Kinder Morgan, Inc. (KMI)

Updated October 21st, 2024 by Samuel Smith

Key Metrics

Current Price:	$25.0	**5 Year CAGR Estimate:**	4.0%	**Market Cap:**	$55.4 B
Fair Value Price:	$21.4	**5 Year Growth Estimate:**	2.5%	**Ex-Dividend Date:**	10/31/24[1]
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.1%	**Dividend Payment Date:**	11/15/24[2]
Dividend Yield:	4.6%	**5 Year Price Target**	$24	**Years Of Dividend Growth:**	7
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 (CO_2) 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.

Kinder Morgan, Inc. (KMI) reported strong third-quarter 2024 financial results, marked by a 17% increase in earnings per share (EPS) compared to the same period in 2023. The company posted a third-quarter EPS of $0.28, up from $0.24 last year, while adjusted EPS remained flat at $0.25. Distributable cash flow (DCF) per share also stayed unchanged at $0.49. Kinder Morgan's net income reached $625 million, compared to $532 million in Q3 2023, and its adjusted EBITDA grew by 2% to $1.88 billion. The board of directors approved a quarterly cash dividend of $0.2875 per share ($1.15 annualized), a 2% increase over Q3 2023, payable on November 15, 2024, to shareholders of record as of October 31, 2024. KMI reported solid performance across the Natural Gas Pipelines and Terminals segments. The company maintained a strong balance sheet with a net debt-to-adjusted EBITDA ratio of 4.1. Kinder Morgan generated $1.2 billion in cash flow from operations and $600 million in free cash flow after capital expenditures, positioning the company well for future opportunities amid rising global and domestic demand for natural gas. During the quarter, Kinder Morgan made significant progress on key projects, including the final investment decision for the $455 million expansion of the Gulf Coast Express Pipeline. Additionally, the company is advancing its NGPL Gulf Coast Storage Expansion. Dang noted that discussions are ongoing regarding new demand for natural gas from coal-to-gas power plant conversions, AI operations, cryptocurrency mining, data centers, and industrial re-shoring, with potential demand exceeding 5 Bcf/d. The company's project backlog stood at $5.1 billion at the end of Q3, nearly unchanged from the previous quarter despite placing $484 million in projects into service.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
DCFPS[3]	$2.00	$2.14	$2.02	$2.00	$2.12	$2.19	$2.02	$2.40	$2.22	$2.10	***$2.25***	***$2.55***
DPS	$1.70	$1.93	$0.50	$0.50	$0.72	$1.00	$1.05	$1.07	$1.10	$1.13	***$1.15***	***$1.29***
Shares[4]	2125	2229	2230	2217	2216	2200	2200	2267	2248	2219	***2222***	***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

[1] Estimated
[2] Estimated
[3] DCFPS stands for Distributable Cash Flow Per Share.
[4] In millions

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continue investing in growth projects in 2024 and they expect to fully fund it with internally generated cash flow without the need to access capital markets. For 2024, we expect Kinder Morgan to generate DCF per share of approximately $2.25. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg P/DCF	21.2	7	10.3	9	8.8	9	4.9	7.3	7.9	8.0	***11.1***	***9.5***
Avg. Yld.	4.0%	12.9%	2.4%	2.8%	3.9%	5.1%	10.6%	6.1%	6.3%	6.6%	***4.6%***	***5.3%***

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 9.5 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 view the stock as being slightly overvalued right now.

Safety, Quality, Competitive Advantage, & Recession Resiliency

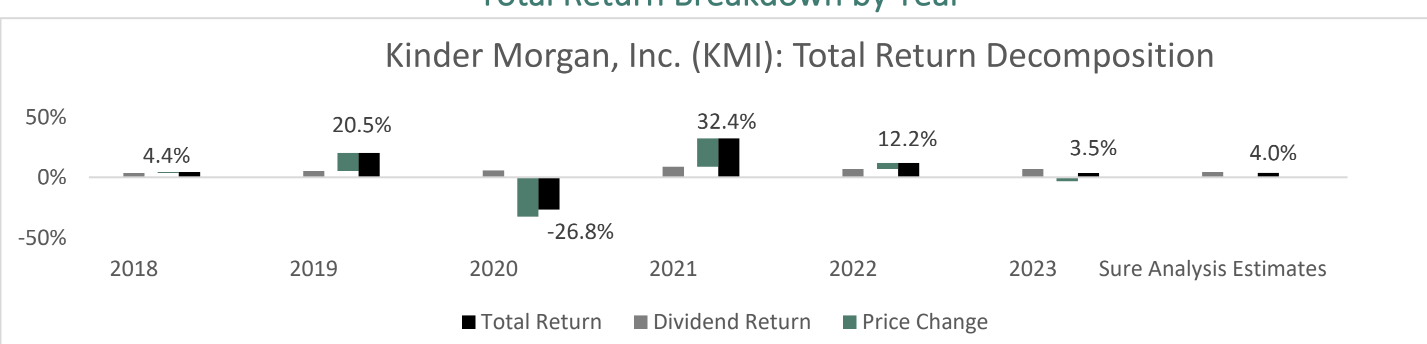
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	85.0%	90.2%	24.8%	25.0%	34.0%	45.7%	52.0%	44.6%	49.5%	53.8%	***51.1%***	***50.6%***

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 4.6% dividend yield and expected steady per share distributable cash flow growth could result in annualized total returns of 4% per year through 2029, which earns Kinder Morgan a Hold recommendation at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	16,226	14,403	13,058	13,705	14,144	13,209	11,700	16,610	19,200	15,334
Gross Profit	7,908	8,035	7,420	7,099	7,426	7,535	6,991	7,982	7,759	8,146
Gross Margin	48.7%	55.8%	56.8%	51.8%	52.5%	57.0%	59.8%	48.1%	40.4%	53.1%
SG&A Exp.	610	690	703	688	601	590	648	655	637	668
Operating Profit	4,722	4,516	3,925	3,542	3,961	3,931	3,492	4,540	4,033	4,248
Operating Margin	29.1%	31.4%	30.1%	25.8%	28.0%	29.8%	29.8%	27.3%	21.0%	27.7%
Net Profit	1,026	253	708	183	1,609	2,190	119	1,784	2,548	2,391
Net Margin	6.3%	1.8%	5.4%	1.3%	11.4%	16.6%	1.0%	10.7%	13.3%	15.6%
Free Cash Flow	850	1,417	1,876	1,413	2,139	2,478	2,843	4,427	3,346	
Income Tax	648	564	917	1,938	587	926	481	369	710	715

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	83,049	84,104	80,305	79,055	78,866	74,157	71,973	70,416	70,078	71,021
Cash & Equivalents	315	229	684	264	3,280	185	1,184	1,140	745	83
Acc. Receivable	1,641	1,315	1,370	1,448	1,498	1,379	1,293	1,611	1,840	
Inventories	459	407	357	424	385	371	348	562	634	
Goodwill & Int.	26,956	27,341	25,470	25,261	24,845	24,127	22,304	21,592	21,774	19,971
Total Liabilities	48,623	48,701	45,503	43,931	43,669	39,268	39,407	38,495	37,964	71,021
Accounts Payable	1,588	1,192	1,257	1,340	1,337	914	837	1,259	1,444	
Long-Term Debt	42,814	43,227	40,050	37,843	37,324	34,392	34,689	33,320	31,788	-
Total Equity	34,076	35,119	34,431	33,636	33,678	33,742	31,436	30,823	30,742	30,306
LTD/E Ratio	1.26	1.23	1.16	1.13	1.11	1.02	1.10	1.08	1.03	-

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.3%	0.3%	0.9%	0.2%	2.0%	2.9%	0.2%	2.5%	3.6%	3.4%
Return on Equity	3.3%	0.7%	2.0%	0.5%	4.6%	6.2%	0.4%	5.5%	8.0%	
ROIC	1.4%	0.3%	0.9%	0.2%	2.2%	3.1%	0.2%	2.7%	3.9%	5.0%
Shares Out.	2125	2229	2230	2217	2216	2200	2200	2267	2248	2221
Revenue/Share	14.27	6.57	5.86	6.15	6.38	5.83	5.17	7.33	8.50	6.86
FCF/Share	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.