

Kinder Morgan (KMI)

\$14.24 (As of 08/24/20)

Price Target (6-12 Months): **\$15.00**

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:C

Value: C

Growth: C

Momentum: B

Summary

Kinder Morgan has the largest network of natural gas pipelines in North America that spreads almost 83,000 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 the company 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 \$2.9 billion is significantly lower than the high of \$22 billion recorded in 2015, affecting cash flows.

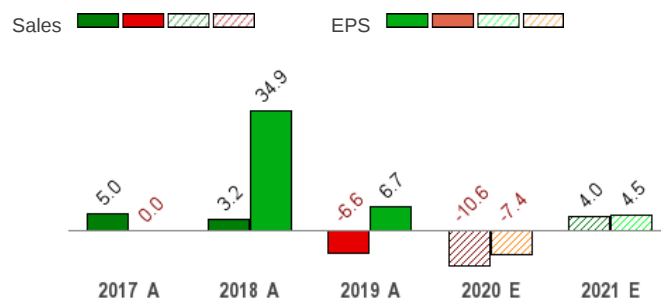
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$22.58 - \$9.42
20 Day Average Volume (sh)	11,377,895
Market Cap	\$32.2 B
YTD Price Change	-32.7%
Beta	1.01
Dividend / Div Yld	\$1.05 / 7.4%
Industry	Oil and Gas - Production and Pipelines
Zacks Industry Rank	Top 44% (110 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.6%
Last Sales Surprise	-12.0%
EPS F1 Est- 4 week change	0.9%
Expected Report Date	10/21/2020
Earnings ESP	-0.2%
P/E TTM	16.0
P/E F1	16.2
PEG F1	5.4
P/S TTM	2.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,055 E	3,128 E	3,168 E	3,206 E	12,285 E
2020	3,106 A	2,560 A	3,010 E	3,108 E	11,812 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	\$0.22 E	\$0.21 E	\$0.22 E	\$0.24 E	\$0.92 E
2020	\$0.24 A	\$0.17 A	\$0.21 E	\$0.24 E	\$0.88 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 08/24/2020. The reports text is as of 08/25/2020.

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 83,000 miles to transport natural gas, crude oil, condensate, refined petroleum products, CO2 and other products. Kinder Morgan also owns 147 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.

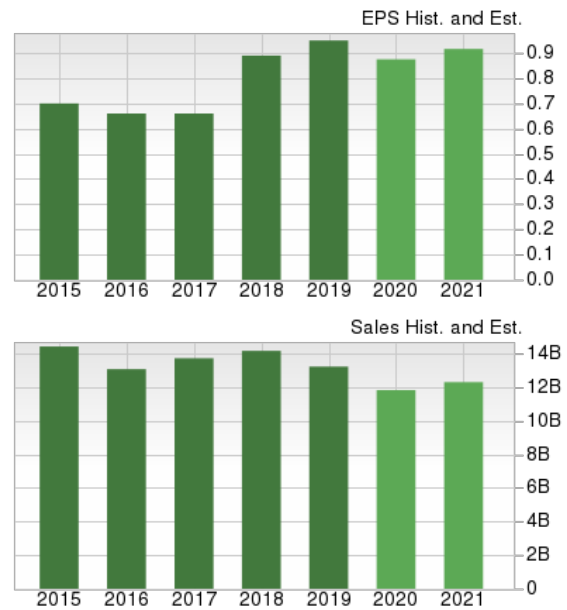
Kinder Morgan primarily conducts business through four operating segments: Natural Gas Pipelines, Products Pipelines, Terminals and CO2.

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 83,000 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.
 - ▲ Despite the coronavirus-induced depressed commodity pricing scenario, the company continues to rely on its strong business model to raise annualized dividend payments to \$1.25 per share for 2020. The midstream energy player, will however, consider the overall economic scenario while remaining committed to returning cash to stockholders and maintaining a strong balance sheet.
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Kinder Morgan has the largest network of natural gas pipelines in North America.

Reasons To Sell:

- ▼ As of Jun 30, 2020, the midstream company had only \$526 million in cash and cash equivalents, and a significantly high long-term debt of \$29,976 million. Notably, the company's cash balance is not sufficient pay off short-term debt of \$3,006 million. Also, total debt-to-capitalization at the end of the second quarter was 50.7%, reflecting significant debt exposure. 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 \$2.9 billion – as of the June 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 hurt the company's CO2 segment in the June 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 projects 2020 DCF to be lower by a little more than 10% from the initial guidance of \$5.1 billion. The virus outbreak also compelled the company to anticipate a decline in adjusted EBITDA for 2020 of a little more than 8% from the initial guidance of \$7.6 billion.
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The firm's significant debt exposure is concerning.

Last Earnings Report

Kinder Morgan Q2 Earnings & Revenues Miss Estimates

Kinder Morgan reported second-quarter 2020 adjusted earnings per share of 17 cents, missing the Zacks Consensus Estimate by a penny. The bottom line also declined from the year-ago quarter's 22 cents.

Moreover, total revenues declined to \$2,560 million from \$3,214 million in the prior-year quarter and missed the Zacks Consensus Estimate of \$2,907 million.

Lower contributions from the Tennessee gas pipeline and a plunge in demand for refined product primarily led to the weak quarterly results.

Quarter Ending 06/2020

Report Date	Jul 22, 2020
Sales Surprise	-11.95%
EPS Surprise	-5.56%
Quarterly EPS	0.17
Annual EPS (TTM)	0.89

Segment Analysis

Natural Gas Pipelines: Adjusted earnings before depreciation, depletion and amortization expenses, including amortization of excess cost of equity investments (EBDA), in the June quarter of 2020 were down 5% to \$1,016 million from \$1,071 million a year ago. Lower contributions from the Tennessee gas pipeline primarily hurt the segment. Contributions also declined because of several gathering and processing assets since the production of natural gas took a hit in the quarter. The negatives were however partially countered by increased activities from projects comprising the Gulf Coast Express and Elba Liquefaction.

Products Pipelines: The segment's adjusted EBDA in the second quarter was \$227 million, reflecting a decline of 26% from \$307 million a year ago. The decline in transported volumes of crude and condensate affected the performance. A plunge in demand for refined product was also responsible for the underperformance.

Terminals: Through this segment, Kinder Morgan generated quarterly adjusted EBDA of \$229 million, down 21% from the year-ago period due to divestment of interests in Kinder Morgan Canada Limited last December. Lower demand for terminal assets owing to the pandemic also led to the dismal performance.

CO2: The segment's EBDA declined 15% to \$156 million from \$184 million a year ago due to a drop in NGL prices and crude volumes.

Operational Highlights

Expenses related to operations and maintenance totaled \$606 million, down from \$646 million a year ago. However, total operating costs increased to \$2,842 million in the second quarter from \$2,241 million in the corresponding period of 2019.

Quarterly operating loss amounted to \$282 million against year-ago quarter's profits of \$973 million.

DCF & Backlog

The company's second-quarter distributable cash flow declined to \$1,001 million from \$1,128 million a year ago.

It recorded project backlog of \$2.9 billion, as of the June quarter of 2020.

Balance Sheet

As of Jun 30, 2020, Kinder Morgan reported \$526 million in cash and cash equivalents. The company's long-term debt amounted to \$29,976 million at quarter-end. Total debt-to-capitalization ratio at the end of the second quarter was 50.7%.

2020 Guidance

Despite the coronavirus-induced depressed commodity pricing scenario, the company continues to rely on its strong business model to raise annualized dividend payments to \$1.25 per share. The midstream energy player, will however, consider the overall economic scenario while remaining committed to returning cash to stockholders and maintaining a strong balance sheet.

Kinder Morgan projects 2020 DCF to be lower by a little more than 10% from the initial guidance of \$5.1 billion, thanks to dented energy demand and low commodity prices owing to the pandemic. The virus outbreak also compelled the company to anticipate a decline in adjusted EBITDA for 2020 of a little more than 8% from the initial guidance of \$7.6 billion.

The company has lowered its 2020 sustaining capital and expenses by a total of \$170 million. The midstream firm also cut its guidance for expansion capital spending for 2020 by roughly 30%.

Valuation

Kinder Morgan shares are down 32.7% in the year-to-date period and 28.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Oil-Energy sector are down 24.5% and 36%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 16.9% and 29.2%, respectively.

The S&P 500 index is up 6.5% in the year-to-date period, and 19.5% in the past year.

The stock is currently trading at 15.54X forward 12-month earnings, which compares to 13.03X for the Zacks sub-industry, 26.88X for the Zacks sector and 23.05X for the S&P 500 index.

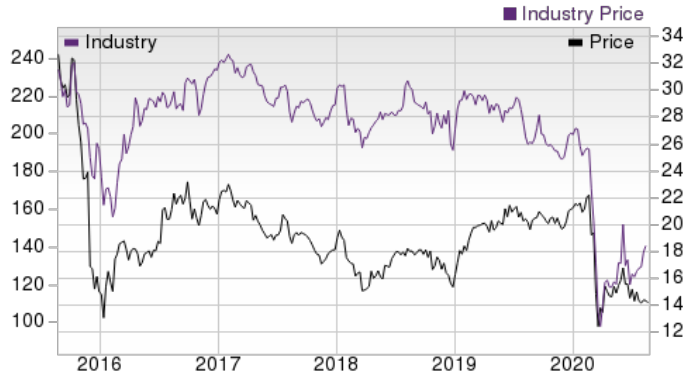
Over the past five years, the stock has traded as high as 38.23X and as low as 9.73X, with a 5-year median of 21.10X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$15.00 price target reflects 16.37X F12M earnings.

The table below shows summary valuation data for KMI.

Valuation Multiples - KMI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.54	13.03	26.88	23.05
	5-Year High	38.23	29.54	61.23	23.05
	5-Year Low	9.73	11.83	11.32	15.25
	5-Year Median	21.1	19.55	18.7	17.58
EV/EBITDA TTM	Current	9.61	9.69	4.36	13.03
	5-Year High	19.6	20.03	10.48	13.03
	5-Year Low	7.66	8.45	3.05	8.25
	5-Year Median	11.72	13.09	6.47	10.92
P/S F12M	Current	2.65	1.73	0.72	3.76
	5-Year High	4.54	2.96	1.47	3.76
	5-Year Low	1.67	1.38	0.59	2.53
	5-Year Median	2.94	1.94	0.99	3.05

As of 08/24/2020

Industry Analysis Zacks Industry Rank: Top 44% (110 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Cheniere Energy Partners, LP (CQP)	Neutral	3
DCP Midstream Partners, LP (DCP)	Neutral	3
Enterprise Products Partners L.P. (EPD)	Neutral	3
MPLX LP (MPLX)	Neutral	3
Pembina Pipeline Corp. (PBA)	Neutral	3
Transportadora De Gas Sa Ord B (TGS)	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	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	A	B	D
Market Cap	32.23 B	3.45 B	23.81 B	2.82 B	19.67 B	26.31 B
# of Analysts	4	5	14	3	3	3
Dividend Yield	7.37%	6.98%	1.64%	11.52%	14.80%	7.38%
Value Score	C	-	-	A	B	C
Cash/Price	0.02	0.02	0.07	0.00	0.00	0.04
EV/EBITDA	8.46	8.46	13.37	13.10	11.37	11.82
PEG Ratio	5.30	4.08	3.02	NA	NA	4.08
Price/Book (P/B)	1.00	1.48	3.17	0.55	1.55	1.75
Price/Cash Flow (P/CF)	6.93	5.58	12.77	3.81	5.58	8.84
P/E (F1)	15.89	14.50	21.72	11.38	7.81	20.39
Price/Sales (P/S)	2.64	2.02	2.48	0.43	2.57	3.37
Earnings Yield	6.18%	5.90%	4.44%	-15.07%	-4.63%	4.89%
Debt/Equity	0.98	1.17	0.76	1.17	1.65	1.48
Cash Flow (\$/share)	2.06	2.79	6.93	3.56	3.33	2.45
Growth Score	C	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	6.33%	17.86%	10.41%	-15.75%	49.69%	17.86%
Proj. EPS Growth (F1/F0)	-7.89%	-1.33%	-5.05%	-94.29%	-137.07%	7.40%
Curr. Cash Flow Growth	3.20%	9.36%	5.20%	-9.59%	28.69%	16.28%
Hist. Cash Flow Growth (3-5 yrs)	6.59%	13.08%	8.50%	10.64%	78.00%	10.41%
Current Ratio	0.48	1.13	1.33	0.99	1.13	0.96
Debt/Capital	50.07%	50.48%	44.50%	50.48%	62.17%	59.68%
Net Margin	1.41%	1.41%	10.13%	-10.37%	-26.44%	1.86%
Return on Equity	6.02%	8.61%	14.66%	5.79%	17.33%	7.77%
Sales/Assets	0.17	0.27	0.51	0.48	0.20	0.17
Proj. Sales Growth (F1/F0)	-10.58%	-8.68%	-1.45%	-17.80%	-2.85%	-8.64%
Momentum Score	B	-	-	B	B	F
Daily Price Chg	0.92%	-0.02%	1.32%	0.00%	-0.91%	1.26%
1 Week Price Chg	-1.26%	-2.43%	-1.45%	-7.70%	-5.21%	-3.25%
4 Week Price Chg	0.28%	5.01%	3.38%	11.90%	1.64%	15.14%
12 Week Price Chg	-9.70%	4.15%	7.69%	25.14%	0.00%	6.07%
52 Week Price Chg	-28.51%	-27.34%	3.85%	-42.87%	-32.19%	-5.45%
20 Day Average Volume	11,377,895	605,865	1,873,293	1,065,909	2,783,679	7,895,870
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.14%	-1.54%
(F1) EPS Est 4 week change	0.86%	0.86%	1.00%	-1.11%	4.62%	-1.54%
(F1) EPS Est 12 week change	6.71%	6.71%	3.40%	-3.51%	10.70%	6.33%
(Q1) EPS Est Mthly Chg	1.88%	8.02%	0.00%	9.82%	6.73%	8.83%

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	C
Growth Score	C
Momentum Score	B
VGM Score	C

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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