

Kinder Morgan (KMI)

\$21.77 (As of 02/24/20)

Price Target (6-12 Months): **\$24.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/15/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: D

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. 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. Notably, in 2020, the company expects annual dividend growth of 25%. However, it has a levered balance sheet, which can restrict its financial flexibility. Also, Kinder Morgan's current backlog of \$3.6 billion is significantly lower than the high of \$22 billion recorded in 2015, in turn affecting the firm's cash flows. As such, the stock warrants a cautious stance.

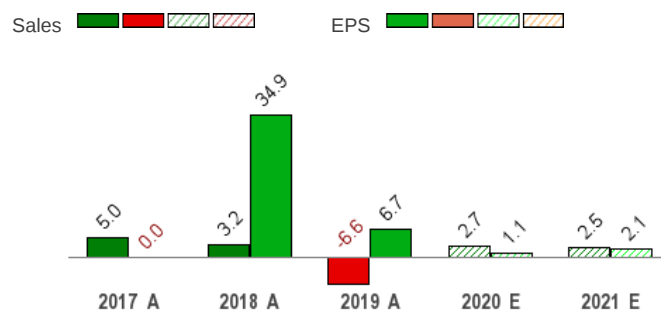
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$22.58 - \$18.97
20 Day Average Volume (sh)	12,185,119
Market Cap	\$49.3 B
YTD Price Change	2.8%
Beta	0.81
Dividend / Div Yld	\$1.00 / 4.6%
Industry	Oil and Gas - Production and Pipelines
Zacks Industry Rank	Top 45% (114 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-10.0%
EPS F1 Est- 4 week change	-2.9%
Expected Report Date	04/15/2020
Earnings ESP	-2.7%
P/E TTM	22.9
P/E F1	22.7
PEG F1	3.2
P/S TTM	3.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,416 E	3,303 E	3,323 E	3,786 E	13,903 E
2020	3,410 E	3,232 E	3,267 E	3,662 E	13,563 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	\$0.25 E	\$0.23 E	\$0.23 E	\$0.28 E	\$0.98 E
2020	\$0.24 E	\$0.22 E	\$0.22 E	\$0.26 E	\$0.96 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 02/24/2020. The reports text is as of 02/25/2020.

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.

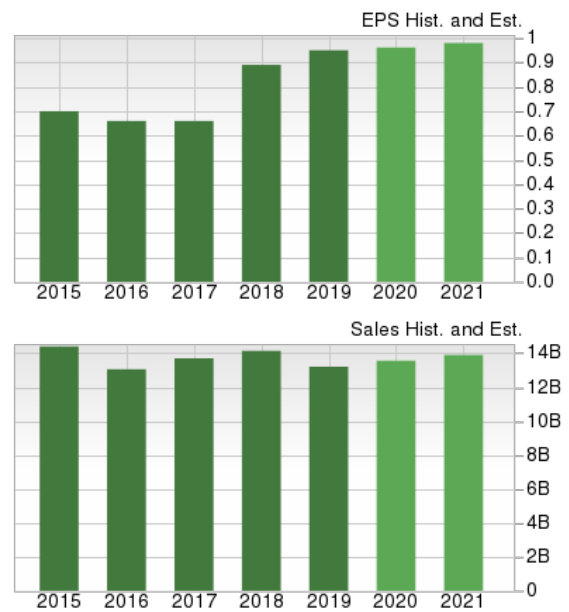
Kinder Morgan primarily conducts business through four operating segments: Natural Gas Pipelines, Products Pipelines, Terminals and CO2.

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. Moreover, the company is strongly committed to returning capital to shareholders. In 2020, the firm expects annual dividend growth of 25%. Moreover, the company has a \$2-billion share buyback program in place, of which roughly \$525 million stocks have been purchased since December 2017.

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

Reasons To Sell:

- ▼ As of Dec 31, 2019, the midstream company had only \$185 million in cash and cash equivalents, and a long-term debt of \$30,883 million, reflecting balance sheet weakness. Total debt-to-capitalization ratio at the end of the fourth quarter was 51.4%, signifying that its balance sheet is more levered than the sector it belongs to.
- ▼ The company's current backlog stands at \$3.6 billion, 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 commodity prices have hurt the company's CO2 segment in the December quarter of 2019.

The firm's significant debt exposure is concerning.

Last Earnings Report

Kinder Morgan Earnings Meet Estimates in Q4, Increase Y/Y

Kinder Morgan posted fourth-quarter 2019 adjusted earnings per share of 26 cents, in line with the Zacks Consensus Estimate. The bottom line improved from the year-ago quarter's 25 cents.

However, total revenues declined to \$3,352 million from \$3,781 million in the prior-year quarter and missed the Zacks Consensus Estimate of \$3,724 million.

The quarterly earnings were backed by increased natural gas transportation and gathering volumes. While Natural Gas Pipelines and Product Pipelines segments supported the results, decline in commodity prices and crude volumes affected the CO2 segment, which partially offset the same.

Full-year 2019 revenues amounted to \$13.2 billion, down from the 2018 figure of \$14.1 billion. The company declared a cash dividend of 25 cents per share for the fourth-quarter, which is payable on Feb 18, 2020.

Segment Analysis

Natural Gas Pipelines: Adjusted earnings before depreciation, depletion and amortization expenses — including amortization of excess cost of equity investments (EBDA) — in the December quarter of 2019 were up 11% to \$1,248 million from \$1,128 million in the year-ago period. Higher natural gas transportation and gathering volumes can be attributed to the outperformance. Notably, natural gas transport volumes rose 14% year over year, marking the eighth straight quarter exceeding the 10% growth mark.

The segment was also supported by the Elba Liquefaction and Gulf Coast Express (GCX) projects. The GCX provides higher natural gas takeaway capacity from the Permian Basin.

Products Pipelines: The segment's adjusted EBDA in the fourth quarter was \$322 million, reflecting an improvement of 8% from \$297 million a year ago. Strong contributions from the company's Bakken Crude assets, the KM Splitter and SFPP aided the segment.

Terminals: Through this segment, Kinder Morgan generated quarterly adjusted EBDA of \$290 million, down 5% from the year-ago period due to sale of the Canadian business, partially offset by higher refined product exports from the Houston Ship Channel hub.

CO2: The segment's EBDA declined 14% to \$185 million from \$216 million a year ago due to decline in commodity prices and crude volumes.

Operational Highlights

Expenses related to operations and maintenance totaled \$679 million, up from \$640 million a year ago. Cost of sales declined to \$776 million from \$1,199 million in the year-ago period. As such, total operating costs fell to \$1,421 million in the fourth quarter from \$2,723 million in the corresponding period of 2018.

Quarterly operating income amounted to \$1,931 million, up from the year-ago quarter's \$1,058 million. For full-year 2019, the metric rose to \$4.9 billion from \$3.8 billion in 2018.

DCF & Backlog

The company's fourth-quarter distributable cash flow increased to \$1,354 million from \$1,273 million a year ago.

It recorded project backlog of \$3.6 billion at the end of the quarter.

Balance Sheet

As of Dec 31, 2019, Kinder Morgan reported \$185 million in cash and cash equivalents. The company's long-term debt amounted to \$30,883 million at quarter-end. Total debt-to-capitalization ratio at the end of the fourth quarter was 49.4%.

Guidance

Kinder Morgan reaffirmed 2020 dividend at \$1.25 per common share, reflecting a 25% year-over-year rise. It intends to use internally generated cash flow to fund dividend payments.

The company expects adjusted EBITDA and DCF for 2020 to be \$7.6 billion and \$5.1 billion, respectively. For 2020, it expects to spend \$2.4 billion on growth developments and joint ventures.

Quarter Ending **12/2019**

Report Date	Jan 22, 2020
Sales Surprise	-10.00%
EPS Surprise	0.00%
Quarterly EPS	0.26
Annual EPS (TTM)	0.95

Recent News

Kinder Morgan Sells Pembina Shares to Reduce Debt Burden – Jan 9, 2020

Kinder Morgan announced that it has sold all Pembina Pipeline Corporation shares that were received by the company following the divestment of a stake in Kinder Morgan Canada Limited. For the sale of a 70% interest in the Canadian unit, Kinder Morgan got 25 million shares of Pembina.

Divestment Rationale

The move of divesting its Canadian unit and the U.S. part of the Cochin Pipeline is in line with the midstream company's strategy of reducing debt burden through divestments. Converting Pembina shares into cash of \$764 million in after-tax proceeds will likely help Kinder Morgan to increase balance sheet flexibility.

The latest move is significant for the company as it had only \$241 million in cash and cash equivalents, and a long-term debt of \$30,849 million at the end of third-quarter 2019. Total debt-to-capitalization ratio was 50.6%, signifying that its balance sheet is more levered than the industry it belongs to.

Post-Divestment 2020 Estimates

The company expects distributable cash flow of \$5.1 billion in 2020, despite the divestment of assets to Pembina. Moreover, it anticipates \$7.6 billion in adjusted EBITDA for this year. Also, in 2020, the company's dividend payments are expected to rise 25% year over year to \$1.25 per share.

Valuation

Kinder Morgan shares are up 12.8% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the Zacks Oils-Energy sector are down 4.3% and 19.2%, respectively.

The S&P 500 index is up 18.6% in the past year.

The stock is currently trading at 22.58X forward 12-month earnings, which compares to 16.89X for the Zacks sub-industry, 13.14X for the Zacks sector and 19.09X for the S&P 500 index.

Over the past five years, the stock has traded as high as 50.02X and as low as 14.94X, with a 5-year median of 24.79X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$24 price target reflects 24.89X 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	22.58	16.89	13.14	19.09
	5-Year High	50.02	34.66	32.4	19.34
	5-Year Low	14.94	16.13	11.27	15.18
	5-Year Median	24.79	22.22	18.56	17.47
EV/EBITDA TTM	Current	11.44	13.42	4.67	12
	5-Year High	24.5	25.85	10.26	12.87
	5-Year Low	9.14	10.24	4.59	8.48
	5-Year Median	12.29	13.33	6.52	10.77
P/S F12M	Current	3.62	1.98	0.8	3.51
	5-Year High	5.44	3.55	1.45	3.51
	5-Year Low	1.73	1.47	0.67	2.54
	5-Year Median	3.13	1.98	0.99	3

As of 02/24/2020

Industry Analysis Zacks Industry Rank: Top 45% (114 out of 255)



Top Peers

Equitrans Midstream Corporation (ETRN)	Outperform
TC Energy Corporation (TRP)	Outperform
Enbridge Inc (ENB)	Neutral
MPLX LP (MPLX)	Neutral
ONEOK, Inc. (OKE)	Neutral
Pembina Pipeline Corp. (PBA)	Neutral
Targa Resources, Inc. (TRGP)	Neutral
Williams Companies, Inc. (The) (WMB)	Neutral

Industry Comparison Industry: Oil And Gas - Production And Pipelines				Industry Peers		
	KMI Neutral	X Industry	S&P 500	ENB Neutral	PBA Neutral	TRP Outperform
VGM Score	D	-	-	B	D	C
Market Cap	49.31 B	4.97 B	23.50 B	82.69 B	21.59 B	53.06 B
# of Analysts	8	4	13	7	4	4
Dividend Yield	4.59%	5.98%	1.83%	5.98%	4.83%	4.09%
Value Score	D	-	-	C	D	C
Cash/Price	0.02	0.02	0.04	0.00	0.02	0.02
EV/EBITDA	10.74	10.20	13.56	8.07	15.55	11.61
PEG Ratio	3.24	4.21	2.02	2.28	4.21	3.36
Price/Book (P/B)	1.45	1.39	3.20	1.68	2.15	2.48
Price/Cash Flow (P/CF)	10.59	9.17	13.05	12.04	16.49	11.06
P/E (F1)	22.68	13.91	18.56	20.48	21.05	17.99
Price/Sales (P/S)	3.73	2.74	2.60	2.19	3.98	5.31
Earnings Yield	4.41%	7.19%	5.38%	4.87%	4.74%	5.55%
Debt/Equity	0.94	0.94	0.70	NA	0.67	1.51
Cash Flow (\$/share)	2.06	2.45	7.03	3.39	2.39	5.11
Growth Score	C	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	1.21%	6.19%	10.85%	6.19%	28.18%	11.82%
Proj. EPS Growth (F1/F0)	1.18%	6.66%	6.90%	-0.29%	-17.69%	0.72%
Curr. Cash Flow Growth	3.20%	24.02%	6.78%	13.94%	34.06%	3.72%
Hist. Cash Flow Growth (3-5 yrs)	6.59%	17.42%	8.38%	18.69%	13.00%	11.18%
Current Ratio	0.63	0.90	1.22	0.59	0.90	0.59
Debt/Capital	48.98%	47.96%	42.37%	45.58%	36.09%	56.97%
Net Margin	16.58%	12.25%	11.57%	11.38%	23.79%	30.61%
Return on Equity	6.29%	9.39%	16.80%	11.49%	14.01%	13.97%
Sales/Assets	0.17	0.32	0.55	0.40	0.26	0.13
Proj. Sales Growth (F1/F0)	2.68%	4.45%	4.03%	0.55%	8.20%	6.73%
Momentum Score	D	-	-	A	C	C
Daily Price Chg	-1.67%	-2.59%	-2.98%	-2.46%	-1.84%	-1.53%
1 Week Price Chg	0.64%	-0.84%	-0.94%	-0.78%	0.88%	1.90%
4 Week Price Chg	2.25%	-6.26%	-0.94%	0.02%	2.84%	3.06%
12 Week Price Chg	12.22%	-6.70%	1.75%	7.96%	14.03%	12.03%
52 Week Price Chg	12.80%	-33.39%	10.97%	10.77%	8.74%	26.63%
20 Day Average Volume	12,185,119	857,891	2,001,782	4,153,262	839,218	1,324,443
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.90%	0.00%	-0.05%	0.22%	0.00%	0.24%
(F1) EPS Est 12 week change	-3.07%	0.20%	-0.21%	0.62%	-1.55%	1.45%
(Q1) EPS Est Mthly Chg	-0.61%	0.00%	-0.49%	2.96%	0.00%	-0.60%

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	C
Momentum Score	D
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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