

ONEOK Inc. (OKE)

\$26.45 (As of 04/08/20)

Price Target (6-12 Months): **\$28.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/03/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: D

Summary

ONEOK reduced 2020 expenditure guidance and suspended few of its expansion projects to cope with volatile commodity prices resulting from the coronavirus (COVID-19) outbreak. The buyout of ONEOK Partners has expanded operations. Higher drilling activities from the producers will boost demand for the company's services. Rise in drilling activities in high productive regions will increase demand for the company's midstream services. The company anticipates majority of its earnings in 2020 to be fee-based. However, in the past 12 months, shares of ONEOK have underperformed the industry. It is subject to strict regulations and intense competition in midstream energy services. The company does not own all the land on which its pipelines are situated.

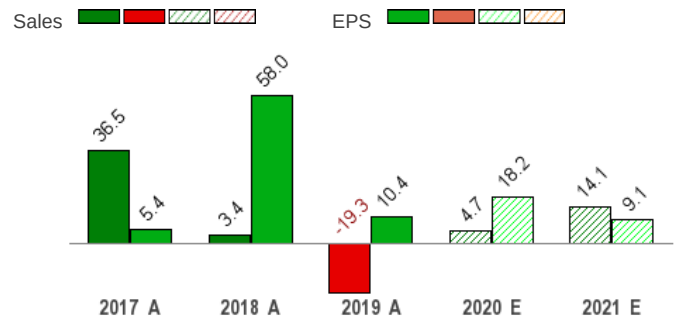
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$78.48 - \$12.16
20 Day Average Volume (sh)	10,156,906
Market Cap	\$10.9 B
YTD Price Change	-65.1%
Beta	1.96
Dividend / Div Yld	\$3.74 / 14.1%
Industry	Utility - Gas Distribution
Zacks Industry Rank	Top 14% (36 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.7%
Last Sales Surprise	9.7%
EPS F1 Est- 4 week change	-1.7%
Expected Report Date	04/28/2020
Earnings ESP	-3.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,219 E	2,286 E	2,367 E	2,433 E	12,144 E
2020	2,479 E	2,550 E	2,692 E	2,819 E	10,639 E
2019	2,780 A	2,458 A	2,263 A	2,664 A	10,164 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.94 E	\$0.96 E	\$1.01 E	\$1.04 E	\$3.96 E
2020	\$0.84 E	\$0.88 E	\$0.91 E	\$0.92 E	\$3.63 E
2019	\$0.81 A	\$0.75 A	\$0.74 A	\$0.77 A	\$3.07 A

*Quarterly figures may not add up to annual.

P/E TTM	8.6
P/E F1	7.3
PEG F1	0.6
P/S TTM	1.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/08/2020. The reports text is as of 04/09/2020.

Overview

Tulsa, OK-based ONEOK Inc. was founded in 1906. The company is an energy company, is engaged in natural gas and natural gas liquids (NGL) businesses. The company was the sole general partner and owner of 41.2% of ONEOK Partners L.P. as of Dec 31, 2016. On Feb 1, 2017, ONEOK and ONEOK Partners entered into a definitive agreement. Per the deal, ONEOK will acquire the remaining 58.8% stake in ONEOK Partners for \$9.3 billion. The transaction was completed on Jun 30, 2017.

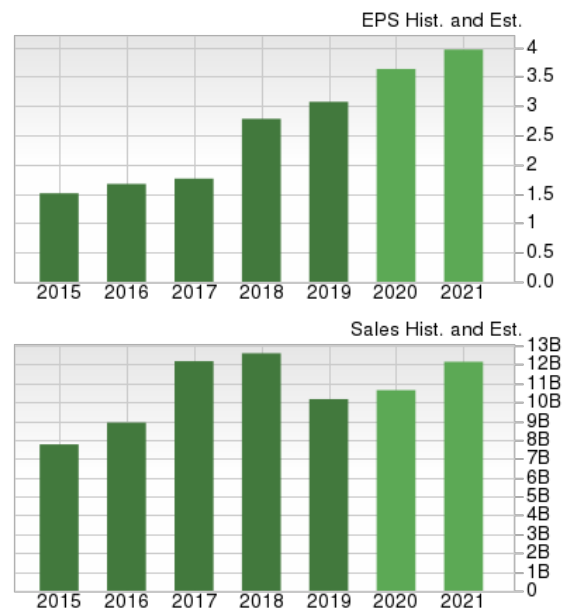
ONEOK is primarily focused on rendering management support and resources to ONEOK Partners and creating value for its shareholders through its ownership in the partnership. As a result, ONEOK's reportable segments reflect the three business segments of ONEOK Partners. ONEOK Inc.'s operations are divided into three reportable business segments: **Natural Gas Gathering and Processing**, **Natural Gas Liquids** and **Natural Gas Pipelines**.

In 2019, the Natural Gas Gathering and Processing, Natural Gas Liquids and Natural Gas Pipelines segments contributed 21%, 75% and 4% to total revenues, respectively.

The Natural Gas Gathering and Processing segment provides nondiscretionary services to producers that include gathering and processing of natural gas produced from crude oil and natural gas wells. This segment gathers and processes natural gas in the Mid-Continent region.

The Natural Gas Liquids segment owns and operates facilities that gather, fractionate, treat and distribute NGLs and store NGL products, primarily in Oklahoma, Kansas, Texas, New Mexico and the Rocky Mountain region where it provides nondiscretionary services to producers of NGLs.

The Natural Gas Pipelines segment owns and operates regulated natural gas transmission pipelines and natural gas storage facilities. Other and eliminations is a non-operating segment consisting of the operating and leasing operations of the company's headquarters building and related parking facility and other amounts needed to reconcile ONEOK's reportable segments to its consolidated financial statements.



Reasons To Buy:

▲ ONEOK is poised to benefit from long-term fee-based commitments in its Natural Gas Gathering and Processing and Natural Gas Liquids segments. The company's consolidated fee-based earnings of 2019 were approximately 90%. It anticipates majority of its earnings in 2020 to be fee-based. The company expected adjusted EBITDA in the range of \$3.10-\$3.35 billion in 2020. However, this guidance was provided prior to the COVID -19 outbreak, which is expected to adversely impact service requirements.

▲ ONEOK continues to invest in organic growth projects to expand existing operating regions and provide a broad range of services to crude oil as well as natural gas producers and end-use markets. In 2019, capital expenditures (less allowance for equity funds used during construction) amounted to \$3.84 billion. The company expected to invest in the range of \$2.25-\$2.73 billion in 2020. However, it recently reduced capital expenditure budget for 2020, thanks to volatility in the commodity price market. Currently, the company anticipates spending in the range of \$1.60-\$2.40 billion due to the economic turmoil resulting from the coronavirus-induced crisis.

▲ In Natural Gas Gathering and Processing segment, 526 wells are connected in 2019 in Rocky Mountain. In total, 575-625 wells are expected to be connected in 2020. Moreover, 200 million cubic feet of gas per day (MMcf/d) Demicks Lake I plant was completed on October 2019 and Demicks Lake II plant is completed on January 2020. In Mid-Continent, the company connected 117 wells in 2019 and expects to connect 40-60 wells in 2020. Given the declining commodity prices and resultant reduction of E&P activities, there could a change in the numbers of wells the company will connect in 2020.

In Natural Gas Liquids segment, the 900-miles Elk Creek Pipeline project was completed in December 2019. This will strengthen ONEOK's position in the high production region and contribute to earnings.

▲ ONEOK's strong cash flow generation capability is helping it to strengthen its balance sheet and increase the value of shareholders through the payment of dividend. During 2019, ONEOK's board of directors paid \$3.53 per share dividends in total, which is 9% higher than \$3.245 per share paid in 2018. In February 2020, the company paid a quarterly dividend of 93.5 cents per share, up 9% from prior-year quarter.

▲ ONEOK Partners is the primary growth vehicle for ONEOK and the completion of acquisition of the remaining interest in ONEOK Partners is going to be accretive to distributable cash flow from 2017 through 2021. ONEOK Partners' financial strength, diversified operations, excellent market connectivity, and systematic investments in organic projects and strategic acquisitions provide ONEOK a distinct competitive advantage.

In 2019, distributable cash flow amounted to \$2.02 billion, up 11% compared with 2018.

ONEOK stands to benefit from ONEOK Partners acquisition, higher fee based earnings and midstream assets located in higher productive regions.

Reasons To Sell:

▼ Shares of ONEOK have lost 62.1% compared with the industry's decline of 27% in the past 12 months. The company's operations are subject to various federal, state and local environmental regulations. The utility regulatory authorities in Oklahoma, Kansas and Texas regulate many aspects of the company's utility operations, including customer service and rates charged to customers. The company's profitability largely depends on its ability to recover costs related to providing energy and other commodities to customers by obtaining the required regulatory approvals. Moreover, ONEOK Inc. expects costs of compliance to be significant.

Stringent government regulations, sluggishness in demand due to COVID-19 outbreak, and intensifying competition in the pipeline business are potential growth deterrents.

▼ ONEOK does not own all the land on which its pipelines are situated. The company runs the risks of higher costs related to the necessary land usage. If the company fails to renew existing land rights and add new rights to lay down its pipelines, it will impact operation and profitability of the company.

COVID-19 fear is affecting the whole world and adversely impacting the global economy and lowering the commodity prices. To cope with the declining prices, the E&P companies are lowering their activities in the onshore shale region and as a result the demand for ONEOK services is also going down. The company has suspended few expansion projects and the ongoing decline in demand could hurt profitability in the long run.

▼ The natural gas and natural gas liquids pipeline industries are expected to remain highly competitive. Apart from existing pipeline companies, this midstream section has recently seen many energy companies forming master limited partnerships (MLPs) to begin pipeline services. The partnership's assets are well spread out but its ability to withstand competitive challenges will depend on the efficiency, quality and reliability of the services it provides.

▼ The company's long-term debt rose consistently from 2017 to the 2019. The company's debt/capital is 66.76% compared with the industry's average of 48.80% and the S&P 500's 42.36%. Interest expenses totaled \$491.8 million in 2019, up 4.7% from \$469.6 million in the prior-year quarter. The company could benefit from the near zero interest rates when they will to source new funds but for the time being will have to service its high interest bearing debts, which will lower its profitability.

Last Earnings Report

ONEOK's Earnings and Revenues Beat Estimates in Q4

ONEOK reported fourth-quarter 2019 operating earnings of 77 cents per share, which beat the Zacks Consensus Estimate of 75 cents by 2.7%. The figure also improved 10% on a year-over-year basis.

In 2019, the company delivered earnings of \$3.07 per share compared with \$2.78 reported in 2018. The upside can be attributed to growth in natural gas liquids (NGL) and natural gas volume, higher average fee rates in the natural gas liquids and natural gas gathering and processing segments, and increased transportation services in the natural gas pipelines segment.

Total Revenues

Total revenues were \$2.66 billion, which beat the Zacks Consensus Estimate of \$2.42 billion by 9.7%. The figure declined 15% from \$3.14 billion in the prior-year quarter.

In 2019, the company reported revenues of \$10.16 billion, down from \$12.59 billion in 2018.

Highlights of the Release

The company spent \$1.79 billion on cost of sales and fuel, down 22.7% from the year-ago quarter's tally.

In the fourth quarter, ONEOK's adjusted earnings before interest, tax, depreciation and amortization (EBITDA) was \$660.5 million, up 5.6% year over year.

The company incurred interest expenses of \$129.3 million, up 9.1% from \$118.5 million in the prior-year quarter. Operating income was \$487.3 million in the fourth quarter, up from \$471.8 million in the prior-year quarter.

Elk Creek Pipeline and the Demicks Lake I and II plants projects were completed in 2019.

Financial Highlights

As of Dec 31, 2019, ONEOK had cash and cash equivalents of \$21 million compared with \$12 million as of Dec 31, 2018.

Long-term debt (excluding current maturities) was \$12,479.7 million as of Dec 31, 2019, up from \$8,873.3 million as of Dec 31, 2018.

The company's cash flow from operating activities at the end of Dec 31, 2019 was \$1,946.8 million, down from \$2,186.7 million at the end of Dec 31, 2018.

Capital expenditures (less allowance for equity funds used during construction) amounted to \$3,848.3 million, up from \$2,141.5 million in the year-ago period.

Guidance

For 2020, ONEOK projects net income in the range of \$1,355-\$1,605 million. Also, the company expects 2020 adjusted EBITDA in the range of \$2,250-\$2,730 million.

Quarter Ending **12/2019**

Report Date	Feb 24, 2020
Sales Surprise	9.67%
EPS Surprise	2.67%
Quarterly EPS	0.77
Annual EPS (TTM)	3.07

Recent News

ONEOK Curbs Capital Spending in Volatile Pricing Environment- Mar 12, 2020

ONEOK recently reduced capital expenditure budget for 2020, thanks to volatility in the commodity price market. Currently, the company expects to spend in the range of \$1.60-\$2.40 billion compared with the prior guidance of \$2.25-\$2.73 billion.

The new outlook represents a decline in the mid-point by approximately \$500 million. Resultantly, investors have lost confidence in this company, as is evident from the 5.5% decline that its shares experienced on Mar 11.

Valuation

ONEOK shares are down 65.1% in the year to date period, and 62.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was down 31.8% and 18.3% in the year to date period, respectively. Over the past year, the Zacks sub-industry and sector are down 27% and 22.3%, respectively.

The S&P 500 index is down 17.3% in the year to date period and 8% in the past year.

The stock is currently trading at 6.9X of forward 12 months earnings, which compares to 12.93X for the Zacks sub-industry, 11.56X for the Zacks sector and 16.99X for the S&P 500 index.

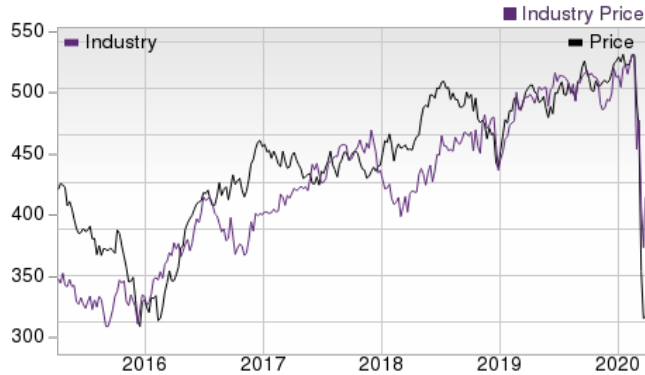
Over the past five years, the stock has traded as high as 37.06X and as low as 4.05X, with a 5-year median of 23.48X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$28 price target reflects 7.31X of forward 12 months earnings.

The table below shows summary valuation data for OKE

Valuation Multiples -OKE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	6.9	12.93	11.56	16.99
	5-Year High	37.06	23.03	15.39	19.34
	5-Year Low	4.05	12.58	11.38	15.19
	5-Year Median	23.48	20.39	13.82	17.44
P/S F12M	Current	0.96	1.52	2.44	2.94
	5-Year High	3.14	2.3	3.29	3.44
	5-Year Low	0.37	1.01	1.75	2.54
	5-Year Median	1.67	1.64	2.03	3
P/B TTM	Current	1.76	1.76	2.99	3.54
	5-Year High	5.14	2.68	4.04	4.55
	5-Year Low	0.98	1.41	2.02	2.84
	5-Year Median	3.57	2.21	2.59	3.63

As of 04/08/2020

Industry Analysis Zacks Industry Rank: Top 14% (36 out of 253)



Top Peers

Atmos Energy Corporation (ATO)	Outperform
Energy Transfer LP (ET)	Neutral
Magellan Midstream Partners, L.P. (MMP)	Neutral
ONE Gas, Inc. (OGS)	Neutral
Plains All American Pipeline, L.P. (PAA)	Neutral
Sempra Energy (SRE)	Neutral
UGI Corporation (UGI)	Neutral
Williams Companies, Inc. (The) (WMB)	Neutral

Industry Comparison Industry: Utility - Gas Distribution				Industry Peers		
	OKE Neutral	X Industry	S&P 500	ATO Outperform	OGS Neutral	PAA Neutral
VGM Score	A	-	-	D	D	A
Market Cap	10.95 B	4.02 B	19.05 B	12.55 B	4.57 B	3.95 B
# of Analysts	9	2	13	4	4	9
Dividend Yield	14.14%	3.28%	2.23%	2.24%	2.50%	26.52%
Value Score	A	-	-	D	D	A
Cash/Price	0.00	0.01	0.06	0.02	0.00	0.02
EV/EBITDA	8.94	11.42	11.47	14.46	12.35	4.81
PEG Ratio	0.70	2.94	2.00	3.05	4.34	NA
Price/Book (P/B)	1.75	1.66	2.56	2.05	2.14	0.36
Price/Cash Flow (P/CF)	6.23	8.78	10.14	13.30	12.41	1.48
P/E (F1)	7.91	17.18	16.97	21.84	23.86	3.49
Price/Sales (P/S)	1.08	1.39	2.01	4.33	2.76	0.12
Earnings Yield	13.72%	5.82%	5.81%	4.58%	4.19%	28.55%
Debt/Equity	2.01	0.95	0.70	0.71	0.60	0.88
Cash Flow (\$/share)	4.25	3.61	7.01	7.72	6.96	3.66
Growth Score	B	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	18.81%	6.69%	10.92%	9.11%	12.30%	13.05%
Proj. EPS Growth (F1/F0)	18.28%	3.50%	-0.64%	8.05%	3.21%	-38.07%
Curr. Cash Flow Growth	11.06%	10.67%	5.93%	12.19%	10.48%	27.46%
Hist. Cash Flow Growth (3-5 yrs)	22.18%	7.61%	8.55%	11.14%	9.29%	9.72%
Current Ratio	0.73	0.78	1.24	0.96	0.58	0.92
Debt/Capital	66.76%	48.80%	42.36%	41.37%	37.65%	42.05%
Net Margin	12.58%	8.18%	11.64%	18.36%	11.30%	6.45%
Return on Equity	20.27%	9.05%	16.74%	9.25%	8.85%	19.20%
Sales/Assets	0.50	0.32	0.54	0.22	0.30	1.20
Proj. Sales Growth (F1/F0)	4.67%	1.19%	0.61%	9.71%	3.03%	-3.96%
Momentum Score	D	-	-	B	B	B
Daily Price Chg	8.94%	3.48%	4.33%	4.30%	4.36%	5.44%
1 Week Price Chg	3.34%	-1.84%	-4.40%	-3.34%	-1.84%	-6.15%
4 Week Price Chg	-26.41%	-4.18%	-1.70%	-0.19%	7.86%	-35.82%
12 Week Price Chg	-65.16%	-19.47%	-20.64%	-9.76%	-8.23%	-71.03%
52 Week Price Chg	-62.11%	-21.20%	-12.97%	2.21%	-0.64%	-77.58%
20 Day Average Volume	10,156,906	643,262	4,016,075	1,208,265	492,175	11,819,074
(F1) EPS Est 1 week change	0.00%	0.00%	-0.26%	0.00%	0.00%	-1.76%
(F1) EPS Est 4 week change	-1.71%	-0.98%	-5.64%	0.05%	0.28%	-5.55%
(F1) EPS Est 12 week change	-4.14%	-2.34%	-7.49%	0.70%	-0.84%	-11.38%
(Q1) EPS Est Mthly Chg	-2.65%	0.00%	-9.90%	3.31%	0.00%	-6.47%

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	A
Growth Score	B
Momentum Score	D
VGM Score	A

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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