

ONEOK Inc. (OKE)

\$74.84 (As of 01/24/20)

Price Target (6-12 Months): **\$79.00**

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:B

Value: C

Growth: C

Momentum: A

Summary

In the past 12 months, shares of ONEOK have outperformed the industry. It aims to complete \$4.5-billion capital projects within first-quarter 2020, which are expected to boost performance over the long term. The acquisition of ONEOK Partners has expanded operations. Higher drilling activities from the producers will boost demand for the company's services. The company is poised to benefit from long-term fee-based commitments in its Natural Gas Gathering and Processing as well as Natural Gas Liquids segments. Increase in drilling activities in high productive regions will increase demand for the company's midstream services. However, ONEOK 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.

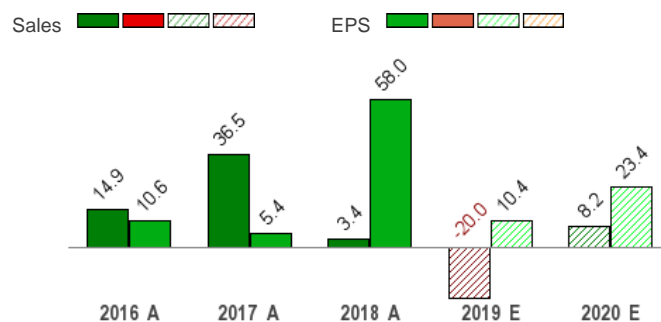
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$77.26 - \$61.29
20 Day Average Volume (sh)	1,536,379
Market Cap	\$30.9 B
YTD Price Change	-1.1%
Beta	1.15
Dividend / Div Yld	\$3.74 / 4.9%
Industry	Utility - Gas Distribution
Zacks Industry Rank	Bottom 30% (178 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-4.2%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	02/24/2020
Earnings ESP	-1.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,552 E	2,538 E	2,660 E	2,783 E	10,891 E
2019	2,780 A	2,458 A	2,263 A	2,456 E	10,070 E
2018	3,102 A	2,961 A	3,394 A	3,137 A	12,593 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.89 E	\$0.93 E	\$0.97 E	\$1.00 E	\$3.79 E
2019	\$0.81 A	\$0.75 A	\$0.74 A	\$0.76 E	\$3.07 E
2018	\$0.64 A	\$0.68 A	\$0.75 A	\$0.70 A	\$2.78 A

*Quarterly figures may not add up to annual.

P/E TTM	25.0
P/E F1	19.8
PEG F1	1.8
P/S TTM	2.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/24/2020. The reports text is as of 01/27/2020.

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.

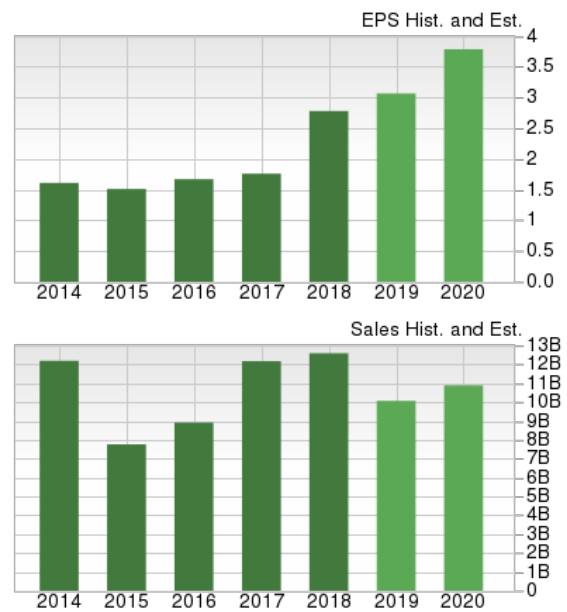
ONEOK is primarily focused on rendering management support and resources to ONEOK Partners and creating value for its shareholders through its ownership in the partnership. As a result, ONEOK's reportable segments reflect the three business segments of ONEOK Partners. ONEOK Inc.'s operations are divided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

In 2018, the Natural Gas Gathering and Processing, Natural Gas Liquids as well as Natural Gas Pipelines segments contributed 21%, 76% and 3% 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:

- ▲ Shares of ONEOK have gained 20.1% compared with the industry's rise of 17.8% in the past 12 months. The company is poised to benefit from long-term fee-based commitments in its Natural Gas Gathering and Processing and Natural Gas Liquids segments. The company expects nearly 85% of its earnings in 2019 to be fee-based. From these fee-based solutions, the company expects 20% increase in adjusted EBITDA in 2020.

In Natural Gas Gathering and Processing segment, 412 wells are connected through the first nine months of 2019 in Rocky Mountain. In total, 525-550 wells are expected to be connected in 2019. 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 expected to be completed by January 2020. In Mid-Continent, the company connected 98 wells in the first nine months of 2019 and expects to connect 110 wells in 2019.

In Natural Gas Liquids segment, the southern section of Elk Creek pipeline was completed in July 2019. The northern section of Elk Creek NGL pipeline is expected to begin line fill activities in November. This will strengthen ONEOK's position in the high production region and contribute to earnings.

- ▲ Increase in drilling activities in high productive regions will increase demand for the company's midstream services. The company's natural gas transportation capacity increased 12% year over year in the third quarter.

The company recently completed few capital growth projects in the Permian Basin, STACK and SCOOP area. Expansion of WestTex Transmission system with 300 MMcf/d capacities was completed in the said quarter. Completion of 150 MMcf/d eastbound and 100 MMcf/d west bound expansions of the ONEOK Gas Transportation System is expected to improve transportation volume as well as increase demand for pipeline services.

- ▲ 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. The company expects total growth capital expenditures of 2019 in the range of \$3.5-\$3.7 billion and maintenance capital expenditures in the band of \$185-\$205 million (excluding AFUDC and capitalized interest). In the first nine months of 2019, capital expenditures (less allowance for equity funds used during construction) amounted to \$2.7 billion.
- ▲ 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 October, ONEOK's Board of Directors announced 2.8% increase in quarterly dividend to 91.5 cents from 89 cents. The new dividend is payable on Nov 14 to shareholders of record as on Nov 4. Currently, the company's dividend yield is pegged at 4.89%, higher than the industry's 2.76% and the Zacks S&P 500 composites' 1.78%.
- ▲ 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 the first nine months, distributable cash flow totaled \$1.5 billion, up 13% compared with 2018. The company expects 2019 distributable cash flow in the range of \$1.97-\$2.1 billion.

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

Reasons To Sell:

- ▼ ONEOK Inc.'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.
- ▼ 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.
- ▼ 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 persistently from 2017 to the second quarter of 2019. The company's debt/capital is 66.79% compared with the industry's average of 49.94% and the S&P 500's 42.99%. Interest expenses totaled \$362.5 million in the first nine months of 2019, up 3.2% from \$351.1 million in the prior-year quarter.

Stringent government regulations, and increase in competition in the pipeline business are potential growth deterrents.

Last Earnings Report

ONEOK Posts In-Line Q3 Earnings, Misses on Revenues

ONEOK reported third-quarter 2019 operating earnings of 74 cents per share, in line with the Zacks Consensus Estimate. The bottom line dropped 1.3% on a year-over-year basis.

Notably, higher natural gas liquids (NGL) and natural gas volume, increase in average fee rates along with ramp-up in transportation services in the natural gas pipelines segment drove results. However, results were impacted by lower Mid-Continent NGL volumes as well as higher operating costs and depreciation expenses caused by operation expansion.

Total Revenues

Total revenues amounted to \$2.26 billion, which missed the Zacks Consensus Estimate of \$2.36 billion by 4.22%. The top line also declined 33.3% from \$3.39 billion recorded in the prior-year quarter due to lower Commodity sales.

Highlights of the Release

ONEOK spent \$1.41 billion on cost of sales and fuel, down 44.8% from the year-ago quarter's tally.

The company's adjusted earnings before interest, tax, depreciation and amortization (EBITDA) was \$649.8 million, down 0.1% year over year.

The company incurred interest expenses of \$129.6 million, up from \$122 million in the prior-year quarter. Operating income was \$482.2 million, down 2.7% from \$495.5 million recorded in the year-ago quarter.

On Oct, 2019, the company completed the 200-million cubic feet per day (MMcf/d) Demicks Lake I Natural Gas Processing Plant in the Williston Basin.

Financial Highlights

As of Sep 30, 2019, ONEOK had cash and cash equivalents of \$673.3 million compared with \$12 million as of Dec 31, 2018.

Long-term debt (excluding current maturities) amounted to \$12,479.5 million as of Sep 30, up from \$8,873.3 million as of Dec 31, 2018.

The company's cash flow from operating activities in the first nine months of 2019 was \$1,326.8 million, down from \$1,516.5 million in the year-ago period.

Capital expenditures (less allowance for equity funds used during construction) amounted to \$2,739.3 million in the first nine months of 2019, up from \$1,309.7 million in the year-ago period.

Guidance

The company now expects 2019 net income in the range of \$1,220-\$1,330 million. The previous guidance was \$1,140-\$1,400 million.

ONEOK's adjusted EBITDA is expected in the range of \$2,560-\$2,640 million. The previous guidance was \$2,500-\$2,700 million.

For 2019, the company expects growth capital expenditures in the range of \$3,515-\$3,695 million and maintenance capital expenditures in the range of \$185-\$205 million.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	-4.22%
EPS Surprise	0.00%
Quarterly EPS	0.74
Annual EPS (TTM)	3.00

Recent News

ONEOK to Reward Shareholders With 2.2% Dividend Hike – Jan 15, 2020

ONEOK's board of directors announced 2.2% increase in quarterly dividend to 93.5 cents per share from 91.5 cents. This will result in an annualized dividend payout of \$3.74. The revised quarterly dividend will be paid out on Feb 14, 2020 to shareholders of record as of Jan 27, 2020.

ONEOK Completes the 900-Miles Elk Creek Pipeline Project – Dec 11, 2019

ONEOK recently announced that its 900-miles Elk Creek Pipeline project has been completed and is commissioned for commercial services. The pipeline extends from the Williston Basin to the company's existing Mid-Continent NGL facilities in Bushton, KS. Elk Creek will strengthen ONEOK's position in the high production region.

Valuation

ONEOK shares are up 12.1% in the last six months period, and 20.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was up 6.3% and 9% in the last six months period, respectively. Over the past year, the Zacks sub-industry is up 17.8% and and sector is up 5.5%, respectively.

The S&P 500 index is up 9.6% in the last six months period and 23.9% in the past year.

The stock is currently trading at 19.58X of forward 12 months earnings, which compares to 20.46X for the Zacks sub-industry, 14.17X for the Zacks sector and 18.94X for the S&P 500 index.

Over the past five years, the stock has traded as high as 37.06X and as low as 10.99X, with a 5-year median of 23.96X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$79 price target reflects 20.68X 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	19.58	20.46	14.17	18.94
	5-Year High	37.06	23.03	15.33	19.34
	5-Year Low	10.99	16.66	12.61	15.18
	5-Year Median	23.96	20.42	13.7	17.45
P/S F12M	Current	2.83	2.32	2.98	3.52
	5-Year High	3.14	2.32	3.26	3.52
	5-Year Low	0.37	0.98	1.7	2.54
	5-Year Median	1.64	1.6	1.95	3
P/B TTM	Current	4.97	2.72	4.23	4.5
	5-Year High	5.13	2.74	4.23	4.55
	5-Year Low	0.98	1.53	2.01	2.85
	5-Year Median	3.51	2.16	2.56	3.62

As of 01/24/2020

Industry Analysis Zacks Industry Rank: Bottom 30% (178 out of 255)



Top Peers

Atmos Energy Corporation (ATO)	Neutral
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
Williams Companies, Inc. (The) (WMB)	Neutral
UGI Corporation (UGI)	Underperform

Industry Comparison Industry: Utility - Gas Distribution				Industry Peers		
	OKE Neutral	X Industry	S&P 500	ATO Neutral	OGS Neutral	PAA Neutral
VGM Score	B	-	-	D	D	A
Market Cap	30.92 B	4.67 B	24.13 B	14.35 B	5.03 B	12.94 B
# of Analysts	9	2	13	4	3	4
Dividend Yield	4.89%	2.76%	1.78%	1.96%	2.10%	8.10%
Value Score	C	-	-	D	C	A
Cash/Price	0.02	0.01	0.04	0.00	0.00	0.05
EV/EBITDA	17.69	13.66	14.02	15.47	14.42	7.16
PEG Ratio	1.75	3.15	2.03	3.51	4.40	NA
Price/Book (P/B)	4.97	2.07	3.30	2.41	2.39	1.20
Price/Cash Flow (P/CF)	19.48	12.18	13.52	15.21	15.08	6.18
P/E (F1)	19.75	20.15	18.92	25.07	26.41	10.15
Price/Sales (P/S)	2.91	1.99	2.65	4.95	3.02	0.39
Earnings Yield	5.06%	4.87%	5.28%	3.99%	3.78%	9.85%
Debt/Equity	2.01	0.99	0.72	0.61	0.61	0.88
Cash Flow (\$/share)	3.84	3.40	6.94	7.72	6.33	2.88
Growth Score	C	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	16.83%	5.57%	10.60%	9.06%	12.67%	5.74%
Proj. EPS Growth (F1/F0)	23.79%	9.36%	7.59%	7.64%	3.24%	-36.01%
Curr. Cash Flow Growth	68.93%	7.46%	13.90%	12.19%	7.90%	53.00%
Hist. Cash Flow Growth (3-5 yrs)	15.84%	6.65%	9.00%	11.14%	6.38%	3.31%
Current Ratio	1.26	0.77	1.22	0.38	0.57	0.96
Debt/Capital	66.79%	49.94%	42.99%	38.03%	37.96%	42.07%
Net Margin	11.76%	8.72%	11.35%	17.62%	10.83%	8.95%
Return on Equity	19.56%	8.85%	17.10%	9.19%	8.63%	21.05%
Sales/Assets	0.54	0.35	0.55	0.23	0.30	1.22
Proj. Sales Growth (F1/F0)	8.14%	4.80%	4.03%	20.02%	4.63%	-1.15%
Momentum Score	A	-	-	D	F	A
Daily Price Chg	-1.90%	-0.41%	-1.01%	0.43%	-0.36%	-2.09%
1 Week Price Chg	2.17%	3.22%	2.29%	3.22%	3.27%	2.43%
4 Week Price Chg	-1.69%	1.77%	1.02%	6.23%	3.11%	-6.77%
12 Week Price Chg	7.17%	2.78%	6.85%	4.36%	2.78%	-1.99%
52 Week Price Chg	19.46%	7.32%	20.39%	21.42%	14.55%	-23.73%
20 Day Average Volume	1,536,379	338,637	1,536,379	631,276	214,311	3,561,895
(F1) EPS Est 1 week change	-0.03%	0.00%	0.00%	0.32%	-1.09%	0.00%
(F1) EPS Est 4 week change	0.50%	0.00%	0.00%	0.41%	-1.09%	1.68%
(F1) EPS Est 12 week change	-0.01%	-0.13%	-0.23%	1.08%	-1.34%	-5.06%
(Q1) EPS Est Mthly Chg	-2.42%	-0.23%	0.00%	-1.05%	-0.56%	2.45%

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	A
VGM Score	B

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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