$3.25	\$3.53	\$3.74	\$3.74	\$3.74	\$3.82	\$4.22
Shares²	207	208	210	211	389	415	416	444	447	450	583	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, 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 less focus on new growth projects and since this will allow ONEOK to pay down debt in coming years. Overall, growth spending should still allow for some earnings growth in the long run. ONEOK grew its profits meaningfully in 2021 and 2022, and it is expected that net profits will rise quite a lot in 2023 as well, on the back of a major EBITDA increase.

¹ The table above contains earnings-per-share for 2009 to 2016 and 2021 and beyond, and DCF-per-share for 2017-2020.

² In Millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/E	28.2	40.5	32.7	24.5	15.4	13.1	15.7	9.0	11.2	16.7	12.4	12.0
Avg. Yld.	2.9%	3.5%	6.2%	6.0%	5.1%	6.0%	4.6%	9.8%	6.3%	5.8%	5.7%	5.6%

ONEOK has traded at a relatively high valuation in the past. Shares are trading for around 12 times this year's forecasted net profits right now, which is a discount compared to how shares were valued most of the last decade. 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 12 times net profits. At current prices, ONEOK trades marginally above our fair value estimate and offers a sizeable dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	83.1%	140%	204%	147%	76.4%	74.7%	72.9%	88.4%	71.2%	97.4%	70.7%	67.4%

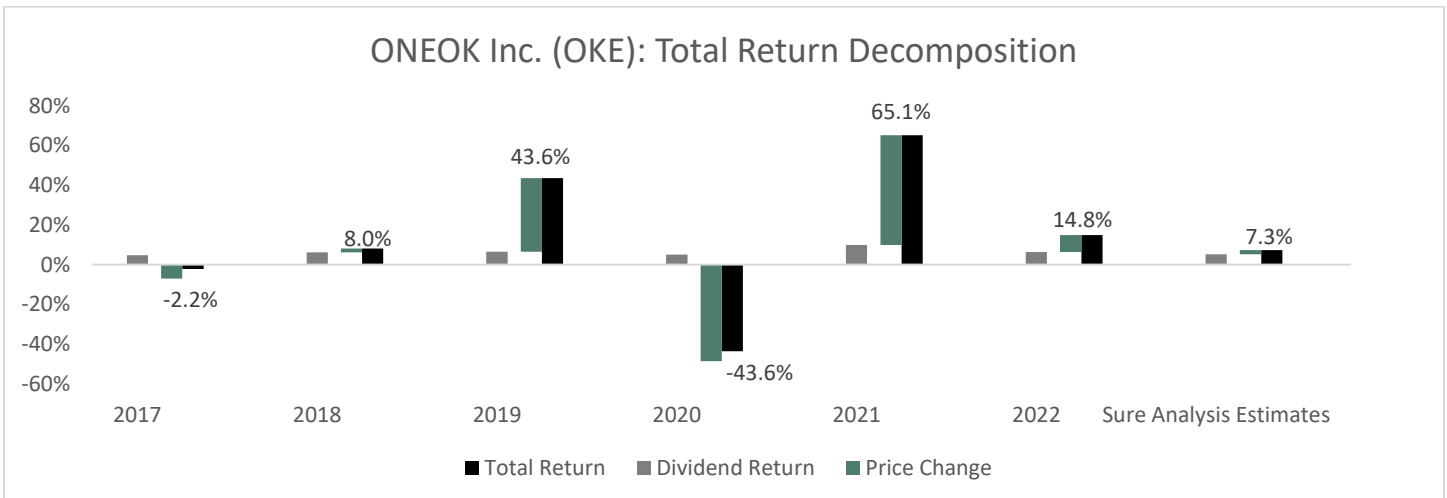
ONEOK paid out more than its net earnings during parts of the last decade. But since cash flows oftentimes were higher than the reported net profit, due to high depreciation charges, the dividend was still sustainable during those times. The risk of a dividend cut by ONEOK is not very high, but a cut 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 profit 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 dividend yield, forecasted total returns are very solid, which is why we rate the stock a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	11,872	12,195	7,763	8,921	12,174	12,593	10,164	8,542	16,540	22,387
Gross Profit	1,410	1,812	1,768	2,033	2,230	2,742	2,900	2,853	3,662	3,851
Gross Margin	11.9%	14.9%	22.8%	22.8%	18.3%	21.8%	28.5%	33.4%	22.1%	17.2%
D&A Exp.	384	306	355	392	406	429	477	579	622	626
Operating Profit	869	1,137	1,074	1,286	1,407	1,835	1,917	1,969	2,596	2,807
Op. Margin	7.3%	9.3%	13.8%	14.4%	11.6%	14.6%	18.9%	23.0%	15.7%	12.5%
Net Profit	267	314	245	352	388	1,152	1,279	613	1,500	1,722
Net Margin	2.2%	2.6%	3.2%	3.9%	3.2%	9.1%	12.6%	7.2%	9.1%	7.7%
Free Cash Flow	(962)	(494)	(165)	729	803	45	(1,902)	(296)	1,849	1,704
Income Tax	166	151	137	212	447	363	372	190	484	527

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	17,741	15,262	15,446	16,139	16,846	18,232	21,812	23,079	23,622	24,379
Cash & Equivalents	146	173	98	249	37	12	21	524	146	220
Acc. Receivable	1,110	745	594	872	1,203	819	835	830	1,442	1,532
Inventories	188	190	205	201	433	438	507	371	581	581
Goodwill & Int.	1,025	1,015	1,017	1,005	993	967	958	774	763	753
Total Liabilities	12,896	11,256	11,680	12,710	11,161	11,652	15,586	17,036	17,606	17,885
Accounts Payable	1,273	891	616	875	1,141	1,116	1,210	719	1,332	1,359
Long-Term Debt	8,329	8,216	8,981	9,441	9,139	9,381	12,707	14,236	13,643	13,621
Total Equity	2,338	592	336	189	5,528	6,580	6,226	6,042	6,015	6,494
LTD/E Ratio	3.56	13.88	26.74	50.02	1.65	1.43	2.04	2.36	2.27	2.10

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.6%	1.9%	1.6%	2.2%	2.4%	6.6%	6.4%	2.7%	6.4%	7.2%
Return on Equity	11.9%	21.4%	52.8%	134.2%	13.6%	19.0%	20.0%	10.0%	24.9%	27.5%
ROIC	2.2%	2.5%	2.0%	2.7%	2.8%	7.5%	7.3%	3.1%	7.5%	8.7%
Shares Out.	207	208	210	211	389	415	416	444	447	450
Revenue/Share	56.62	57.95	36.87	42.00	40.61	30.40	24.47	19.78	36.97	49.92
FCF/Share	(4.59)	(2.35)	(0.79)	3.43	2.68	0.11	(4.58)	(0.69)	4.13	3.80

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

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