ONEOK Inc. (OKE)

Updated November 5th, 2024 by Jonathan Weber

Key Metrics

Current Price:	$99	**5 Year CAGR Estimate:**	-0.2%	**Market Cap:**	$58B
Fair Value Price:	$66	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	12/27/24[1]
% Fair Value:	149%	**5 Year Valuation Multiple Estimate:**	-7.7%	**Dividend Payment Date:**	01/13/25[2]
Dividend Yield:	4.0%	**5 Year Price Target**	$77	**Years Of Dividend Growth:**	2
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Sell

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 on October 29. The company reported that it generated revenues of $5.0 billion during the quarter, which was 20% more than the revenues that ONEOK generated during the previous year's quarter. The revenue movement compared to the prior year's quarter was influenced by commodity price movements, while the Magellan Midstream takeover also impacted revenues. ONEOK's adjusted EBITDA was up nicely compared to the previous year's period, rising to $1.55 billion. EBITDA was up down a sequential basis, dropping from $1.63 billion during the previous quarter.

ONEOK earned $1.18 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 $6.6 billion for the current year, representing a more than 20% increase versus 2023. The acquisition of Magellan Midstream partners and the capturing of related synergies are key growth drivers. Due to a higher share count, earnings-per-share are forecasted to decline this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS[3]	$1.52	$1.19	$1.67	$3.56	$4.35	$4.84	$4.23	$3.34	$3.84	$5.48	***$5.10***	***$5.91***
DPS	$2.13	$2.43	$2.46	$2.72	$3.25	$3.53	$3.74	$3.74	$3.74	$3.82	***$3.96***	***$4.37***
Shares[4]	208	210	211	389	415	416	444	447	450	485	***585***	***600***

ONEOK's growth track record is uneven. There were times when the company delivered strong year-over-year growth, but also times when there was no meaningful earnings or cash flow growth.

The roll-up of ONEOK's MLP boosted growth in the past. When growth was achieved organically, that was mainly due to new projects coming online. In order to finance its growth, including via acquisitions, ONEOK issued shares from time to time, which made its share count grow substantially over the last decade. This dilution made ONEOK's earnings-per-share grow a lot less than company-wide profits. We believe that there is a high likelihood that ONEOK's share count will climb in the future, too, thus dilution will likely remain a headwind for ONEOK's per-share growth rate.

ONEOK has reduced its organic growth spending to some degree, as this will allow ONEOK to pay down debt in the coming years. Overall, growth spending should still allow for some earnings growth in the long run, and the takeover of Magellan Midstream will have a positive impact on ONEOK's growth as well. On the other hand, increasing regulation could be a headwind for ONEOK's growth in the future. We believe that a low to mid-single-digit earnings-per-share growth rate is achievable, although investors could see some ups and downs in the future, too.

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[1] Estimated date

[2] Estimated date

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

[4] In Millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/E	40.5	32.7	24.5	15.4	13.1	15.7	9.0	11.2	16.7	13.0	***19.4***	***13.0***
Avg. Yld.	3.5%	6.2%	6.0%	5.1%	6.0%	4.6%	9.8%	6.3%	5.8%	5.4%	***4.0%***	***5.7%***

ONEOK has traded at a relatively high valuation in the past. Shares are trading for around 19 times this year's forecasted net profits right now. The growth outlook for the company is reasonable but not very strong, , thus we believe that a 19x earnings multiple is not justified. Our fair value target is 13 times net profits. At current prices, ONEOK trades way above our fair value estimate, which could result in multiple compression headwinds.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	140%	204%	147%	76.4%	74.7%	72.9%	88.4%	71.2%	97.4%	69.7%	***77.6%***	***74.0%***

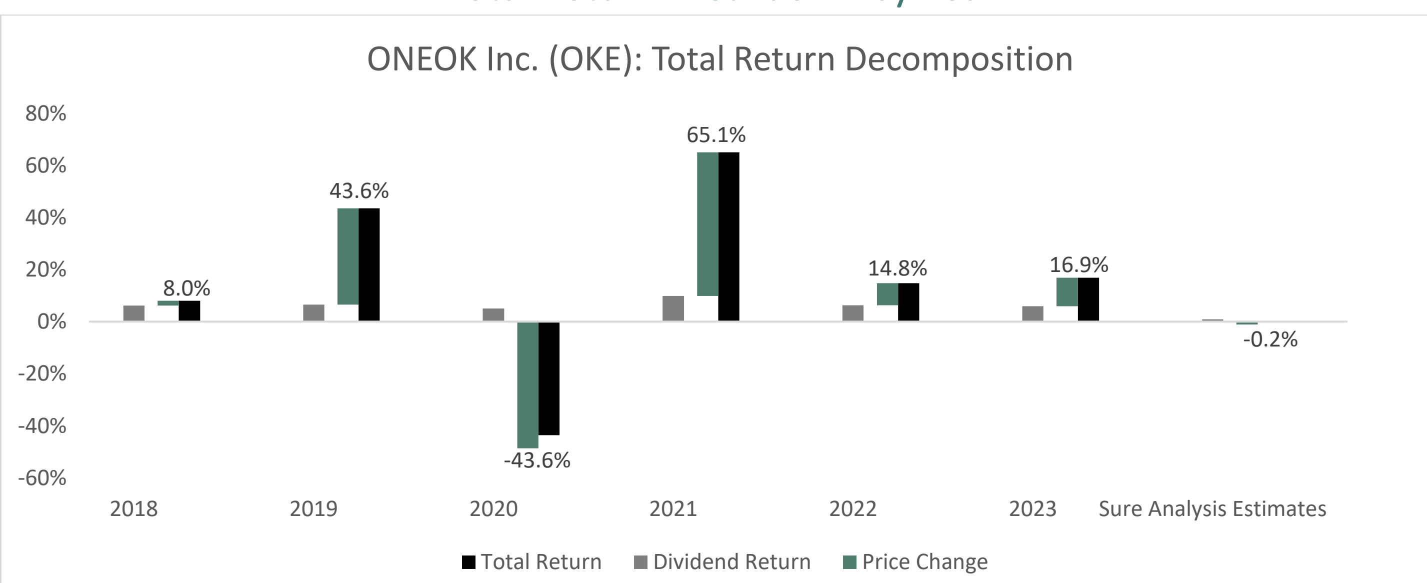
ONEOK paid out more than its net earnings during parts of the last decade. But since cash flows oftentimes were higher than the reported net profit, due to high depreciation charges, the dividend was still sustainable during those times. The risk of a dividend cut by ONEOK is not very high, but a cut should not be ruled out, as management could decide to reduce the payout in order to have more funds for debt reduction or growth spending.

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 regulation. The expected total returns are not attractive, which is why we rate the stock a sell right here.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	12,195	7,763	8,921	12,174	12,593	10,164	8,542	16,540	22,387	17,677
Gross Profit	1,812	1,768	2,033	2,230	2,742	2,900	2,853	3,661	3,851	4,979
Gross Margin	14.9%	22.8%	22.8%	18.3%	21.8%	28.5%	33.4%	22.1%	17.2%	28.2%
D&A Exp.	306	355	392	406	429	477	579	622	626	769
Operating Profit	1,137	1,074	1,286	1,407	1,835	1,917	1,969	2,596	2,807	4,230
Op. Margin	9.3%	13.8%	14.4%	11.6%	14.6%	18.9%	23.0%	15.7%	12.5%	23.9%
Net Profit	314	245	352	388	1,152	1,279	613	1,500	1,722	2,659
Net Margin	2.6%	3.2%	3.9%	3.2%	9.1%	12.6%	7.2%	9.1%	7.7%	15.0%
Free Cash Flow	(494)	(165)	729	803	45	(1,902)	(296)	1,849	1,704	2,826
Income Tax	151	137	212	447	363	372	190	484	528	838

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	15,262	15,446	16,139	16,846	18,232	21,812	23,079	23,622	24,379	44,266
Cash & Equivalents	173	98	249	37	12	21	524	146	220	338
Acc. Receivable	745	594	872	1,203	819	835	830	1,442	1,532	1,705
Inventories	190	205	201	433	438	507	371	581	581	787
Goodwill & Int.	1,015	1,017	1,005	993	967	958	774	763	753	6,268
Total Liabilities	11,256	11,680	12,710	11,161	11,652	15,586	17,036	17,606	17,885	27,782
Accounts Payable	891	616	875	1,141	1,116	1,210	719	1,332	1,359	1,564
Long-Term Debt	8,216	8,981	9,441	9,139	9,381	12,707	14,236	13,643	13,621	21,667
Total Equity	592	336	189	5,528	6,580	6,226	6,042	6,015	6,494	16,484
LTD/E Ratio	13.88	26.74	50.02	1.65	1.43	2.04	2.36	2.27	2.10	1.31

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.9%	1.6%	2.2%	2.4%	6.6%	6.4%	2.7%	6.4%	7.2%	7.7%
Return on Equity	7.1%	6.3%	9.8%	8.5%	18.8%	20.0%	10.0%	24.9%	27.5%	23.1%
ROIC	2.5%	2.0%	2.7%	2.8%	7.5%	7.3%	3.1%	7.5%	8.7%	9.1%
Shares Out.	208	210	211	389	415	416	444	447	450	485
Revenue/Share	57.95	36.87	42.00	40.61	30.40	24.47	19.78	36.97	49.93	36.42
FCF/Share	(2.35)	(0.79)	3.43	2.68	0.11	(4.58)	(0.69)	4.13	3.80	5.82

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