

Kinder Morgan (KMI)

\$15.97 (As of 06/16/20)

Price Target (6-12 Months): **\$17.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/19/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: B

Summary

Kinder Morgan has the largest network of natural gas pipelines in North America that spreads almost 84,000 miles and provides it with stable fee-based revenues. Its midstream properties are linked to all the prospective U.S. plays that are rich in natural gas. Notably, with its diverse midstream infrastructure, Kinder Morgan is well positioned to capitalize on growing clean energy need. Moreover, the proposed PHP Pipeline project will help it to cash in on Permian's bottlenecks and improve cash flow visibility. Also, the company is strongly committed to returning capital to shareholders. However, the company's more levered balance sheet as compared to the industry is concerning. Also, Kinder Morgan's current backlog of \$3.6 billion is significantly lower than the high of \$22 billion recorded in 2015, affecting cash flows.

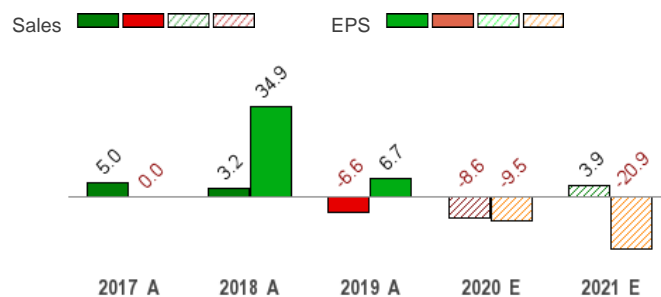
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$22.58 - \$9.42
20 Day Average Volume (sh)	13,471,766
Market Cap	\$36.1 B
YTD Price Change	-24.6%
Beta	1.05
Dividend / Div Yld	\$1.05 / 6.6%
Industry	Oil and Gas - Production and Pipelines
Zacks Industry Rank	Top 12% (31 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-9.4%
EPS F1 Est- 4 week change	3.9%
Expected Report Date	07/15/2020
Earnings ESP	-125.3%
P/E TTM	17.0
P/E F1	18.6
PEG F1	6.2
P/S TTM	2.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,399 E	3,114 E	3,132 E	3,177 E	12,542 E
2020	3,106 A	2,869 E	2,997 E	3,124 E	12,075 E
2019	3,429 A	3,214 A	3,214 A	3,352 A	13,209 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.14 E	\$0.12 E	\$0.13 E	\$0.14 E	\$0.68 E
2020	\$0.24 A	\$0.12 E	\$0.14 E	\$0.17 E	\$0.86 E
2019	\$0.25 A	\$0.22 A	\$0.22 A	\$0.26 A	\$0.95 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/16/2020. The reports text is as of 06/17/2020.

Overview

Headquartered in Houston, TX, Kinder Morgan, Inc. is a leading midstream energy infrastructure provider in North America. The company operates pipelines that spread across 84,000 miles to transport natural gas, crude oil, condensate, refined petroleum products, CO2 and other products. Kinder Morgan also owns 157 terminals that are utilized for storing liquid commodities comprising ethanol & chemicals and petroleum products. The terminals also store and transload petroleum coke, metals and ores.

The company's business model is designed to earn stable fee-based revenues from key midstream assets that are being utilized by shippers and customers over a long period. Kinder Morgan enjoys economies of scale from key asset acquisitions and building new pipelines. The company is also strongly focused on returning capital to stockholders and maintains a strong balance sheet.

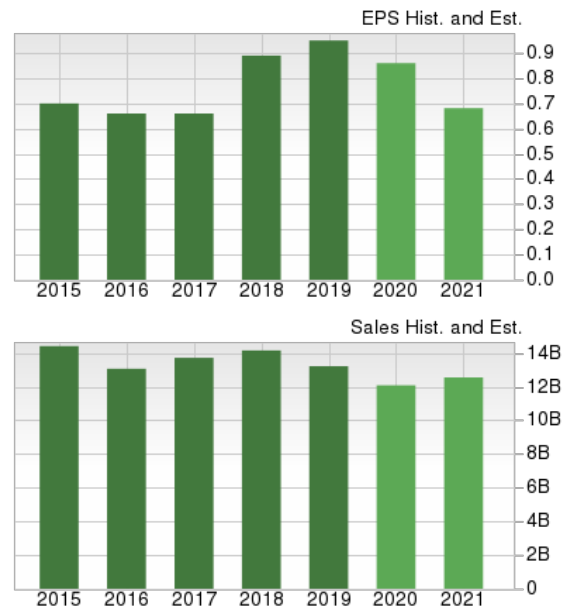
Kinder Morgan primarily conducts business through four operating segments: Natural Gas Pipelines, Products Pipelines, Terminals and CO2.

Natural Gas Pipelines: Through this business unit, the midstream energy player operates key interstate and intrastate natural gas pipelines. Kinder Morgan also operates gathering systems of oil and natural gas and is involved in the processing of natural gas. The unit contributed 59.5% to total segment EBDA (earnings before depreciation and amortization) in 2019.

Products Pipelines: The company transports refined petroleum products, NGL, crude and condensate to key markets. The products that are transported are diesel, gasoline, propane, jet fuel, ethane and others. This segment contributed 16.2%.

Terminals: Kinder Morgan has operatorship interests in terminals across the United States and parts of Canada. The terminals are being utilized for storing and transloading ethanol & chemicals, crude, refined petroleum products along with bulk products. The segment contributed 15.1%.

CO2: The company produces and transports CO2 that are being utilized for boosting recovery and production of oil from mature fields. CO2 accounted for 9.2% of total EBDA.



Reasons To Buy:

- ▲ Kinder Morgan has the largest network of natural gas pipeline in North America that spreads over almost 84,000 miles. Most importantly, the company's midstream properties are linked to all the prospective plays in the United States that are rich in natural gas. These extensive networks of natural gas pipelines, for which the company has invested more than \$32 billion to date, provide it with stable fee-based revenues. In fact, Kinder Morgan generated significant cash flow from fees charged for using its midstream properties.
- ▲ With a dearth of pipeline capacity for transporting natural gas to Gulf Coast export facilities from the Permian, Kinder Morgan's proposed Permian Highway Pipeline (PHP) Project comes at a right time. The project — with all of its capacity fully subscribed under long-term agreements and will likely be online by early 2021 — is anticipated to offer additional transportation capacity of natural gas to the U.S. Gulf Coast. The \$2-billion pipeline project will transport daily natural gas volumes of roughly 2.1 billion cubic feet and fetch the company stable and additional fees-based revenues.
- ▲ With its diverse midstream infrastructure, Kinder Morgan is well positioned to capitalize on growing natural gas demand and rising liquified natural gas (LNG) export volumes, backed by strong clean energy need.
- ▲ The company received approval from the board of directors to hike first-quarter dividend by 5% as compared to the December quarter of 2019. For 2020, the firm expects annual dividend to grow by 5 cents. Importantly, Kinder Morgan's strong midstream business model, backed by stable fee-based revenues, is expected to continue to back the company to grow future dividends. The company has also been repurchasing shares to return capital to stockholders. In the March quarter of 2020, the company bought back approximately 3.6 million common shares for roughly \$50 million.

Kinder Morgan has the largest network of natural gas pipelines in North America.

Reasons To Sell:

- ▼ As of Mar 31, 2020, the midstream company had only \$360 million in cash and cash equivalents, and a significantly high long-term debt of \$29,955 million. Total debt-to-capitalization ratio at the end of the first quarter was 50%. Importantly, in the past year, the company's debt-to-capitalization ratio has been consistently higher than the composite stocks in the industry, reflecting a levered balance sheet. Moreover, Standard & Poor's has provided a credit rating of BBB to the company, reflecting a lower medium grade rating.
 - ▼ The company's current backlog stands at \$3.3 billion – as of the March quarter of 2020 –, significantly lower than the high of \$22 billion in 2015. Kinder Morgan has lost significant backlog with the divestment of Trans Mountain Pipeline and associated properties. This will likely dent the company's future cashflows.
 - ▼ The company produces and transports CO2 that is being utilized for boosting recovery and production of oil from mature fields. Notably, lower crude volumes and NGL prices have hurt the company's CO2 segment in the March quarter of 2020.
 - ▼ Owing to the drop in global energy demand due to coronavirus pandemic, Kinder Morgan has lowered its 2020 expansion capital budget by 30%. This is likely to have hurt the company's incremental fee-based revenues since lower capital will be invested in growth projects. Moreover, in response to the outbreak, the midstream energy player has also revised its 2020 DCF and adjusted EBITDA downward by 10% and 8%, respectively.
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The firm's significant debt exposure is concerning.

Last Earnings Report

Kinder Morgan Meets Q1 Earnings Estimates, Ups Dividend

Kinder Morgan reported first-quarter 2020 adjusted earnings per share of 24 cents, in line with the Zacks Consensus Estimate. Increased average tariffs on its refined product pipeline boosted profits.

The bottom line, however, declined from the year-ago quarter's 25 cents owing to reduced contributions from the Tennessee gas pipeline and decreased NGL prices and crude volumes.

Moreover, total revenues declined to \$3,106 million from \$3,429 million in the prior-year quarter and missed the Zacks Consensus Estimate of \$3,427 million.

Quarter Ending **03/2020**

Report Date	Apr 22, 2020
Sales Surprise	-9.38%
EPS Surprise	0.00%
Quarterly EPS	0.24
Annual EPS (TTM)	0.94

Dividend Hike

The company received approval from the board of directors to hike first-quarter dividend by 5% as compared to the December quarter of 2019. The raised dividend of 26.25 cents per share is likely to be paid on May 15, to common stockholders of record as of May 4.

Segment Analysis

Natural Gas Pipelines: Adjusted earnings before depreciation, depletion and amortization expenses, including amortization of excess cost of equity investments (EBDA), in the March quarter of 2020 were down 2% to \$1,179 million from \$1,201 million a year ago. Lower contributions from the Tennessee gas pipeline primarily hurt the segment. The underperformance was led by lost earnings from the U.S. part of the Cochise pipeline, which was divested in the December quarter of 2019.

The negatives were however partially countered by increased daily transportation and sales volumes of natural gas.

Products Pipelines: The segment's adjusted EBDA in the first quarter was \$273 million, reflecting a decline of 7% from \$293 million a year ago. Lower transported volumes of gasoline, since the demand for refined products was soft in March owing to the coronavirus pandemic, primarily affected performance. However, higher average tariffs on the company's refined product pipeline contributed to the segment to a certain extent.

Terminals: Through this segment, Kinder Morgan generated quarterly adjusted EBDA of \$257 million, down 14% from the year-ago period due to divestment of interests in Kinder Morgan Canada Limited last December. Higher utilization of liquid terminals, despite the virus outbreak, contributed to the segment partially.

CO2: The segment's EBDA declined 7% to \$175 million from \$189 million a year ago due to decline in NGL prices and crude volumes.

Operational Highlights

Expenses related to operations and maintenance totaled \$620 million, up from \$598 million a year ago. As such, total operating costs increased to \$3,063 million in the first quarter from \$2,411 million in the corresponding period of 2019.

Quarterly operating income amounted to \$43 million, down from the year-ago quarter's \$1,018 million.

DCF & Backlog

The company's first-quarter distributable cash flow declined to \$1,261 million from \$1,371 million a year ago.

It recorded project backlog of \$3.3 billion as of the March quarter of 2020.

Balance Sheet

As of Mar 31, 2020, Kinder Morgan reported \$360 million in cash and cash equivalents. The company's long-term debt amounted to \$29,955 million at quarter-end. Total debt-to-capitalization ratio at the end of the first quarter was 50%.

Guidance

Owing to the drop in global energy demand due to the pandemic, Kinder Morgan has lowered its 2020 expansion capital budget by 30%.

In response to the outbreak, the midstream energy player has also revised its 2020 DCF and adjusted EBITDA downward by 10% and 8%, respectively.

Valuation

Kinder Morgan shares are down 24.6% in the year-to-date period and 23.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oils-Energy sector are down 43.4% and 50.0% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 30.9% and 43.5%, respectively.

The S&P 500 index is down 3% in the year-to-date period, but up 7% in the past year.

The stock is currently trading at 20.53X forward 12-month earnings, which compares to 9.31X for the Zacks sub-industry, 59.86X for the Zacks sector and 22.51X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.07X and as low as 9.73X, with a 5-year median of 20.36X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$17 price target reflects 19.51X F12M earnings.

The table below shows summary valuation data for KMI.

Valuation Multiples - KMI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.53	9.31	59.86	22.51
	5-Year High	23.07	22.25	69.21	22.51
	5-Year Low	9.73	5.55	11.27	15.23
	5-Year Median	20.36	14.73	18.5	17.49
EV/EBITDA TTM	Current	9.84	8.15	4.15	11.57
	5-Year High	13.05	17.6	10.45	12.85
	5-Year Low	7.66	6.7	3.03	8.25
	5-Year Median	12.43	13.38	6.51	10.82
P/S F12M	Current	2.95	0.7	0.77	3.51
	5-Year High	3.69	1.62	1.46	3.51
	5-Year Low	1.67	0.41	0.58	2.53
	5-Year Median	3.16	1.04	0.99	3.02

As of 06/16/2020

Industry Analysis Zacks Industry Rank: Top 12% (31 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
DCP Midstream Partners, LP (DCP)	Outperform	1
Transportadora De Gas Sa Ord B (TGS)	Outperform	1
Cheniere Energy Partners, LP (CQP)	Neutral	3
EQT Midstream Partners, LP (EQM)	Neutral	2
MPLX LP (MPLX)	Neutral	3
Pembina Pipeline Corp. (PBA)	Neutral	3
Ultrapar Participacoes S.A. (UGP)	Neutral	3
Williams Companies, Inc. The (WMB)	Neutral	3

Industry Comparison Industry: Oil And Gas - Production And Pipelines				Industry Peers		
	KMI	X Industry	S&P 500	DCP	MPLX	WMB
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	3	3
VGM Score	D	-	-	A	A	B
Market Cap	36.12 B	3.71 B	22.00 B	2.82 B	20.22 B	23.49 B
# of Analysts	4	4	14	2	3	4
Dividend Yield	6.57%	6.63%	1.92%	11.54%	14.40%	8.26%
Value Score	D	-	-	A	C	C
Cash/Price	0.03	0.02	0.06	0.01	0.00	0.02
EV/EBITDA	8.92	8.52	12.79	13.14	11.50	11.18
PEG Ratio	6.14	4.56	3.00	NA	NA	4.68
Price/Book (P/B)	1.08	1.35	3.04	0.55	1.59	1.54
Price/Cash Flow (P/CF)	7.77	5.79	11.81	3.80	5.73	7.90
P/E (F1)	18.41	17.09	21.70	10.65	17.80	23.40
Price/Sales (P/S)	2.80	2.21	2.34	0.40	2.80	2.91
Earnings Yield	5.39%	5.09%	4.33%	-14.50%	-10.68%	4.29%
Debt/Equity	0.94	1.30	0.77	1.16	1.63	1.44
Cash Flow (\$/share)	2.06	2.75	7.01	3.56	3.33	2.45
Growth Score	D	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	4.23%	5.95%	10.87%	-18.57%	39.23%	15.86%
Proj. EPS Growth (F1/F0)	-9.47%	-16.59%	-10.58%	-86.67%	-188.07%	-16.41%
Curr. Cash Flow Growth	3.20%	11.65%	5.46%	-9.59%	28.69%	16.28%
Hist. Cash Flow Growth (3-5 yrs)	6.59%	15.44%	8.55%	10.64%	78.00%	10.41%
Current Ratio	0.55	1.01	1.29	0.99	1.09	0.74
Debt/Capital	49.04%	52.08%	45.06%	50.37%	61.92%	58.88%
Net Margin	10.31%	3.39%	10.53%	-8.58%	-30.40%	1.89%
Return on Equity	6.24%	11.49%	16.06%	6.70%	17.96%	7.58%
Sales/Assets	0.17	0.27	0.55	0.51	0.20	0.18
Proj. Sales Growth (F1/F0)	-8.58%	-5.24%	-2.59%	-23.02%	-1.35%	-0.98%
Momentum Score	B	-	-	B	B	D
Daily Price Chg	0.76%	0.28%	1.81%	5.30%	0.90%	1.26%
1 Week Price Chg	-7.30%	-10.22%	-7.25%	-12.76%	-14.51%	-13.77%
4 Week Price Chg	4.11%	8.07%	8.30%	47.60%	-1.34%	-0.31%
12 Week Price Chg	23.99%	42.12%	28.43%	217.37%	78.84%	49.85%
52 Week Price Chg	-23.22%	-39.65%	-3.34%	-53.38%	-39.63%	-28.98%
20 Day Average Volume	13,471,766	1,100,159	2,618,631	1,538,729	3,266,540	9,590,279
(F1) EPS Est 1 week change	0.29%	0.00%	0.00%	0.00%	0.00%	-9.23%
(F1) EPS Est 4 week change	3.86%	0.00%	0.00%	0.00%	0.00%	-9.23%
(F1) EPS Est 12 week change	-13.68%	-13.68%	-14.98%	8.55%	-53.06%	22.48%
(Q1) EPS Est Mthly Chg	-29.10%	0.00%	0.00%	-18.18%	7.73%	2.96%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	B
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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