

## Kinder Morgan Inc.

NYSE: KMI

**Analyst:** Brian Johnke

**Sector:** Energy

**BUY**

Price Target: \$56.72

### Key Statistics as of 4/16/15

Market Price:	\$43.68
Industry:	Oil, Gas and Consumable Fuels
Market Cap:	\$94.113 B
52-Week Range:	\$32.10-44.09
Beta:	0.47

### Thesis Points:

- Dividend Growth
- Ability to Identify Lucrative Acquisitions
- Has Separated itself from Competitors

### Company Description:

Kinder Morgan, Inc. operates as an energy infrastructure and energy company in North America. The company operates through Natural Gas Pipelines, CO<sub>2</sub>, Terminals, Products Pipelines, Kinder Morgan Canada, and Other segments. The Natural Gas Pipelines segment owns and operates interstate and intrastate natural gas pipeline and storage systems; natural gas and crude oil gathering systems, and natural gas processing and treating facilities; and natural gas liquids fractionation facilities and transportation systems. The CO<sub>2</sub> segment produces, transports, and markets CO<sub>2</sub> for use in enhanced oil recovery projects; and owns interest in oil-producing fields, gas processing plants, and crude oil pipelines located in the Permian Basin region of West Texas. The Terminals segment owns and operates liquids and bulk terminals, and rail transloading and materials handling facilities that transload and store refined petroleum products; crude oil; condensate; and bulk products, including coal, petroleum coke, cement, alumina, salt, and other bulk chemicals, as well as owns and operates tankers. The Products Pipelines segment owns and operates refined petroleum products, and crude oil and condensate pipelines; and associated product terminals and petroleum pipeline transmix facilities. The Kinder Morgan Canada segment owns and operates Trans Mountain pipeline system that transports crude oil and refined petroleum products from Edmonton, Alberta, and Canada to marketing terminals and refineries in British Columbia, Canada, and Washington State; and aviation turbine fuel pipeline. The Other segment includes various physical natural gas contracts with power plants. Kinder Morgan, Inc. owns an interest in or operates approximately 80,000 miles of pipelines and 180 terminals. The company was formerly known as Kinder Morgan Holdco LLC and changed its name to Kinder Morgan, Inc. in February 2011. Kinder Morgan, Inc. is headquartered in Houston, Texas. (CIQ)

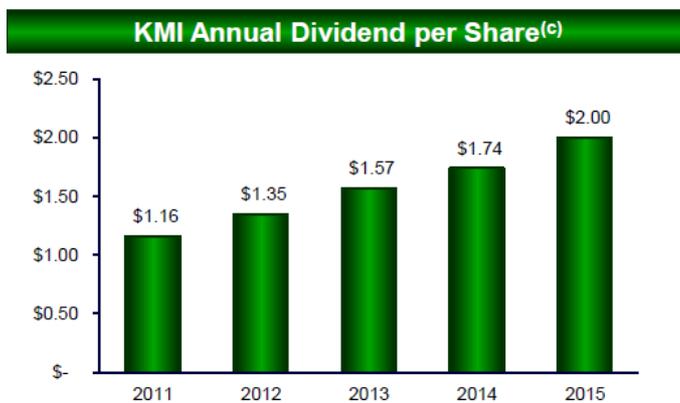


## Recommendation

Kinder Morgan, North America's largest energy infrastructure company, largest midstream, and third largest energy company is a BUY with a one year price target of \$56.72. The bullishness towards Kinder Morgan can be attributed to its consistent dividend growth, its ability to identify lucrative acquisitions, and its ability to separate from peers that have felt a negative impact from recent changes in commodity prices.

## Dividend Growth

At current price levels, Kinder Morgan yields a 4.3% dividend. On April 15, 2015, Kinder Morgan announced that it received approval from its board of directors to increase its quarterly dividend to \$.48 per share payable on May 15, 2015 with an ex-dividend date of April 30, 2015. The dividend represents an increase of 14% over last year's first quarter dividend in order to stay on track to meet its yearly dividend target of \$2 a share.



The targeted \$2 dividend for 2015 represents a near 16% increase over last year's annual dividend. Kinder Morgan has also announced a targeted annual growth rate of 10% from 2015 thru 2020.

## Recent Acquisitions

On January 21, 2015, Kinder Morgan announced that they have agreed to acquire Hiland Partners from founder Harold Hamm and Hamm Family trusts for a price of \$3 billion. Hiland's assets consist of crude oil gathering and transportation pipelines and gas gathering and processing systems, primarily serving production

from the Bakken Formation in North Dakota and Montana. Hiland's crude oil gathering systems consist of approximately 1,225 miles of gathering pipelines that deliver crude oil to the basin's major takeaway pipelines and rail terminals. Based on its long-term forecast for Hiland, KMI expects that the multiple of EBITDA paid for Hiland, including future growth capital investments, will decline to approximately 10 times by 2018. The acquisition is expected to be modestly accretive to KMI's cash available to pay dividends in 2015 and 2016 and approximately six to seven cents accretive beginning in 2017.

On February 9, 2015, Kinder Morgan announced that it will purchase three terminals and one undeveloped site from Royal Vopak for approximately \$158 million. With two completed acquisitions already in 2015, Kinder Morgan shows no sign of taking a step back from acquiring assets they believe are undervalued, in fact in the most recent earnings call Kinder Morgan CEO Richard Kinder said, "I think you can expect us to be active in the coming months." – in regards to the possibility of future acquisitions.

## Separation from Peers

As the third largest energy company in North America, Kinder Morgan offers investors income and growth currently above that of other energy companies due to its low sensitivity to commodity prices. During the rapid decline in oil prices over the last nine months that left many energy companies with uncertainty about their futures, Kinder Morgan has thrived. Being the largest midstream company in North America, meaning they are involved in the transportation of the commodity, the increase in oil production has had a positive impact on Kinder Morgan.



Above is a chart that displays Kinder Morgan's 1 year stock performance versus some of its top competitors. This chart helps visualize the impact that the decline in commodity prices have had on Kinder Morgan and its competitors.



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Kinder Morgan, Inc.		kmi	Analyst Brian Johnke	Current Price \$43.68	Intrinsic Value \$55.20	Target Value \$66.72	Divident Yield 4%	Target Return 1-y Return: 34.28%	BULLISH			
<b>General Info</b>		<b>Peers</b>		<b>Market Cap.</b>		<b>Management</b>						
Sector	Energy	Sunoco Logistics Partners L.P.	\$10,340.97	<b>Professional</b>	<b>Title</b>	<b>Comp. FY2012</b>	<b>Comp. FY2013</b>	<b>Comp. FY2014</b>				
Industry	Oil, Gas and Consumable Fuels	Plains All American Pipeline, L.P.	\$20,040.86	Kinder, Richard	Chairman and Chief Executive	\$1	\$1	\$1				
Last Guidance	Apr-15-2015	ONEOK Partners, L.P.	\$11,002.89	Kean, Steven	President, Chief Operating Of	\$2,123,472	\$30,777,891	\$1,269,706				
Next earnings date	7/18/2015	Enbridge Energy Partners, L.P.	\$13,200.33	Dang, Kimberly	Chief Financial Officer and Vi	\$1,722,475	\$10,429,539	\$1,984,367				
<b>Market Data</b>		ONEOK Inc.	\$10,661.02	Shorb, Lisa	Vice President of Human Res	\$0	\$0	\$3,419,122				
Enterprise value	\$138,498.16	Williams Partners L.P.	\$29,845.16	DeVeau, David	Vice President and General C	\$0	\$6,009,527	\$1,517,959				
Market Capitalization	\$93,168.16	Magellan Midstream Partners LP	\$18,230.49	Martin, Thomas	Vice President and President	\$1,772,262	\$10,430,377	\$1,746,552				
Daily volume	15.11	Buckeye Partners, L.P.	\$9,873.51	<b>Historical Median Performance</b>								
Shares outstanding	2145.25	Enterprise Products Partners L.P.	\$67,600.98	<b>kmi</b>		<b>Peers</b>		<b>Industry</b>		<b>All U.S. firms</b>		
Diluted shares outstanding	1417.50	Targa Resources Partners LP	\$8,002.62	Growth	25.3%	10.3%	8.6%	8.6%	7.4%			
% shares held by institutions	56.47%	<b>Current Capital Structure</b>			ROIC	4.9%	6.7%	11.4%	14.3%			
% shares held by insiders	14.41%	Total debt/market cap	48.58%	NOPLAT Margin	18.6%	4.5%	8.6%	10.4%				
Short interest	3.24%	Cost of Borrowing	3.99%	Revenue/Invested Capital	0.26	1.49	1.32	1.37				
Days to cover short interest	7.14	Interest Coverage		Excess Cash/Rev.	N/A	0.7%	13.5%	12.9%				
52 week high	\$43.51	Altman Z		Total Cash /Rev.	4.9%	0.7%	12.3%	15.2%				
52-week low	\$32.10	Debt Rating	CC	Unlevered Beta	0.48	0.45	0.61	0.95				
5y Beta	0.63	Levered Beta	0.59	TEV/REV	7.2x	1.6x	3.1x	2.5x				
8-month volatility	22.58%	WACC (based on market value)	4.84%	TEV/EBITDA	28.8x	36.3x	19.0x	13.1x				
<b>Past Earning Surprises</b>		<b>Revenue</b>		<b>EBITDA</b>		<b>Norm. EPS</b>		<b>Non-GAAP Adjustments in estimates computations</b>				
Last Quarter	-28.4%	Last Quarter	-14.1%	Last Quarter	-8.7%	Operating Leases Capitalizati	100%	Straightline	10 years			
Last Quarter-1	-8.1%	Last Quarter-1	-6.8%	Last Quarter-1	-53.1%	R&D Exp. Capitalization	100%	Straightline	10 years			
Last Quarter -2	7.8%	Last Quarter -2	9.4%	Last Quarter -2	3.2%	Expl./Drilling Exp. Capitalizatio	0%	N/A	N/A			
Last Quarter -3	4.2%	Last Quarter -3	-1.8%	Last Quarter -3	-3.6%	SG&A Capitalization	0%	N/A	N/A			
Last Quarter -4	4.8%	Last Quarter -4	28.8%	Last Quarter -4	-20.0%	<b>Forecast</b>						
<b>Proforma Assumptions</b>		<b>Period</b>		<b>Rev. Growth</b>		<b>Adj. Op. Cost/Rev</b>		<b>Invested Capital</b>		<b>NOPLAT Margin</b>	<b>ROIC</b>	<b>WACC</b>
Money market rate as of today	0.60%	LTM	15.3%	58.2%	\$75,919.32	19%	4.0%	4.8%				
Annual increase (decrease) in interest	0.1%	NTM	1.0%	60.3%	\$75,236.70	20%	4.2%	5.0%				
Yield Spread acceleration	1.2	NTM-1	1.0%	62.5%	\$75,688.59	17%	3.6%	5.1%				
Marginal Tax Rate	37.5%	NTM-2	1.0%	64.7%	\$76,212.84	15%	3.2%	5.2%				
Risk-Free rate	2.6%	NTM-3	1.0%	66.9%	\$76,792.53	13%	2.8%	5.3%				
Tobin's Q	0.80	NTM-4	1.0%	69.1%	\$77,425.83	12%	2.5%	5.4%				
Op. Cash/Rev.	7%	NTM-5	1.0%	71.3%	\$78,123.17	10%	2.2%	5.5%				
Growth in PPE	NPPE Growth follows Revenue Growth	NTM-6	1.0%	73.4%	\$78,911.57	9%	1.9%	5.6%				
Long term Growth	4.0%	NTM-7	1.0%	75.6%	\$79,855.62	7%	1.6%	5.7%				
Base Year Unlevered Beta	is equal to 0.45	NTM-8	1.0%	77.8%	\$81,166.95	6%	1.2%	5.9%				
Long term Unlevered Beta	0.45	Continuing Period	1.0%	80.0%	\$34,094.56	12%	10.0%	6.0%				
<b>Valuation</b>		<b>Period</b>		<b>Invested Capital ± (ROIC-WACC)</b>		<b>Total Debt</b>		<b>Senior non-interest bearing clai</b>		<b>Shares Outstanding</b>	<b>Pricing Model</b>	
LTM	\$0.00	LTM	\$45,259.00	\$45,259.00	\$3,563.23	2145.25	DCF (Weight = 100%)	Relative (Weight = Distress (Weight = Weighted Average Price P				
NTM	-\$590.72	NTM	\$47,618.01	\$47,618.01	-\$4,683.97	2145.25	\$56.16	\$22.31	\$40.81	\$56.16		
NTM-1	-\$1,064.10	NTM-1	\$47,938.50	\$47,938.50	-\$4,836.28	2145.25	\$57.47	\$18.69	\$43.07	\$57.47		
NTM-2	-\$1,474.65	NTM-2	\$48,465.14	\$48,465.14	-\$4,980.49	2145.25	\$59.88	\$15.82	\$45.80	\$59.88		
NTM-3	-\$1,836.18	NTM-3	\$49,406.31	\$49,406.31	-\$5,177.03	2145.25	\$62.79	\$12.79	\$48.89	\$62.79		
NTM-4	-\$2,184.55	NTM-4	\$50,585.99	\$50,585.99	-\$5,631.88	2145.25	\$65.96	\$11.79	\$52.30	\$65.96		
NTM-5	-\$2,534.55	NTM-5	\$52,140.12	\$52,140.12	-\$6,637.34	2145.25	\$69.75	\$11.78	\$56.16	\$69.75		
NTM-6	-\$2,895.91	NTM-6	\$54,288.61	\$54,288.61	-\$8,639.88	2145.25	\$73.24	\$11.38	\$61.30	\$73.24		
NTM-7	-\$3,277.62	NTM-7	\$57,224.21	\$57,224.21	-\$11,640.96	2145.25	\$77.17	\$9.88	\$67.16	\$77.17		
NTM-8	-\$3,694.13	NTM-8	\$61,310.13	\$61,310.13	-\$15,641.31	2145.25	\$81.34	\$2.50	\$73.83	\$81.34		
Continuing Value	\$155,017.41						\$85.56	\$0.00	\$81.34	\$85.56		