

ONEOK Inc. (OKE)

\$29.98 (As of 07/21/20)

Price Target (6-12 Months): **\$31.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/25/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: F

Summary

ONEOK is well-poised to benefit from long-term fee-based commitments and anticipates majority of its earnings in 2020 to be fee-based. Also, the company's recent expansion efforts will likely position it well in the high-production region and contribute to earnings. Notably, the acquisition of ONEOK Partners gives it a distinct competitive edge. However, shares of ONEOK have underperformed the industry in the past six months. The company's operations are subject to strict regulations and intense competition in midstream energy services. Also, it does not own all the land on which its pipelines are located, which heightens its risks of incurring higher expenses to maintain necessary land use. Further, ONEOK suspended a few of its expansion projects in response to volatile commodity prices, stemming from the novel coronavirus outbreak.

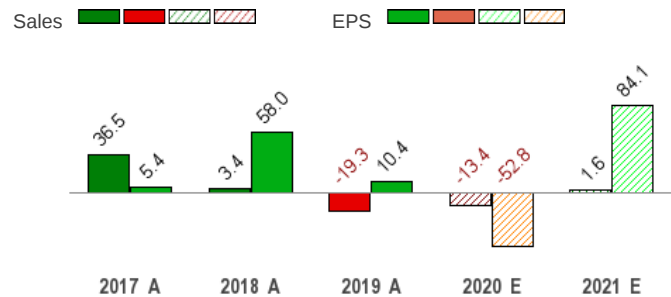
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$78.48 - \$12.16
20 Day Average Volume (sh)	6,067,187
Market Cap	\$13.3 B
YTD Price Change	-60.4%
Beta	2.19
Dividend / Div Yld	\$3.74 / 12.5%
Industry	Utility - Gas Distribution
Zacks Industry Rank	Bottom 31% (173 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.8%
Last Sales Surprise	-15.1%
EPS F1 Est- 4 week change	-6.6%
Expected Report Date	07/28/2020
Earnings ESP	-11.4%
P/E TTM	9.7
P/E F1	20.7
PEG F1	3.5
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,105 E	2,168 E	2,248 E	2,306 E	8,937 E
2020	2,137 A	1,641 E	2,041 E	2,274 E	8,797 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	\$0.63 E	\$0.62 E	\$0.62 E	\$0.63 E	\$2.67 E
2020	\$0.83 A	\$0.55 E	\$0.61 E	\$0.65 E	\$1.45 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/21/2020. The reports text is as of 07/22/2020.

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.

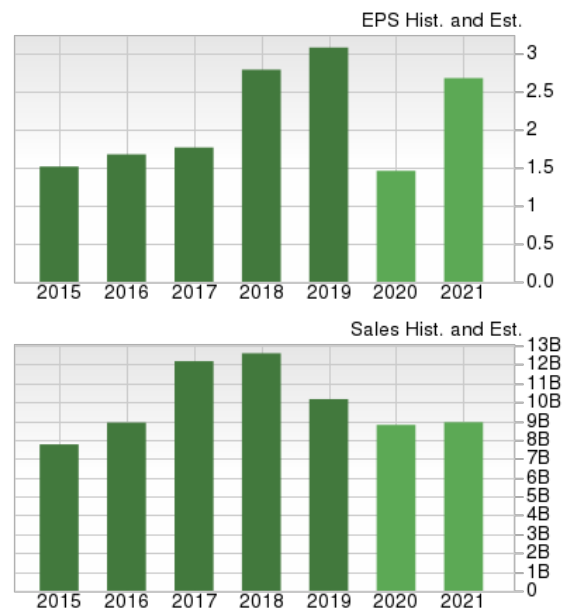
ONEOK is primarily focused on rendering management support and resources to ONEOK Partners and creating value for its shareholders through its ownership in the partnership. As a result, ONEOK's reportable segments reflect the three business segments of ONEOK Partners. ONEOK Inc.'s operations are divided 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 anticipates 90% of its earnings in 2020 to be fee-based. The company expected adjusted EBITDA in the range of \$2.60-\$3.00 billion in 2020. In Williston basin, Natural gas production was more than 3.1 Bcf/d in February 2020 compared with 2.6 Bcf/d in February 2019. Nearly 87% of North Dakota's natural gas production was reported in February 2020.

▲ 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 initially expected to invest in the range of \$2.25-\$2.73 billion in 2020.

However, the company reduced capital expenditure budget for 2020, due 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. The company might lower its capital expenditures further in 2020 and 2021 to accommodate the drop in demand due to novel coronavirus pandemic.

▲ In Natural Gas Gathering and Processing segment, 107 wells are connected in the first quarter of 2020 in Rocky Mountain. Moreover, Demicks Lake II plant is completed on January 2020. In Mid-Continent, the company connected 17 wells in the first quarter of 2020.

In Natural Gas Liquids segment, the projects which are completed in the first quarter 2020 are- Texas based Arbuckle II Pipeline from the Mid-Continent to Mont Belvieu and the MB-4 fractionator in Mont Belvieu. Expansion of the West Texas LPG Pipeline system was also completed. This will strengthen ONEOK's position in the high production region and contribute to earnings. Natural gas transportation capacity contracted increased 4% from year ago 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. In the first quarter of 2020, distributable cash flow amounted to \$522 million. The company anticipates its 2020 distributable cash flow will be in the range of \$1.78-\$2.18 billion.

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 58.9% compared with the industry's decline of 30% in the past six 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.

▼ At the end of the first quarter, the company's long-term debt was \$14,243 million compared with \$12,504 million at the end of fourth-quarter 2019. Its long-term debt rose consistently in the past few years. Long-term debt amounted to \$7,920 million at end of 2016. The company's debt to capital was 71.92% at the end of the first quarter compared with the industry's average of 50.98%. The company incurred interest expenses of \$140.6 million, up 21.8% from \$115.4 million in the prior-year quarter.

The times interest ratio of the company at end of first quarter was 3, which can assure the investors about the ability of the company to meet its debt obligation but this ratio dropped from 4.4 registered at the end of previous quarter. Increasing long-term debt level and lower demand for midstream operation due to the pandemic could compromise the company's ability to service its debt unless demand improves for midstream services.

Last Earnings Report

ONEOK's Earnings Beat Estimates in Q1, Revenues Miss

ONEOK posted first-quarter 2020 operating earnings of 83 cents per share, which beat the Zacks Consensus Estimate of 80 cents by 3.75%. Also, the bottom line increased 2.46% on a year-over-year basis.

Total Revenues

Total revenues were \$2.14 billion, which missed the Zacks Consensus Estimate of \$2.51 billion by 15%. The figure declined 23.1% from \$2.78 billion in the prior-year quarter.

Highlights of the Release

The company spent \$1.27 billion on cost of sales and fuel, down 34.7% from the year-ago quarter's tally.

In the first quarter, ONEOK's adjusted earnings before interest, tax, depreciation and amortization (EBITDA) was \$700.8 million, up 10% year over year.

The company incurred interest expenses of \$140.6 million, up 21.8% from \$115.4 million in the prior-year quarter.

The company incurred operating loss of \$83.4 million in the first quarter, against operating income of \$468.7 million in the prior-year quarter.

Financial Highlights

As of Mar 31, ONEOK had cash and cash equivalents of \$531.6 million compared with \$21 million as of Dec 31, 2019.

Long-term debt (excluding current maturities) was \$14,146.6 million as of Mar 31, 2020, up from \$12,479.7 million as of Dec 31, 2019.

The company's cash flow from operating activities at the end of the first quarter was \$422.7 million, up from \$353.6 million at the end of first-quarter 2019.

Capital expenditures (less allowance for equity funds used during construction) amounted to \$949.6 million at the end of the first quarter, up from \$889.7 million in the year-ago quarter.

Guidance

For 2020, ONEOK projects net income in the range of \$500-\$900 million, which includes the \$641.8 million impact of first-quarter impairment charges. Also, the company expects 2020 adjusted EBITDA in the range of \$2,600-\$3,000 million.

Quarter Ending 03/2020

Report Date	Apr 28, 2020
Sales Surprise	-15.05%
EPS Surprise	3.75%
Quarterly EPS	0.83
Annual EPS (TTM)	3.09

Valuation

ONEOK shares are down 58.5% in the year to date period, and 53% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was down 28.3% and 12% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 24% and sector is down 6.4%.

The S&P 500 index is up 2.4% in the year to date period and 11.1 % in the past year.

The stock is currently trading at 13.63X of forward 12 months earnings, which compares to 14X for the Zacks sub-industry, 12.97X for the Zacks sector and 23.01X 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 22.77X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$31 price target reflects 14.09X 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	13.63	14	12.97	23.01
	5-Year High	37.06	23.03	15.32	23.01
	5-Year Low	4.05	12.59	11.4	15.25
	5-Year Median	22.77	20.39	13.78	17.52
P/S F12M	Current	1.55	1.77	2.7	3.61
	5-Year High	3.14	2.3	3.29	3.61
	5-Year Low	0.37	1.02	1.75	2.53
	5-Year Median	1.67	1.69	2.06	3.02
P/B TTM	Current	2.39	1.89	3.67	4.46
	5-Year High	5.14	2.68	4.17	4.56
	5-Year Low	0.98	1.41	2.01	2.83
	5-Year Median	3.57	2.21	2.62	3.71

As of 7/21/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (173 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Atmos Energy Corporation (ATO)	Outperform	2
Sempra Energy (SRE)	Outperform	2
Southwest Gas Corporation (SWX)	Outperform	2
Energy Transfer LP (ET)	Neutral	4
MDU Resources Group, Inc. (MDU)	Neutral	3
NewJersey Resources Corporation (NJR)	Neutral	3
UGI Corporation (UGI)	Neutral	4
ENN Energy Holdings Ltd. (XNGSY)	Underperform	5

Industry Comparison Industry: Utility - Gas Distribution				Industry Peers		
	OKE	X Industry	S&P 500	SRE	UGI	XNGSY
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	2	4	5
VGM Score	C	-	-	C	A	B
Market Cap	13.31 B	3.75 B	22.70 B	36.65 B	6.91 B	13.40 B
# of Analysts	5	3	14	5	1	1
Dividend Yield	12.48%	3.41%	1.81%	3.34%	3.98%	1.71%
Value Score	B	-	-	C	A	C
Cash/Price	0.04	0.04	0.06	0.06	0.06	0.08
EV/EBITDA	10.32	10.53	13.09	12.98	11.13	8.70
PEG Ratio	3.35	3.02	3.03	2.35	NA	NA
Price/Book (P/B)	2.23	1.71	3.12	1.85	1.69	2.88
Price/Cash Flow (P/CF)	7.06	8.89	12.23	10.02	6.72	10.53
P/E (F1)	20.08	16.84	22.36	16.84	14.76	15.92
Price/Sales (P/S)	1.40	1.54	2.42	3.34	1.02	NA
Earnings Yield	4.84%	5.85%	4.31%	5.94%	6.78%	6.28%
Debt/Equity	2.56	0.96	0.75	1.02	1.42	0.40
Cash Flow (\$/share)	4.25	4.38	6.94	12.50	4.94	4.52
Growth Score	C	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	19.72%	6.12%	10.82%	5.80%	6.12%	NA
Proj. EPS Growth (F1/F0)	-52.64%	-0.23%	-9.08%	9.73%	-1.32%	1.36%
Curr. Cash Flow Growth	11.06%	10.67%	5.51%	12.92%	-8.47%	97.78%
Hist. Cash Flow Growth (3-5 yrs)	22.18%	8.55%	8.55%	8.55%	3.86%	14.78%
Current Ratio	1.36	0.81	1.31	0.45	0.89	0.62
Debt/Capital	71.92%	48.28%	44.41%	47.74%	58.65%	28.61%
Net Margin	8.40%	8.74%	10.54%	22.32%	5.69%	NA
Return on Equity	21.11%	8.89%	15.38%	11.30%	13.36%	NA
Sales/Assets	0.45	0.28	0.54	0.17	0.50	NA
Proj. Sales Growth (F1/F0)	-13.45%	0.00%	-2.40%	-5.71%	-4.64%	11.04%
Momentum Score	F	-	-	F	C	C
Daily Price Chg	6.12%	1.56%	0.86%	2.17%	5.13%	-0.07%
1 Week Price Chg	7.30%	1.99%	3.82%	4.74%	7.95%	2.65%
4 Week Price Chg	-15.22%	0.89%	3.42%	4.85%	5.13%	1.19%
12 Week Price Chg	-1.80%	-4.48%	9.22%	-1.32%	10.34%	4.86%
52 Week Price Chg	-56.24%	-19.84%	-3.38%	-9.84%	-33.92%	18.41%
20 Day Average Volume	6,067,187	296,382	2,069,527	1,952,901	1,000,332	7,751
(F1) EPS Est 1 week change	-5.10%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-6.60%	-0.04%	0.13%	0.00%	0.00%	-8.28%
(F1) EPS Est 12 week change	-21.42%	-0.90%	-3.85%	4.44%	-13.46%	-8.28%
(Q1) EPS Est Mthly Chg	-5.58%	0.00%	0.00%	-4.18%	0.00%	NA

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	B
Growth Score	C
Momentum Score	F
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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