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Kinder Morgan’s Master Limited Partnership Reorganization

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By

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Abstract

The main objective of this paper is to investigate the reorganization of Kinder Morgan's (KMI) master limited partnership (MLP) structure. In October 2014, four publicly traded companies – Kinder Morgan, Inc. (NYSE: KMI), Kinder Morgan Energy Partners, L.P. (NYSE: KMP), Kinder Morgan Management, LLC (NYSE: KMR), and El Paso Pipeline Partners, L.P. (NYSE: EPB) – were merged under the Kinder Morgan, Inc. name. This study analyzes the consolidation of KMI through the use of qualitative and quantitative research. The qualitative research involves the study of the company's 10-K reports, earnings call transcripts, and energy sector reports. The quantitative research includes the creation of a target price model and the study of Kinder Morgan's financial statements from years 2008-2014, using the Bloomberg database and Morningstar Direct. The current trend in the midstream energy industry is the creation of MLPs, but Kinder Morgan has decided to contradict this movement after many years of use. Results suggest that the KMI'S consolidation into one C-corporation entity will have a positive effect on future growth in the midstream oil and gas industry. In conclusion, the target price model and qualitative research suggest KMI is undervalued at its current stock price. This means Kinder Morgan, Inc. stock is a good buying opportunity after the merger.

Keywords: Kinder Morgan, KMI, Richard Kinder, Master Limited Partnership, MLP

Signatures Page

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Introduction

In 1997, Richard Kinder and William Morgan started their first master limited partnership (MLP) with the acquisition of the general partnership of a small pipeline business – Enron Liquids Pipeline. The company, which came to be known as Kinder Morgan Energy Partners (KMP), would be the start of their first MLP business of many to come. Both Kinder and Morgan believed in the benefits that were provided from the creation of master limited partnerships in a changing economic time. Tax code changes in the 1980's had allowed the formation of MLPs. These new tax codes allowed MLPs to transfer through the earnings of the company directly to the general and limited partners without the company incurring any corporate level taxation. The caveat was that the MLP had to distribute 90 percent of its net income to the partners, which left little to no cash on hand for the company. Most corporations stock pile cash in the balance sheet, because they are paying corporate taxes and not disbursing such a large percent of net income to shareholders.

The formation of KMP was only the start for Richard Kinder. The 1990's and 2000's were a time of expansion for MLPs, especially in the energy industry, and Mr. Kinder was going to be at the forefront of the movement. In 1999, a merger took place between Kinder Morgan and KN Energy. KN Energy was the larger, merging company by assets, but decided to take the Kinder Morgan name and placed Richard Kinder as the chairman and CEO. The midstream, pipeline and storage company became known as Kinder Morgan, Inc. (NYSE: KMI). KMI became the general partner and operator of KMP.

Kinder Morgan Management, LLC (KMR) was formed in 2001 as a holding company, in which the vast majority of its assets are limited partnership shares in KMP. The purpose of KMR is to sell publicly traded shares of itself, so that institutional companies have the opportunity to own equity in KMP.

The most recent master limited partnership created by Kinder was El Paso Pipeline Partners (EPB) in 2012. KMI acquired El Paso Corporation and spun the business into the MLP structure where KMI was the general partner and operator. Richard Kinder and his team were making moves during the fracking boom to expand their empire of MLP businesses. The MLP structure requires constant reinvestment through capital expenditures, so that the company can grow and provide higher dividend payments to shareholders. With historically low interest rates in the United States, MLPs have been a prosperous business model for many companies over the past few years.

In November 2014, Kinder Morgan decided to forgo the strategy that they have used for almost two decades and consolidate the company under the KMI business. KMI has purchased all the outstanding shares in the three MLP businesses – KMP, KMR and EPB – which it started. The old and new, consolidated business structures are shown in Figure 1. This move is very contradictory to the strong incoming flow of master limited partnership businesses into the energy sector. At a time when the creation of MLPs has skyrocketed, Kinder Morgan has decided to go against the industry trends. Is Richard Kinder making moves to be on the forefront of another trend? Will the move be beneficial for KMI and shareholders? A look inside their financial statements, 10K reports and earnings call transcripts will tell more.

Master Limited Partnership

A master limited partnership is a business entity that was created from the changing of tax codes in the 1970’s. In recent years, the amount of MLPs has grown exponentially as a good business opportunity in the energy sector. The midstream sector has especially been a popular energy segment, which has attracted master limited partnerships.

An MLP has two different types of owners – a general partner and limited partners. The general partner owns a percentage of the MLP's shares and operates the MLP business. Also, the general partner gains incentive distribution rights (IDR), which pays an increasing amount of cash flows to the general partner as the company grows. A limited partner is an investor who purchases an economic stake in the MLP through a stock exchange, as MLPs are publicly traded. As compensation for holding shares in an MLP, partners are given quarterly distributions of the company's cash flow.

Master limited partnerships are formed for the tax benefits. The MLP does not pay corporate taxes as a normal C class corporation would. Instead, it is a pass through business and distributes at least 90% of its ending cash flow to its partners. In turn, the partners who own shares in the MLP are responsible for paying taxes on the company's revenues at their personal tax rate. The general partner benefits greatly from these tax benefits, because it receives a tax break from not having to pay at a corporate tax level on the revenues.

The midstream sector is attractive for the formation of MLPs, because of the fee-based revenues associated with transportation and storage of crude oil, petro products and other forms of energy materials. These fee-based revenues create a steady stream of revenues for the MLP. Master limited partnerships are capital intensive businesses – meaning they require large amounts of money for investments. Therefore, the master limited partnership is beneficial for reinvesting large amounts of money into expansion and paying leftover cash out to partners in the form of distributions. The fracking revolution in North America has sped up the midstream

MLP formation in the U.S. and Canada. A report recently prepared by the Interstate Natural Gas Association of Americas (INGAA) states “More than $640 billion or about $30 billion per year, in total capital expenditures are required over the next 22 years for the combined natural gas and liquids outlook” (ICF International).

Company Ratio Analysis

Profitability Ratios

All profitability ratios were derived from the Bloomberg database and are located in Table 8.

Return on Assets.

Kinder Morgan had a 1.3% ROA in 2014, which is slightly lower than the industry average of 2.23%. Their ROA has jumped around a lot in the past 5 years as the amount of net income has fluctuated compared to the acquisition of assets. A low ROA is not necessarily a worry for Kinder Morgan, because it is a very capital intensive business requiring large amounts of investment in fixed assets. The continuous investments from the MLP businesses drives the ROA lower as the amount of assets grow and the net income takes a longer time to realize an increase.

Return on Equity.

Bloomberg shows KMI’s return on equity is 4.3% in 2014. Compared to the industry average of 10.10%, Kinder Morgan has a low ROE. Although, the ROE of Kinder Morgan in 2013 was closer to the industry average at 8.85%. The low return on equity in 2014 can be attributed to a large increase in Additional Paid-In Capital, which led to a much larger amount of stockholders’ equity than normal. Kinder Morgan’s consolidation came with a large price tag of about $71 billion, in which a majority of it was financed by the sale of KMI shares.

Return on Invested Capital.

The company has a 4.98% return on invested capital for 2014, which is higher than the industry average of 4.73%. This is a beneficial ratio for the company, because it shows that the company has made good investments that have generated income. KMI seems to have a good investment strategy compared to the industry. Also, the return on invested capital has increased over the past 5 years, which is a positive sign of revenue generation from investments.

Profit Margin Analysis.

The profit margins taken into account for KMI are the gross margin, earnings before income taxes, depreciation, and amortization (EBITDA) margin, operating margin and net income margin. Since 2010, the gross margin, EBITDA and operating margins have overall been increasing. This shows better efficiency in the company's cost of revenue and operating expenses, along with a steady increase in revenue from year to year. Fiscal year 2014 resulted in a small decrease in these 3 margins, but the drop was not significant. The net income margin has been increasing over the past few years, as well, but there is a slight drop from 2013 to 2014. Taking a look at the income statement, we can attribute the drop in 2014 to a decrease in Other Income. The movement of the Other Income section is not an issue as it reports income outside of operations.

Liquidity Ratios

All liquidity ratios were derived from the Bloomberg database and are located in Table 9.

Current Ratio.

The current ratio for 2014 was 0.59, but the industry average is close at 0.73. This can be attributed to a decrease in current assets of cash and more to an increase of current liabilities of Other Current Liabilities. The Other Current Liabilities includes derivative contracts, interest rate swaps and gas imbalance payables. Gas imbalance payables have been steady over the past 2 years, due to an increase in liabilities from derivative contracts and interest rate swaps. This increase is validated by the drastically changing oil and natural gas prices that the world has been experiencing.

Quick Ratio.

Kinder Morgan's quick ratio of 0.31 is slightly below the industry average of 0.38, but it is closer to the industry average than the current ratio. The quick ratio is a better, more conservative liquidity test, because it only includes the most liquid of assets that cover current liabilities. Overall, KMI has had a higher quick ratio than the industry average for the past 6 years. 2014 was a down year, but we look to see the quick ratio back above the industry average as total cash will increase with the consolidation of the MLP businesses.

Cash Ratio.

KMI has a cash ratio of 0.05 compared to the industry average of 0.09. The cash ratio is the most conservative of the liquidity ratios. The gap between the industry and KMI's ratio has decreased even further, but KMI was still lagging in 2014. In the past 5 years, the cash ratio is higher than the industry average, which is a positive sign. The company will expect to see a rise in cash deposits in future years, since the acquisition will provide more revenue and the ability to stockpile cash – with the 90% dividend payment to partners gone. It is not expected that KMI will allow this cash ratio to get extraordinarily bigger, because the company still will have a key focus on expansion in the midstream energy sector. Also, increasing dividends to KMI stockholders is still a large part of the Kinder Morgan business model.

Leverage Ratios

All leverage ratios were derived from the Bloomberg database and are located in Table 10.

Debt Ratio.

The Bloomberg database indicates the company had a debt ratio of 49.19% in fiscal year 2014, in relation to the industry average of 45.78%. Kinder's debt ratio has been dropping lower over the past 5 years, which shows the company has been becoming less dependent on debt to finance its assets. 2013 showed its lowest debt ratio to date at 48.14%, but 2014 saw a slight rise due to a big increase in long term debt. The new acquisition of KMP, KMR and EPB is the leading cause for the increase in debt. It is positive to be able to see these correlations with the liabilities and debt ratio, because we can see the company has a strong track record – in the past – of increasing its equity position in relation to liabilities. The desired result is to see the company return to this strategy and pay down its liabilities quickly with its newly acquired assets.

Debt to Equity.

The industry average for debt to equity is 130.97%, which is higher than the 118.89% debt to equity for KMI. A lower ratio is beneficial in the picture of the company's leverage position. Kinder has been taking on a heavier equity presence in the past years, which has led to the lowering of this ratio. The debt to equity lowered significantly from 2013 to 2014. This lowering is due in part to an increase in Additional Paid-In Capital for the stockholders' equity. Once again, this increase is due to the issuance of stock to help partially finance their new acquisitions.

Interest Coverage.

EBITDA to Interest Expense is the interest coverage ratio that was looked at for KMI. Kinder Morgan is holding a 3.59 EBITDA to Interest Expense ratio, which means that it is able to cover its interest expense over 3 and a half times in 2015 from its 2014 EBITDA. The company is able to service its interest, which is a positive. In the future, a higher ratio would help benefit KMI's credit rating and ability to borrow.

Activity Ratios

All activity ratios were derived from the Bloomberg database and are located in Table 11.

Accounts Receivable Turnover.

Kinder is right at the industry average of 9.65 for accounts receivable turnover for 2014. Since 2009, the company has improved this ratio from 7.53 and has decreased Days Sales Outstanding from 48.48 to 37.81. It is a positive to see the payables in the balance sheet have not grown exponentially over the past years, but sales have continued to rise. Kinder Morgan does a large majority of fee-based work – which has helped it with the downturn of oil prices – and has been collecting efficiently.

Accounts Payable Turnover.

Accounts payable turnover is the next activity ratio to take a look at. This ratio compliments the accounts receivable turnover well, so that we can see the company's timetable on payments. The industry average is 8.32, but KMI comes in much lower at 5.37. This tells us that Kinder Morgan waits longer to pay off its payables, which is confirmed by its increase in Days Payables Outstanding from 47.80 in 2010 to 67.96 in 2014. If the company is able to push back payments without repercussion, this is a positive for the company. Kinder has been collecting money faster – with regards to the accounts receivable turnover – and paying out money slower, which is positive to keep cash on hand for as long as possible.

Inventory Turnover.

KMI has a good inventory turnover compared to the industry average of 19.20. It is a positive to be close to the industry average, be one does not want to see ineffective assets at significantly higher ratio or excess inventory with a significantly lower ratio. Coming in at 19.65, Kinder has made good investments in inventory that don't sit around unused and bring in contracted revenues. As a fee-based company, the turnover margin will differ from year to year as new contracts steadily come into play and old ones expire. The current economic situation in North America has provided a large glut of crude oil and refined petroleum products, which will lead to increased sales for KMI's transportation and storage facilities in the upcoming years. As it has in the 3 years from 2012 to 2014, look for Kinder's inventory turnover to continue to rise.

Price Ratios

All price ratios were derived from the Bloomberg database and are located in Table 12.

Price to Earnings.

The price to earnings ratio for KMI was at 40.16 for 2014. The industry average was 33.62. A high P/E ratio compared to the industry signifies that KMI could possibly be overpriced compared to competitors. However, a higher P/E ratio signifies that shareholders and the market have high projections for future growth in the company's earnings. With the recent reworking of its business model, one can see the high P/E ratio as a prediction into Kinder Morgan's growth potential.

Price to Book Value.

The book value of a company signifies the assets of the company that are owned by shareholders equity holdings in the company. Therefore, the price to book value tells the market what investors must pay to purchase assets in KMI. At 2.64, Kinder's price to book value is extremely low compared to the industry average of 7.57. This could signify an undervaluing of Kinder Morgan book value compared to price.

Enterprise Value to EBITDA.

Industry average of EV to EBITDA is 15.82. KMI comes in at 20.17 in 2014, which is higher than the industry average. The new debt that the company obtained to purchase KMP, KMR and EPB has skewed the enterprise value of the company. By raising the amount of company debt, the enterprise value raises a substantial amount which increases the EV/EBITDA. A better indicator is the 2013 ratio of 15.20 before the acquisition. This shows that the company is not necessarily overvalued. When KMI has a couple years with its acquisitions, it will have better revenues to increase EBITDA and lower the EV/EBITDA ratio.

Enterprise Value to Sales.

Kinder Morgan's EV/Sales was 8.0 in 2014, which in relation to the industry average of 15.82 is low. Investors should reason that a low EV/Sales ratio is an attractive buying opportunity, because the purchasing of the company's sales – in relation to enterprise value – look inexpensive. On the other hand, investors can look at a low ratio as weak projected future revenue or sales. With the new potential revenues that KMI acquired this does not seem like the reasoning behind a low EV/Sales ratio.

Dividend Yield.

The industry average of dividend yield is 3.38%. Kinder Morgan comes in well above with 4.11% dividend yield in 2014. Since 2011, KMI has been putting out a dividend to shareholders and has steadily increased it. Richard Kinder has promised shareholders a dividend of $2 for the upcoming year of 2015 (Q4 Earnings Call Transcript). This is about a 17.65% increase over the $1.70 paid out to shareholders in 2014. Also, the company has announced that they will be increasing the dividend by 10% each year for the next 5 years. After acquiring the MLP businesses that paid out 90% of revenues in the form of dividends, KMI believes that its revenue growth will be able to support a large increase in total cash to pay these dividends. A large dividend yield increase makes Kinder Morgan an extremely enticing company to shareholders.

Financial Statements Analysis

Income Statement

The income statement and common sized income statement are found in Table 3 and Table 4, respectively.

Common Sized.

The common sized income statement makes each income statement (IS) item a percentage of revenues. This makes it easier to compare across sections from year to year to make sure that the company has been efficiently using their revenues. The first IS item is the cost of revenue. Overall, cost of revenue has been decreasing in the past 5 years, so gross profit percentage has been increasing. Total operating expenses as percent of revenues has been decreasing over the past 5 years. As a result, operating income has been moving in a positive direction. Also, income before income taxes and net income from continuing operations percentages have been increasing over the past 5 years. The net income from continuing operations is where an investor should be looking to have positive movements with KMI, because net income subtracts out a large amount of Other Expenses. According to the 2014 KMI 10K report, these Other Expenses are "Net income attributable to non-controlling interests". Therefore, the net income for KMP, KMR and EPB were subtracted from the Net Income from Continuing Operations. These segments will not be subtracted in the calculation of net income in the future, because of the consolidation into KMI. The common sized income statement shows the company is headed in a positive direction by decreasing expenses margins from year to year and increasing profit margins.

Balance Sheet

The balance sheet and common sized balance sheet are found in Table 5 and Table 6, respectively.

Common Sized.

In the common sized balance sheet, each item is made a percentage of Total Assets. It helps to get perspective on the company's capital structure from year to year. Kinder Morgan's common sized balance sheet shows that the company is positioned for future growth. Total assets and total liabilities and stockholders' equity will equal 100% as a percentage of assets. Looking at assets first, KMI has small amounts of cash on hand, which is due to the quarterly distributions paid out in the past by their MLPs. The percentage of current assets has floated around the 5% level since 2009, which leaves about 95% of total assets to come from non-current assets. The largest item has consistently been gross property, plant and equipment at well over 50%. Goodwill is the next largest asset over the past 3 years, which has been growing at a higher rate compared to the other assets. This portrays to investors that KMI has been making more acquisitions in the past 3 years, which may lead to potential growth in revenues and earnings.

The liabilities and stockholders' equity should tell the same story as the total assets. First, the short term debt for KMI has floated around 3% and the total current liabilities are approximately 8% for the past 3 years. This helps to confirm the small amount of current assets in the company. In 2014, the ratio of stockholders' equity to liabilities changed significantly. In the past, non-current liabilities have been approximately 75% of the total liabilities and stockholders' equity. With the acquisition of KMP, KMR and EPB, the non-controlling interests almost drop to zero and the percentage of minority interest shows the effect. Also, the additional paid-in capital increased greatly to acquire these entities.

KMI Business Segments

Kinder Morgan, Inc. is a large-cap, midstream energy company headquartered in Houston, Texas. Operating in pipeline transportation and terminal storage, Kinder Morgan has become the largest energy infrastructure company in the United States. The company controls about 84,000 miles of pipeline and 180 terminals across North America. Figure 2 shows the vast area in which the company's pipelines and terminals cover. Their vast web of pipelines transports natural gas, crude oil, refined oil products, carbon dioxide and other products for energy companies across multiple industries. Meanwhile, liquid and dry terminals are used as storage for different types of energy products – from oil products to coal. A vast majority of Kinder Morgan's presence is in the United States, but it also has operations in Canada and Mexico.

Natural Gas Pipelines

KMI's natural gas pipelines business segment includes three different forms of revenue generation. Natural gas transportation and storage is the first form of revenue generation. The second is the operation and/or ownership of natural gas collection systems, natural gas processing and treating facilities. The last is natural gas liquid processing plants and transportation pipelines.

Products Pipelines

The products pipelines transport refined petroleum products – such as jet fuel, diesel fuel, bio fuels and gasoline – and crude oil throughout the United States, Canada and Mexico. The products pipelines segment also includes the storage of these refined petroleum products and crude oil in terminals owned and/or operated by Kinder Morgan.

Carbon Dioxide (CO_2)

The Carbon Dioxide segment creates revenue by producing and selling CO_2 to oil field extraction companies. These oil fields use the carbon dioxide to push out extra crude oil from older, more mature oil reservoirs and maximize profits on their oil fields. The business segment includes the ownership and/or operation CO_2 processing plants in West Texas. CO_2 sales from oil field companies helps to contribute more transportation of crude oil in KMI pipelines located in the West Texas region.

Terminals

Kinder Morgan's terminals business segment brings a steady, growing stream of revenues to the company. This segment includes the ownership and/or operation of liquid terminals and dry-bulk terminals located primarily in the United States and Canada. The liquid terminals store refined petroleum products, crude oil and condensate. On March 31st, the company announced a joint venture with Keyera Corp. to construct new crude oil storage terminals in Alberta, Canada. The terminals will be connected to KMI's pipelines that stream into the Kinder Morgan Canada business segment. In addition, the dry-bulk terminals hold bulk products that are used in the energy industry – such as coal, alumina, petroleum coke, salt and others. Jones Act tanker ships are also a portion of the terminals segment. A growing business for Kinder Morgan, storage tankers provide transportation of liquids for oil companies and refiners. In 2014, KMI put in orders for the production of five more tankers to be delivered in from 2015 to 2017.

Kinder Morgan Canada

Kinder Morgan Canada consists of pipelines – the Trans Mountain pipeline system – transporting refined petroleum products and crude oil from the Alberta province of Canada to the British Columbia province of Canada and the state of Washington. The business segment contains pipelines that provide jet fuel to Vancouver International airport.

NGPL PipeCo LLC

NGPL PipeCo LLC is an energy company based in Houston, Texas that provides storage and transportation of natural gas. The LLC holds over 10,000 miles of pipelines - located in the United States and Canda – and storage facilities that service the Midwest region with natural gas. Kinder Morgan Inc. owns 20 percent of the controlling interests in NGPL.

Other

KMI's other business segment was obtained through their acquisition of El Paso Corporation in 2012. Outstanding contracts for the sale of natural gas still remain to drive revenues. Other assets and liabilities still exist from the acquisition, including the attainment of the building which serves as the current headquarters for Kinder Morgan in Houston.

Assumptions

Many assumptions were used throughout the entire financial model build. These assumptions were created using academic research.

Revenue Build

The business segments, which drive the company's revenues, have been explained in the above section. This puts into perspective the growth rates that will be placed on the revenues in the financial model. Table 1 and Table 2 shows the revenue build and revenue cases and how they take into account a breakdown of geographic and business segment revenues. The geographic revenues were forecasted using a 5 year historical average of annual revenue growth and the economic projections of GDP growth for each geographic segment. The economic projections of GDP were gathered from Bloomberg Contributor Composite of private sector economists. To calculate base case revenue growth for each year, a weighting system was utilized. The GDP growth was given a weighting of 35% and the historical segment growth was given 65%. After a base case was forecasted for 3 years, pessimistic and optimistic cases were created. A variation of 1.5% from the base case was used to determine these pessimistic and optimistic cases.

The business segment revenues were forecasted using compounded annual growth rate (CAGR) for each segment, starting in 2008. Each CAGR was added to 1 and multiplied by the corresponding business segment's 2014 revenue. This was repeated each year until 2017 revenues were forecasted. These numbers were then compared to the EEO function – which gives consensus forward equity estimates – in Bloomberg. The forecasted numbers from CAGR place in between the mean and low estimates of the EEO function for 2015E, 2016E and 2017E.

Interest Expense

Tax rate was another assumption used in the calculation of the financial statements. With the looming possibility of the Fed raising interest rates in the next few years, a calculation was required to compensate for this increase on interest expense. Interest expense can be found on the income statement after operating income. The interest expense will increase in the next few years as the Fed interest rate hikes occur. The model takes into account two different opinions for the rise of interest rates. The "median estimate for the Fed's short-term interest rate target at the end of the year (that) now stands at 0.625%" (Derby) and the belief that the fed will have "an increase of 1.5% over a 12-month period" (Conerly). The original interest rate on short and long term bonds was calculated by utilizing a weighted average yield to maturity on all the bonds outstanding. Assuming a Fed interest rate change, projects KMI short term yields at 1.84%, an increase over the originally calculated 1.15% yield on short term bonds. The long term bonds showed an increase in yield as well, with the original calculation of 3.85% for long term bonds and the Fed adjusted projection of 4.54%. The projected KMI yields with Fed changes in mind were then multiplied by short and long term debt to give the forecasted interest expense in the Table 3 income statement.

Dividends Paid

An assumption was performed on the annual dividends to be paid from 2015 to 2017. In Kinder Morgan's 10-K report, Richard Kinder declared that dividends will be rising to $2 in 2015 and increasing each year by 10% until 2020. Therefore, an assumption was to project $2 paid in 2015, $2.20 paid in 2016 and $2.42 paid in 2017. These assumptions were multiplied by the total amount of shares outstanding to determine the amount of cash dividends paid in the cash flow statement. The cash flow statement is located in Table 7.

Weighted Average Cost of Capital (WACC)

The weighted average cost of capital was calculated using multiple cases. These cases and calculations are located in Table 15. According to the Bloomberg database, the beta for KMI is 1.02 and the risk free rate – the yield on a 10 year treasury on April 2, 2015 – is 1.91%. An average interest rate was calculated from the current short and long term weighted average yields to maturity to give 2.5% and the tax rate has historically been 22% for KMI. The capital structure of Kinder Morgan was given by the Bloomberg database at 67.7% equity and 32.3% debt. All of these numbers were held constant in the calculation of WACC. The expected rate of return was the changing piece of the WACC assumption. The base case used a 9.43% expected market return. Pessimistic and optimistic cases were created at 1% higher and lower from the base case. The above WACC assumptions were then used in determining an estimated stock price in the DCF analysis, as seen in Table 14.

Terminal Growth

Terminal growth is an assumption in the discounted cash flow analysis. The terminal growth is a stable rate that the company will grow as long as the business exists. Typically, 3% to 5% terminal growth rates are used to calculate the DCF model. 3% is on the low side and 5% is on the high side. This DCF analysis used 4% as a base case terminal growth rate with pessimistic and optimistic cases created, as well. The pessimistic and optimistic cases are 0.5% difference from the 4% base case. This is an important number used in the DCF calculation and can drastically affect a stock value. The terminal growth assumptions are found being used in Table 14.

Results

Discounted Cash Flow

The discounted cash flow analysis, located in Table 14, shows investment in KMI is a good opportunity. $41.92 was the closing price on April 1, 2015. A case study was conducted for the DCF model, utilizing three different WACCs and terminal growths to predict an estimated value of Kinder Morgan stock. The base case consisted of a base WACC and base 4% terminal growth rate. The base case constructed has led to an estimated value projection of $58.76. The estimated value projects a $16.84 increase in stock price, which is slightly over a 40% increase in price. Continuing with a 4% terminal growth rate, a pessimistic and optimistic WACC produce an estimated value of $43.13 and $83.29, respectively. Even with a higher or pessimistic WACC, the stock price is still valued at 3% above the closing price.

Changing the terminal growth case, with the base case WACC, produces positive results as well. A pessimistic, lower terminal growth rate of 3.5% produces an estimated value of $46.85. In addition, the DCF model gives an estimated value of $75.23 with a higher terminal growth rate of 4.5%. However, the use of base case WACC and terminal growth is the best predictor of estimated value.

Trading Comparables

The trading comparables analysis consisted of 7 similar companies from the oil and gas midstream. The comparable companies' information is located in Table 16. The enterprise value to EBITDA ratios for the peer group was used to determine an estimated price for KMI. The median EV/EBITDA was multiplied by Kinder Morgan's forecasted 2015 EBITDA to get an estimated enterprise value for the company. The forecasted debt was deducted and the ending cash balance was added to the estimated enterprise value. With a value of equity calculated, it is divided by the amount of outstanding shares to get an estimated value for the stock. At $41.92, the closing price of the stock comes in lower than the estimated value of $53.83. The trading comps analysis provided an estimated stock price 28.4% higher than the closing price. KMI stock seems to be a good buying opportunity for investors, according to the trading comps analysis.

Kinder Morgan is not thought of as an acquisition, due to being the largest oil and gas midstream company in North America. For the sake of the study, a trading comps analysis was calculated for the enterprise value and forward EBITDA. EV/Forward EBITDA provides a look into how long the revenues of KMI would take to pay for itself in an acquisition. With a median EV/Forward EBITDA of 12.21 from the midstream peer group, the company's current price appears to look even less expensive to an investor or acquirer. With a higher current EV/EBITDA of 14.54, an investor will be getting more value from the company in the future earnings periods.

Target Price

The target price for KMI stock takes both the discounted cash flow and trading comparables analyses into consideration. The target price calculation in found in Table 13. The calculation of target price places weightings on the DCF and comps prices. Trading comps are usually a better indicator of an estimated value, because it does not involve the forecasting of cash flows and possible error. The comps price of $53.83, from Table 16, receives a higher weighting of 65%. The DCF analysis from Table 14 is dependent on the forecasting of the financial statements and many assumptions, so it receives a lower weighting of 35% for its $58.76 estimated price. Once the weightings are set, a target price and target range are created. This research calculated a target price of $55.55 for KMI stock, giving a 32.5% increase in stock price over the closing price. A 7% target range created a floor price of $51.66 and a ceiling price of $59.44.

Conclusion

Since the creation of Kinder Morgan Energy Partners in 1997, Richard Kinder has used the master limited partnership business structure to grow his business into the largest midstream and natural gas provider companies in North America. Last year, Richard Kinder had four companies – KMI, KMP, KMR and EPB – that were publicly traded on the New York Stock Exchange. According to KMI's 2014 10K report, it owned about 10% limited partner interest and the 2% general partner interest in KMP, and it owned about 39% limited partner interest and the 2% general partner interest in EPB. It owned a large portion of stock in the KMR limited liability corporation. An unexpected turn occurred at the end of 2014, when KMI announced that it would be purchasing the outstanding shares of KMP, KMR and EPB to consolidate the company under the KMI stock ticker. With so many companies starting midstream MLPs during the fracking revolution, Richard Kinder was taking his company in a new and different direction.

The midstream sector is tailored for the master limited partnership structure to operate. The MLP structure is beneficial, because it takes advantage of special tax benefits. As long as the company operates as a pass through entity and the government does not change current laws to address MLPs, it will not pay corporate taxes. Instead, the shareholders receive 90% of the revenues and the tax responsibility. Steady revenues from fee-based operations in the midstream provide the ability to pay partners these quarterly distributions consistently from year to year.

Richard Kinder spoke in regards to the recent consolidation of Kinder Morgan's MLPs into the single corporation of KMI:

This transaction dramatically simplifies the Kinder Morgan story, by transitioning from four separately traded equity securities today to one security going forward, and by eliminating the incentive distribution rights and structural subordination of debt….Further, we believe that KMI will be a valuable acquisition currency and have a significantly lower hurdle for accretive investments in new energy infrastructure. In the opportunity-rich environment of today's energy infrastructure sector, we believe this transaction gives us the ability to grow KMI for years to come. (Kinder Morgan, Inc., 2014b).

The consolidation becomes the second largest merger in the history of the energy industry, behind the Exxon Mobil merger. KMI is the largest energy infrastructure company in North America. Figure 2 shows their consolidated energy infrastructure in North America after the merger.

The consolidation will be beneficial to Kinder Morgan for multiple other reasons, as well. Before the merger, KMI was being taxed on the IDR and quarterly distribution cash flows of KMP and EPB. Therefore, moving away from the MLP tax pass-through structure is not as detrimental as perceived. Also, converting into one large C-corporation will provide KMI with more options to gain capital for expansion. The timing of the merger and exit of the MLP structure is a benefit. As the Fed comes closer to a decision, "the lower 'real' yield that is produced, as interest rates rise, the attractiveness of the income potential of MLPs is likely to decline" (Cahn, 2014). The cost of capital for the company going forward is another benefit. The elimination of IDR payments will help lower the cost of capital and help KMI increase expansion. This is important, because Kinder Morgan wants to expand and take advantage of the INGAA's estimate of $640 billion in capital expenditure needed for energy infrastructure in the next 22 years. Although KMI has shown that it will be increasing dividends by 10% through 2020, it is not just a dividend stock. The management team will be working to develop the company continuously through these acquisitions and expansions.

Kinder Morgan has a strong track record of acquisition and expansion. This will lead to large amounts of revenue generation and growth potential in the future. Figure 3 shows the capital expenditure backlogs that KMI has projected until 2017. KMI has made recent acquisitions and expansions in 2015. In February, Kinder Morgan acquired Hiland Partners for $3 billion to expand their reach into the Bakken Formation. As stated in Kinder Morgan's February press release, "Hiland's assets, mostly fee based, consist of crude oil gathering and transportation pipelines and natural gas gathering and processing systems, primarily serving production from the Bakken Formation in North Dakota and Montana" (Kinder Morgan, 2015a). Hiland has long term gathering contracts in the region, which will add to KMI's contracted revenues. In March, Kinder Morgan and Keyera Corporation agreed to a joint venture to create crude oil storage terminals in Alberta, Canada. The terminal will serve as multiple sources of future revenue for KMI, because the "Base Line Terminal will be connected via pipeline to Kinder Morgan's Edmonton terminals and will be capable of sourcing all crude streams handled by Kinder Morgan for delivery to multiple destinations" (Kinder Morgan, 2015b).

By employing qualitative resources and a target price model for Kinder Morgan, this research found that the reorganization of the Kinder Morgan master limited partnership structure will be beneficial to the company's future earnings growth and longevity in the midstream energy sector. At a projected price of $55.55, Kinder Morgan is a good buying opportunity for investors after the consolidation.

Appendices

Table 1

Kinder Morgan: Forecasted Revenue Build

Revenue Build

Case	1

Fiscal year ends in September. USD in millions except per share data.	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E	Growth Rates 2015E	Growth Rates 2016E	Growth Rates 2017E
Revenue	12094.8	7185.2	8190.6	7943	9973	14070	16226	17259	18356	19522			
United States	11804.2	6862.3	7814.6	7513	9488	13656	15605	16592	17636	18743	6.33%	6.29%	6.27%
Canada	269.3	301.9	356.5	411	407	398	437	449	462	476	2.84%	2.88%	2.86%
Mexico and Other	21.3	21	19.5	19	78	16	184	217	257	304	18.18%	18.27%	18.32%

Fiscal year ends in September. USD in millions except per share data.	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Revenue	12095	7185	11343	7942	9973	14070	16226	17165.47	18194.51	19324.23
Natural Gas Pipelines—KMP	8422	3807	4417	3943	5230	8613	10153	10474.28	10805.73	11147.67
Products Pipelines—KMP	816	827	883	914	1370	1853	2068	2414.73	2819.61	3292.36
CO2 - KMP	1269	1131	1298	1434	1677	1857	1960	2107.22	2265.50	2435.67
Terminals—KMP	1173	1108	4417	1314	1356	1408	1717	1829.65	1949.69	2077.60
Kinder Morgan Canada—KMP	199	226	269	302	311	302	291	310.05	330.35	351.98
NGPL PipeCo LLC	132	-	47	36	35	36	36	28.99	23.34	18.79
Other	40	46	4	-1	-6	1	1	0.54	0.29	0.16
Power	44	40	9	-	-	-	-	-	-	-

Fiscal year ends in September. USD in millions except per share data.	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Revenue	12095	7185	11343	7942	9973	14070	16226	17212.28	18275.05	19423.30

Table 2

Kinder Morgan: Revenue Build Cases

Revenue Build Cases

Case	**1**
Step	**1.5%**

Base Case	**1**
Pessimistic	**2**
Optimistic	**3**

	2015			2016			2017		
	Base Case	Pessimistic	Optimistic	Base Case	Pessimistic	Optimistic	Base Case	Pessimistic	Optimistic
United States	6.33%	4.83%	7.83%	6.29%	4.79%	7.79%	6.27%	4.77%	7.77%
Canada	2.84%	1.34%	4.34%	2.88%	1.38%	4.38%	2.86%	1.36%	4.36%
Mexico and Other	18.18%	16.68%	19.68%	18.27%	16.77%	19.77%	18.32%	16.82%	19.82%

Weighting	
GDP Growth	35.00%
Historical Segment Growth	65.00%

Economic Projections of GDP Growth	2015	2016	2017
United States	3.00%	2.80%	2.70%
Canada	2.00%	2.20%	2.10%
Mexico and Other	3.00%	3.50%	3.80%

5 YR Historical Avg - Annual Revenue Growth (2009 Start)	
United States	17.850%
Canada	7.670%
Mexico and Other	54.320%

	2015			2016			2017		
	Mean	Low	High	Mean	Low	High	Mean	Low	High
Revenue Forecasts	18179	16177	22739	19084	17229	23548	20628	18739	24359

	2008	2009	2010	2011	2012	2013	2014	CAGR	
Revenue	12095	7185	11343	7942	9973	14070	16226		
Natural Gas Pipelines—KMP	8422	3807	4417	3943	5230	8613	10153	0.031644	
Products Pipelines—KMP	816	827	883	914	1370	1853	2068	0.167667	
CO2 - KMP	1269	1131	1298	1434	1677	1857	1960	0.075114	
Terminals—KMP	1173	1108	4417	1314	1356	1408	1717	0.065607	
Kinder Morgan Canada—KMP	199	226	269	302	311	302	291	0.065474	
NGPL PipeCo LLC	132	-	47	36	35	36	36	-0.19481	
Other	40	46	4	-1	-6	1	1	-0.45926	
Power	44	40	9	-	-	-	-	-	-

Table 3

Kinder Morgan: Forecasted Income Statement

KINDER MORGAN, INC. (KMI) CashFlowFlag INCOME STATEMENT													
Fiscal year ends in December. USD in millions except per share data.	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
Revenue				12095	7185	8191	8265	9973	14070	16226	17212	18275	19423
Cost of revenue				9062	3068	5035	4941	4759	7365	8435	9065	9625	10230
Gross profit				3033	4117	3155	3324	5214	6705	7791	8147	8650	9194
Operating expenses													
Operation and maintenance					1160								
Depreciation and amortization				918	1070	1079	1092	1419	1806	2040	2321	2465	2619
Other operating expenses				4586	479	796	693	1202	909	1303	1472	1563	1661
Total operating expenses				5505	2710	1875	1785	2621	2715	3343	4257	4520	4804
Operating income				-2472	1407	1281	1539	2593	3990	4448	3890	4131	4390
Interest Expense				676	573	668	703	1427	1675	1798	2342	2920	3642
Other income (expense)				250	266	-144	180	177	1123	441	476	505	537
Income before income taxes				-2898	1100	469	1016	1343	3438	3091	2106	1802	1377
Provision for income taxes				304	327	168	363	139	742	648	464	397	303
Net income from continuing operations				-3202	773	300	652	1204	2696	2443	1642	1405	1074
Net income from discontinuing ops				-1	0	-1	8	-777	-4				
Other (net Income attributable to noncontrolling interests)				-396	-278	-341	-66	-112	-1499	-1417	-14	-14	-15
Net income				-3599	495	-41	594	315	1193	1026	1628	1391	1058
Net income available to common shareholders				-3599	495	-41	594	315	1193	1026	1628	1391	1058
Earnings per share													
Basic							0.74	0.4	1.15	0.89	1.43	1.22	0.93
Diluted							0.74	0.4	1.15	0.89	1.43	1.22	0.93
Weighted average shares outstanding													
Basic							118	907	1036	1137	1137	1137	1137
Diluted							708	1354	1036	1137	1137	1137	1137
EBITDA				-1304	2477	2215	2810	4196	5796	6488	6768	7186	7638

Table 4

Kinder Morgan: Common Sized Income Statement

KINDER MORGAN, INC. (KMI) CashFlowFlag INCOME STATEMENT COMMON SIZED										
Fiscal year ends in December. USD in millions except per share data.	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Revenue				100%	100%	100%	100%	100%	100%	100%
Cost of revenue				74.92%	42.70%	61.47%	59.78%	47.72%	52.35%	51.98%
Gross profit				25.08%	57.30%	38.52%	40.22%	52.28%	47.65%	48.02%
Operating expenses										
Operation and maintenance					16.14%					
Depreciation and amortization				7.59%	14.89%	13.17%	13.21%	14.23%	12.84%	12.57%
Other operating expenses				37.92%	6.67%	9.72%	8.38%	12.05%	6.46%	8.03%
Total operating expenses				45.51%	37.72%	22.89%	21.60%	26.28%	19.30%	20.60%
Operating income				-20.44%	19.58%	15.64%	18.62%	26.00%	28.36%	27.41%
Interest Expense				5.59%		8.16%	8.51%	14.31%	11.90%	11.08%
Other income (expense)				2.07%	3.70%	-1.76%	2.18%	1.77%	7.98%	2.72%
Income before income taxes				-23.96%	15.31%	5.73%	12.29%	13.47%	24.43%	19.05%
Provision for income taxes				2.51%	4.55%	2.05%	4.39%	1.39%	5.27%	3.99%
Net income from continuing operations				-26.47%	10.76%	3.66%	7.89%	12.07%	19.16%	15.06%
Net income from discontinuing ops				-0.01%	0.00%	-0.01%	0.10%	-7.79%	-0.03%	
Other				-3.27%	-3.87%	-4.16%	-0.80%	-1.12%	-10.65%	-8.73%
Net income				-29.76%	6.89%	-0.50%	7.19%	3.16%	8.48%	6.32%
Net income available to common shareholders				-29.76%	6.89%	-0.50%	7.19%	3.16%	8.48%	6.32%

Table 5

Kinder Morgan: Balance Sheet

KINDER MORGAN, INC. (KMI) CashFlowFlag BALANCE SHEET													
Fiscal year ends in December. USD in millions except per share data.	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Assets													
Current assets													
Cash													
Cash and cash equivalents					166	502	411	714	598	315	1393	1690	2011
Total cash					166	502	411	714	598	315	1393	1690	2011
Receivables					916	971	914	1404	1721	1641	2046	2552	3183
Inventories					115	94	172	374	430	459	572	714	890
Other current assets					183	219	166	1182	1119	1337	1667	2079	2593
Total current assets					1380	1787	1663	3674	3868	3752	5679	7035	8677
Non-current assets													
Property, plant and equipment													
Gross property, plant and equipment					18806	20025	21838	36274	42604	46933	59511	73958	92020
Accumulated Depreciation					-2003	-2954	-3912	-5278	-6757	-8369	-10437	-13016	-16232
Net property, plant and equipment					16804	17071	17926	30996	35847	38564	49074	60942	75788
Equity and other investments					3696	4291	3744	5804	5951	6036	7527	9388	11707
Goodwill					4744	4831	5074	23572	24504	24654	30746	38343	47818
Intangible assets					260	339	1185	1171	2438	2302	2871	3580	4465
Deferred income taxes										5651	7047	8789	10960
Other long-term assets					698	589	1125	2968	2577	2239	2792	3482	4343
Total non-current assets					26201	27121	29054	64511	71317	79446	100058	124524	155081
Total assets					27581	28908	30717	68185	75185	83198	105737	131559	163758

Liabilities and stockholders' equity									
Liabilities									
Current liabilities									
Short-term debt	805	2013	2921	2449	2306	2717	3388	4226	5270
Accounts payable	621	648	729	1200	1676	1588	1980	2470	3080
Taxes payable	58	45	39				0	0	0
Accrued liabilities	487	526	620	1480	2093	1020	1272	1586	1978
Deferred revenues	76	97	100				0	0	0
Other current liabilities	272	316	121	80		1037	1293	1613	2011
Total current liabilities	2319	3644	4529	5209	6075	6362	7934	9895	12339
Non-current liabilities									
Long-term debt	13241	13813	14356	32000	33887	40246	50191	62593	78059
Deferred taxes liabilities	2036	2093	2199	4033	4651		0	0	0
Minority interest	4675	5100	5247	10234	15192	350	436	544	679
Other long-term liabilities	1140	819	1065	2844	2287	2164	2699	3366	4197
Total non-current liabilities	21091	21825	22868	49111	56017	42760	53326	66503	82935
Total liabilities	23410	25469	27396	54320	62092	49122	61260	76397	95275
Stockholders' equity									
Common stock			8	10	10	21	26	33	41
Additional paid-in capital			3430	14917	14479	36178	45118	56266	70169
Retained earnings			-3	-943	-1372	-2106	-646	-1111	-1693
Accumulated other comprehensive income	4170	3439	-115	-119	-24	-17	-21	-26	-33
Total stockholders' equity	4170	3439	3320	13865	13093	34076	44477	55161	68484
Total liabilities and stockholders' equity	27581	28908	30717	68185	75185	83198	105737	131559	163758
Sanity Check	0	0	0	0	0	0	0	0	0

Table 6

Kinder Morgan: Common Sized Balance Sheet

KINDER MORGAN, INC. (KMI) CashFlowFlag BALANCE SHEET COMMON SIZED										
Fiscal year ends in December. USD in millions except per share data.	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Assets										
Current assets										
Cash										
Cash and cash equivalents					0.60%	1.74%	1.34%	1.05%	0.80%	0.38%
Total cash					0.60%	1.74%	1.34%	1.05%	0.80%	0.38%
Receivables					3.32%	3.36%	2.98%	2.06%	2.29%	1.97%
Inventories					0.42%	0.33%	0.56%	0.55%	0.57%	0.55%
Other current assets					0.66%	0.76%	0.54%	1.73%	1.49%	1.61%
Total current assets					5.00%	6.18%	5.41%	5.39%	5.14%	4.51%
Non-current assets										
Property, plant and equipment										
Gross property, plant and equipment					68.18%	69.27%	71.09%	53.20%	56.67%	56.41%
Accumulated Depreciation					-7.26%	-10.22%	-12.74%	-7.74%	-8.99%	-10.06%
Net property, plant and equipment					60.93%	59.05%	58.36%	45.46%	47.68%	46.35%
Equity and other investments					13.40%	14.84%	12.19%	8.51%	7.92%	7.25%
Goodwill					17.20%	16.71%	16.52%	34.57%	32.59%	29.63%
Intangible assets					0.94%	1.17%	3.86%	1.72%	3.24%	2.77%
Deferred income taxes										6.79%
Other long-term assets					2.53%	2.04%	3.66%	4.35%	3.43%	2.69%
Total non-current assets					95.00%	93.82%	94.59%	94.61%	94.86%	95.49%
Total assets					100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Liabilities and stockholders' equity										
Liabilities										
Current liabilities										
Short-term debt					2.92%	6.96%	9.51%	3.59%	3.07%	3.27%
Accounts payable					2.25%	2.24%	2.37%	1.76%	2.23%	1.91%
Taxes payable					0.21%	0.16%	0.13%			
Accrued liabilities					1.77%	1.82%	2.02%	2.17%	2.78%	1.23%
Deferred revenues					0.28%	0.34%	0.33%			
Other current liabilities					0.99%	1.09%	0.39%	0.12%		1.25%
Total current liabilities					8.41%	12.61%	14.74%	7.64%	8.08%	7.65%
Non-current liabilities										
Long-term debt					48.01%	47.78%	46.74%	46.93%	45.07%	48.37%
Deferred taxes liabilities					7.38%	7.24%	7.16%	5.91%	6.19%	
Minority interest					16.95%	17.64%	17.08%	15.01%	20.21%	0.42%
Other long-term liabilities					4.13%	2.83%	3.47%	4.17%	3.04%	2.60%
Total non-current liabilities					76.47%	75.50%	74.45%	72.03%	74.51%	51.40%
Total liabilities					84.88%	88.10%	89.19%	79.67%	82.59%	59.04%
Stockholders' equity										
Common stock							0.03%	0.01%	0.01%	0.03%
Additional paid-in capital							11.17%	21.88%	19.26%	43.48%
Retained earnings							-0.01%	-1.38%	-1.82%	-2.53%
Accumulated other comprehensive income					15.12%	11.90%	-0.37%	-0.17%	-0.03%	-0.02%
Total stockholders' equity					15.12%	11.90%	10.81%	20.33%	17.41%	40.96%
Total liabilities and stockholders' equity					100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Table 7

Kinder Morgan: Statement of Cash Flow

KINDER MORGAN, INC. (KMI) Statement of CASH FLOW													
Fiscal year ends in December. USD in millions except per share data.	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
Cash Flows From Operating Activities													
Net income					773	300	660	427	2692	2443	1642	1405	1074
Depreciation & amortization					1070	1079	1092	1426	1806	2040	2321	2465	2619
Amortization of debt discount/premium and issuance costs					6	6	7	23	39	45	-	-	-
Investment/asset impairment charges										272	-	-	-
Investments losses (gains)						406			-224		-	-	-
Deferred income taxes					61	2	84	47	640	615	2647	3989	6810
(Gain) Loss from discontinued operations					0	1					-	-	-
Stock based compensation								87			-	-	-
Accounts receivable					48	18	8	-231	-131	-84	-405	-506	-631
Inventory					-20	-21	18	-92	-53	-30	-113	-141	-176
Accounts payable					-180	-4	41	44	-36	-1	392	489	610
Accrued liabilities					-75	-27	10	-94	-58	183	252	314	392
Interest payable					50	18	19	-26	42	75	-	-	-
Income taxes payable					-132	-5	-26				-	-	-
Other working capital					-144	22	-95	84	-66	-301	-	-	-
Other non-cash items					131	116	547	1100	-587	-790	-	-	-
Net cash provided by operating activities					1588	1911	2365	2795	4064	4467	6736	8015	10699
Cash Flows From Investing Activities													
Investments in property, plant, and equipment					-1324	-1002	-1200	-2022	-3369	-3617	-4422	-5407	-6610
Property, plant, and equipment reductions					48	49	23	154	87	5	-	-	-
Acquisitions, net								-4970			-	-	-
Purchases of investments					-2052	-1260	-1342	-192	-217	-389	-	-	-
Sales/Maturities of investments					126	224	236	200	675	182	-	-	-
Investments in technologies									-292	-1388	-	-	-
Other investing activities					-275	-298	-110	1746	52	-3	-	-	-
Net cash used for investing activities					-3478	-2287	-2392	-5084	-3064	-5210	-4422	-5407	-6610

Cash Flows From Financing Activities													
Debt issued					7921	9373	9572	18148	13581	24573	-	-	-
Debt repayment					-5729	-7842	-8793	-14755	-12393	-17801	-	-	-
Repurchases of treasury stock									-637	-192	-	-	-
Cash dividends paid					-650	-1549	-1725	-2403	-3314	-3773	-2274	-2501	-2752
Other financing activities					389	728	890	1594	1668	-2336			
Net cash provided by (used for) financing activities					1931	711	-57	2584	-1095	471	-2274	-2501.4	-2751.54
Effect of exchange rate changes					6	2	-8	8	-21	-11			
Net change in cash					47	337	-91	303	-116	-283	40	107	1337
Cash at beginning of period					119	166	502	411	714	598	315	355	462
Cash at end of period					166	502	411	714	598	315	355	462	1798
Free Cash Flow													
Operating cash flow					1588	1911	2365	2795	4064	4467	6736	8015	10699
Capital expenditure					-1324	-1002	-1200	-2022	-3369	-3617	-4422	-5407	-6610
Free cash flow					263	908	1165	773	695	850	2314	2608	4088

Table 8

Kinder Morgan: Profitability Ratios

Kinder Morgan Inc/DE (KMI US) - Profitability

In Millions of USD except Per Share 12 Months Ending	FY 2008 2008-12-31	FY 2009 2009-12-31	FY 2010 2010-12-31	FY 2011 2011-12-31	FY 2012 2012-12-31	FY 2013 2013-12-31	FY 2014 2014-12-31
Returns							
Return on Common Equity	--	11.55	-1.09	17.57	3.67	8.85	4.30
Return on Assets	--	1.87	-0.15	1.99	0.64	1.66	1.30
Return on Capital	--	--	3.08	4.27	--	--	5.54
Return on Invested Capital	--	4.15	3.20	2.95	5.11	4.62	4.98
Margins							
Gross Margin	26.80	40.49	40.63	43.09	52.25	47.02	46.16
EBITDA Margin	20.50	34.48	28.81	31.66	40.30	41.19	39.99
Operating Margin	12.91	19.58	15.64	17.92	26.00	28.36	27.41
Incremental Operating Margin	--	-3.14	--	--	57.64	34.10	21.24
Pretax Margin	-23.96	15.30	5.71	10.20	13.47	24.44	19.05
Income before XO Margin	-26.48	10.76	3.67	5.65	12.07	19.16	15.06
Net Income Margin	-29.76	6.89	-0.50	7.48	3.16	8.48	6.32
Net Income to Common Margin	-29.76	6.89	-0.50	7.48	3.16	8.48	6.26
Additional							
Effective Tax Rate	--	29.71	35.82	44.57	10.35	21.58	20.96
Dvd Payout Ratio	--	131.39	--	193.83	116.28	138.48	194.91
Sustainable Growth Rate	--	-3.62	--	-16.49	-0.60	-3.41	-4.08

Source: Bloomberg

Table 9

Kinder Morgan: Liquidity Ratios

Kinder Morgan Inc/DE (KMI US) - Liquidity

In Millions of USD except Per Share 12 Months Ending	FY 2008 2008-12-31	FY 2009 2009-12-31	FY 2010 2010-12-31	FY 2011 2011-12-31	FY 2012 2012-12-31	FY 2013 2013-12-31	FY 2014 2014-12-31
Cash Ratio	0.06	0.07	0.14	0.09	0.14	0.10	0.05
Current Ratio	0.65	0.60	0.49	0.37	0.70	0.64	0.59
Quick Ratio	0.55	0.47	0.40	0.29	0.39	0.38	0.31
CFO/Avg Current Liab	--	0.73	0.64	0.58	0.57	0.72	0.72
Common Equity/Total Assets	17.31	15.12	11.90	10.81	20.32	17.41	40.96
Long-Term Debt/Equity	143.06	149.70	161.76	154.77	132.78	119.81	111.00
Long-Term Debt/Capital	57.88	57.84	56.61	53.58	54.70	52.56	50.71
Long-Term Debt/Total Assets	47.66	48.01	47.78	43.17	46.89	45.07	45.93
Total Debt/Equity	147.16	158.80	185.74	188.88	142.74	127.96	118.89
Total Debt/Capital	59.54	61.36	65.00	65.38	58.80	56.13	54.31
Total Debt/Total Assets	49.03	50.93	54.87	52.68	50.41	48.14	49.19
CFO/Total Liabilities	8.23	8.47	9.37	10.68	6.33	8.67	9.16
CFO/CapEx	0.55	1.20	1.90	1.09	1.38	1.21	1.24
Total Line of Credit	--	--	--	--	5,620.0	5,450.0	4,000.0
Total Available Line Of Credit	--	--	--	--	3,023.0	4,013.0	2,541.0
Total Credit Lines Drawn	--	--	--	--	2,597.0	1,437.0	1,073.0
Total Commercial Paper Outstanding	--	--	--	645.0	621.0	979.0	386.0

Source: Bloomberg

Table 10

Kinder Morgan: Credit Ratios

Kinder Morgan Inc/DE (KMI US) - Credit

In Millions of USD except Per Share 12 Months Ending	FY 2008 2008-12-31	FY 2009 2009-12-31	FY 2010 2010-12-31	FY 2011 2011-12-31	FY 2012 2012-12-31	FY 2013 2013-12-31	FY 2014 2014-12-31
Total Debt	12,474.5	14,046.0	15,860.5	16,183.0	34,401.0	36,193.0	40,929.0
Short-Term Debt	347.7	805.3	2,047.6	2,922.0	2,401.0	2,306.0	2,717.0
Long Term Debt	12,126.8	13,240.7	13,812.9	13,261.0	32,000.0	33,887.0	38,212.0
Total Debt/T12M EBITDA	5.03	5.67	6.72	6.43	8.56	6.24	6.31
Net Debt/EBITDA	4.98	5.60	6.51	6.27	8.38	6.14	6.26
Total Debt/EBIT	7.99	9.98	12.38	11.37	13.27	9.07	9.20
Net Debt/EBIT	7.91	9.86	11.99	11.08	12.99	8.92	9.13
EBITDA to Interest Expense	--	--	3.53	3.58	--	--	3.59
EBITDA-CapEx/Interest Expense	--	--	2.03	0.49	--	--	1.59
EBIT to Interest Expense	--	--	1.92	2.02	--	--	2.46
EBITDA/Cash Interest Paid	3.82	4.33	3.76	3.69	2.98	3.51	3.78
EBITDA-CapEx/Cash Interest Paid	-0.10	2.01	2.16	0.51	1.48	1.47	1.67
EBIT/Cash Interest Paid	2.40	2.46	2.04	2.09	1.92	2.42	2.59
Cash Interest Paid	649.9	572.8	627.9	681.0	1,349.0	1,652.0	1,718.0
Interest Expense	--	--	668.3	703.0	--	--	1,807.0
Common Equity/Total Assets	17.31	15.12	11.90	10.81	20.32	17.41	40.96
Long-Term Debt/Equity	143.06	149.70	161.76	154.77	132.78	119.81	111.00
Long-Term Debt/Capital	57.88	57.84	56.61	53.58	54.70	52.56	50.71
Long-Term Debt/Total Assets	47.66	48.01	47.78	43.17	46.89	45.07	45.93
Total Debt/Equity	147.16	158.80	185.74	188.88	142.74	127.96	118.89
Total Debt/Capital	59.54	61.36	65.00	65.38	58.80	56.13	54.31
Total Debt/Total Assets	49.03	50.93	54.87	52.68	50.41	48.14	49.19
Net Debt/Equity	145.76	156.93	179.86	184.08	139.78	125.84	117.97
Net Debt/Capital	58.97	60.64	62.94	63.72	57.58	55.20	53.90
EBITDA	2,479.6	2,477.4	2,359.5	2,515.0	4,019.0	5,796.0	6,488.0
EBITDA-CapEx	-65.7	1,153.1	1,357.0	344.0	1,997.0	2,427.0	2,871.0
EBIT	1,561.2	1,407.2	1,280.7	1,423.0	2,593.0	3,990.0	4,448.0

Source: Bloomberg

Table 11

Kinder Morgan: Activity Ratios

Kinder Morgan Inc/DE (KMI US) - Working Capital							
In Millions of USD except Per Share	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**
12 Months Ending	**2008-12-31**	**2009-12-31**	**2010-12-31**	**2011-12-31**	**2012-12-31**	**2013-12-31**	**2014-12-31**
Accounts Receivable Turnover	**--**	**7.53**	**8.68**	**8.43**	**8.88**	**9.21**	**9.65**
Days Sales Outstanding	--	48.48	42.06	43.32	41.23	39.61	37.81
Inventory Turnover	**--**	**53.58**	**46.40**	**33.96**	**17.44**	**18.54**	**19.65**
Days Inventory Outstanding	--	6.81	7.87	10.75	20.98	19.68	18.57
Accounts Payable Turnover	**--**	**5.91**	**7.64**	**6.69**	**5.02**	**5.14**	**5.37**
Days Payables Outstanding	--	61.74	47.80	54.60	72.85	71.06	67.96
Cash Conversion Cycle	**--**	**-6.45**	**2.12**	**-0.53**	**-10.63**	**-11.76**	**-11.58**
Inventory to Cash Days	**--**	**55.29**	**49.93**	**54.07**	**62.21**	**59.30**	**56.39**
Total Inventory	**44.2**	**115.4**	**94.2**	**172.0**	**374.0**	**430.0**	**459.0**

Source: Bloomberg

Table 12

Kinder Morgan: Price Ratios

Kinder Morgan Inc/DE (KMI US) - Price Ratios							
In Millions of USD except Per Share	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**
12 Months Ending	**2008-12-31**	**2009-12-31**	**2010-12-31**	**2011-12-31**	**2012-12-31**	**2013-12-31**	**2014-12-31**
Price Earnings Ratio (P/E)	--	--	--	63.98	29.94	52.71	40.16
Price to Book Ratio	--	--	--	7.78	2.64	2.83	2.64
Cur EV/T12EBITDA	--	--	--	18.79	--	15.20	20.17
EV / BEst Sales	--	--	--	5.2	--	6.3	8.0
Dividend Yield	--	--	--	3.26	3.96	4.44	4.11

Source: Bloomberg

Table 13

Kinder Morgan: Target Stock Price

Target Price	
Comps	$ 53.83
Weighting	65%
DCF	$ 58.76
Weighting	35%
Target Price	**$ 55.55**
Price	**$ 41.92**
Price as % of Value	**32.52%**
Target Range	
Floor	$ 51.66
Ceiling	$ 59.44

Table 14

Kinder Morgan: Discounted Cash Flow(DCF) Analysis

Discounted Cash Flow Analysis

	2014E	2015E	2016E	Terminal Year
Cash Flow from Operations	6,736	8,015	10,699	-
- Tax Affected Interest Exp.	(516)	(643)	(802)	-
- Capital Expenditures	(4,422)	(5,407)	(6,610)	-
Free Cash Flow	**1,798**	**1,965**	**3,287**	**4,018**
Discount Factor	0.933569	0.871551	0.813653	-
Present Value	**1,679**	**1,713**	**2,674**	**97,957**

Case	1	2	3
WACC	7.12%	6.43%	7.81%
Terminal Growth	3.5%	4.0%	4.5%

WACC Case	**1**
Terminal Growth Case	**2**

Terminal cash flow	4,018
Terminal cost of capital	7.12%
Terminal value	128,959
PV(Terminal value)	97,957
PV (CF over next 3 years)	6,066
Sum of PV	104,023

Enterprise Value	104,023
- Debt	(37,529)
+ Cash	315
Value of Equity	66,809
Shares Outstanding	1,137

Estimated value /share	**$ 58.76**
Price	**$ 41.92**
Price as % of value	**40.17%**

Estimated EV/EBITDA Multiple	**16.03x**

Table 15

Kinder Morgan: Weighted Average Cost of Capital Analysis

WACC Analysis

Case	**1**
Cost of Equity - CAPM	
Beta:	1.02
Risk Free Rate:	1.91%
Expected Market Return:	9.43%
Cost of Equity	**9.58%**
Cost of Debt	
Average Interest Rate:	2.50%
Tax Rate:	22%
Tax Affected Cost of Debt	**1.95%**
WACC	**7.12%**

Case	**2**
Cost of Equity - CAPM	
Beta:	1.02
Risk Free Rate:	1.91%
Expected Market Return:	8.43%
Cost of Equity	**8.56%**
Cost of Debt	
Average Interest Rate:	2.50%
Tax Rate:	22%
Tax Affected Cost of Debt	**1.95%**
WACC	**6.43%**

Case	**3**
Cost of Equity - CAPM	
Beta:	1.02
Risk Free Rate:	1.91%
Expected Market Return:	10.43%
Cost of Equity	**10.60%**
Cost of Debt	
Average Interest Rate:	2.50%
Tax Rate:	22%
Tax Affected Cost of Debt	**1.95%**
WACC	**7.81%**

Expected Market Return Cases	
Case	**1**
Step	**1.00%**

Base Case	**1**
Optimistic	**2**
Pessimistic	**3**

Return	
Base Case	9.43%
Optimistic	8.43%
Pessimistic	10.43%

Table 16

Kinder Morgan: Trading Comparables Analysis

Comparable Company Analysis

Name	Ticker	Mkt Cap (USD)	P/E	P/EBITDA	Enterprise Value	EV/EBITDA	EV/Sales	EV/Forward EBITDA	Curr Adj Mkt Cap
Kinder Morgan Inc	KMI	89,890	43.72x	7.09x	130,850	19.30x	8.07x	15.93x	9,274
Dominion Resources Inc	NBR US	42,120	20.93x	9.75x	68,150	13.40x	5.71x	11.21x	5,371
Williams Cos Inc	PTEN US	37,620	103.30x	13.26x	70,460	27.29x	8.70x	15.59x	3,404
Transcanada Corp	NE US	30,670	22.55x	7.68x	58,030	14.12x	7.09x	11.76x	5,374
Spectra Energy Corp	RIG US	24,210	22.26x	8.85x	41,170	15.02x	7.00x	13.28x	10,829
Nisource Inc	DO US	13,960	27.25x	7.45x	23,910	13.04x	3.61x	11.47x	5,319
Oneok Inc	ESV US	10,030	25.47x	6.94x	21,530	14.96x	1.79x	12.66x	9,070
Questar Inc	RDC US	4,210	18.72x	6.59x	5,810	9.05x	5.07x	9.25x	2,983

Median EV/EBITDA:	**14.54x**
KMI 2015E EBITDA:	**6,768**
Est. Enterprise Value	**98,413**
- Debt	**(37,529)**
+ Cash	**315**
Value of Equity	**61,199**
Shares Outstanding	**1137**
Estimated value /share	**$ 53.83**
Price	**$ 41.92**
Price as % of value	**28.40%**

Median EV/Forward EBITDA:	**12.21x**
KMI 2016E EBITDA:	**7,186**
Est. Enterprise Value	**87,745**
- Debt	**(46,802)**
+ Cash	**1,393**
Value of Equity	**42,336**
Shares Outstanding	**1137**
Estimated value /share	**$ 37.23**
Price	**$ 41.92**
Price as % of value	**-11.18%**

Figure 1

Kinder Morgan: Consolidated Company Stucture

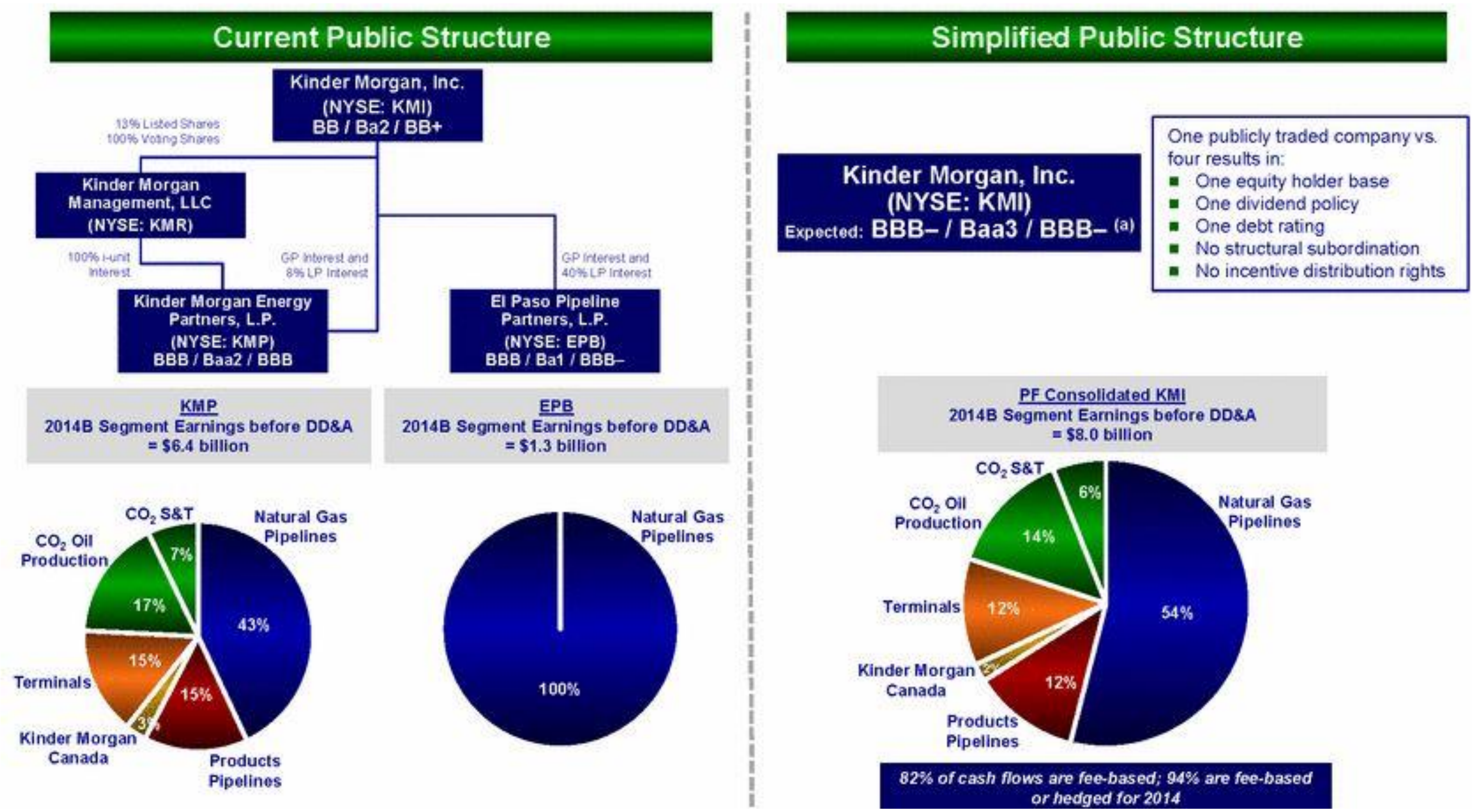

Figure 2

Kinder Morgan: North America Infrastructure

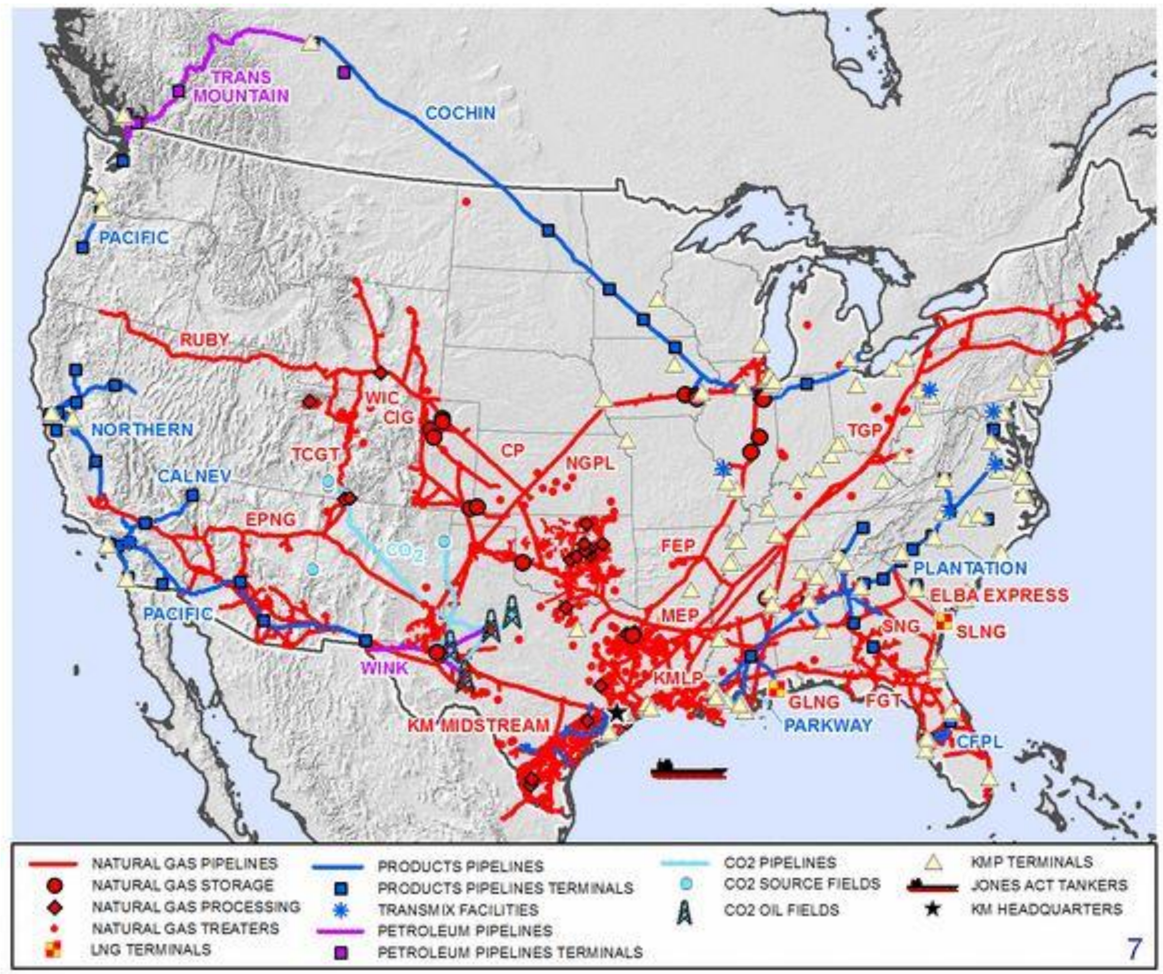

Figure 3

Kinder Morgan: Capital Expenditure Backlogs

	5-year Growth Capex Backlog ($B)				
	4Q 2014	2015	2016	2017+	Total
Natural Gas Pipelines	$0.4	$0.6	$0.4	$3.3	$4.7
Products Pipelines		0.6		0.5	1.1
Terminals	0.4	0.5	0.6	1.0	2.5
CO_2 – S&T[(b)]	0.1	0.3	1.3	0.4	2.1
CO_2 – EOR[(b)] Oil Production	0.1	0.4	0.4	1.2	2.1
Kinder Morgan Canada				5.4	5.4
Total	$1.0	$2.4	$2.7	$11.8	$17.9

Not included in backlog:
- Marcellus / Utica liquids (y-grade) pipeline solution
- Further LNG export opportunities
- Large TGP Northeast expansion (NED)
- Further Mexico natural gas expansion projects
- Southeast refined products pipeline (Palmetto)
- Coal / other natural resource investments
- Potential acquisitions

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