RESEARCH REPORT

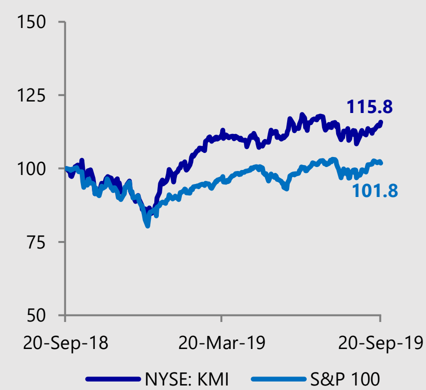
September 23, 2019

Stock Rating	BUY
Price Target	$22.50 – $24.50

Bear Case	Price Target	Bull Case
$22.50	$23.50	$24.50

Ticker	KMI
Market Cap (MM)	$47,360
LTM EV/EBITDA	11.7x
LTM Price/Earnings	20.8x

52 Week Performance



Energy & Utilities

Mircea Barcan
Portfolio Manager

Garrett Johnston
Portfolio Manager

Jamie Bennett
Analyst

Eliano Rexho
Analyst

Matthew Kampe
Junior Analyst

Kinder Morgan Inc.

Investment Rationale

At the start of FY19-20 the E&U team decided to disband its long-held synthetic U.S. ETF. To do so, the team liquidated all of its holdings and identified two U.S.-based names to take active positions in: ConocoPhillips (NYSE: COP) and Kinder Morgan, Inc. (NYSE: KMI). This report focuses on Kinder Morgan, and seeks to analyze the company's business model and explain the E&U team's investment rationale.

The QUIC E&U team believes that KMI's business outlook continues to be exceptional - the company's scale and quality of earnings are second-to-none, and growing international demand for LNG is a medium-long-term tailwind that management is prepared to capitalize on.

With an implied share price of $22.50 - $24.50, the team believes KMI trades at a **7.6% - 17.1% discount to its intrinsic value.** The, the E&U team will **maintain its active position in Kinder Morgan** and discuss committing more capital to the name.

Kinder Morgan Overview

Headquartered in Houston, Kinder Morgan, Inc. is an energy infrastructure company that specializes in owning and controlling oil and gas pipelines and terminals. Specifically, KMI engages in transporting fossil fuels and operating terminals which transload and store liquid commodities.

Kinder Morgan operates more than 84,000 miles of pipelines and 157 terminals. The company's 70,000-plus miles of natural gas pipelines move roughly 40% of the natural gas consumed in the United States. KMI also has 657 bcfd of working storage capacity for natural gas, and operates within every major American natural gas resource play and critical demand centre. Further, KMI transports 1.7 MMbbl/d of refined products through an extensive network of 12,700 miles of specialized pipelines. Kinder Morgan is lead by CEO Steven J. Kean, CFO David P. Michels, and Executive Chairman Richard D. Kinder.

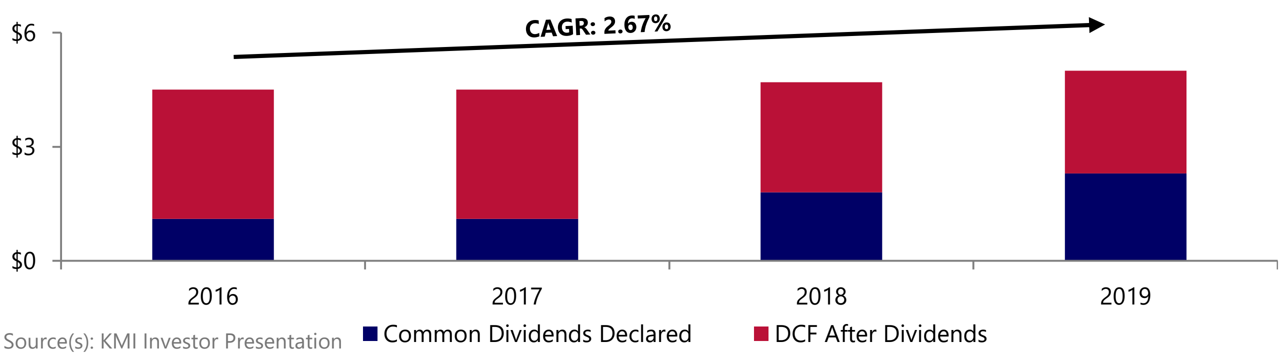
KMI has four core operating segments, which include Natural Gas Pipelines, Products Pipelines, Terminals, and Carbon Dioxide. The Natural Gas Pipelines segment includes the transportation and distribution of natural gas across North America. The company operates pipelines in all of the major natural gas plays including the Permian Basin, Eagle Ford, Bakken, Marcellus, and Haynesville. The Natural Gas segment continues to see strong demand with transport volumes up 10% YoY and overall NGL volumes up 6% YoY, driven by strong demand in the Permian. The Natural Gas Pipelines segment will provide $5.1 billion of EBITDA for FY2019. Kinder Morgan is allocating $4.4 billion towards capital expenditure towards its Natural Gas segment for projects to be completed in 2019-2023.

KMI's Products Pipelines segment includes roughly 12,700 miles of combined pipelines. The company operates 6,900 miles of refined product pipelines and 5,800 miles of other liquids pipelines. The Products Pipelines segment transports roughly 2.1 MMbbl/d, thus making Kinder Morgan the largest independent transporter of petroleum products in the U.S. The company has substantial pipeline operations in the largest shale plays, including the Permian, Bakken and Eagle Ford. Such will provide runway for growth, as U.S. oil production is projected to grow more than 33% through 2025. The Products Pipelines segment will generate FY2019 EBITDA of $1.3 billion. Organic growth will be further driven by the $100 million roster of projects that will be completed over the next year.

KMI is the largest terminal operator in the United States. The company's liquids terminals store refined petroleum products, chemicals, and ethanol, and have

EXHIBIT I

Kinder Morgan's Cash-Generation ($B)



Source(s): KMI Investor Presentation

Kinder Morgan Overview

a total capacity of 147 MMbbl. KMI's dry bulk terminals store and handle materials such as coal, petroleum coke and steel, and handle over 53 million tons per year. KMI also operates sixteen Jones Act vessels and handles 15% of U.S. exports of distillates, gasoline, and gasoline-blend stocks. Exports from Gulf Coast terminals have been growing at a 17% CAGR over the last several years, and Kinder Morgan has a 15% market share in this segment.

The carbon dioxide segment is KMI's smallest operating segment. However, the company is still the largest transporter of carbon dioxide in the U.S., transporting nearly 1.3 bcfd. Most of the carbon dioxide is used in enhanced oil recovery projects in the Permian Basin. This segment presents the greatest growth potential for KMI, as oil production is rapidly growing in the region, having quadrupled since 2011 alone.

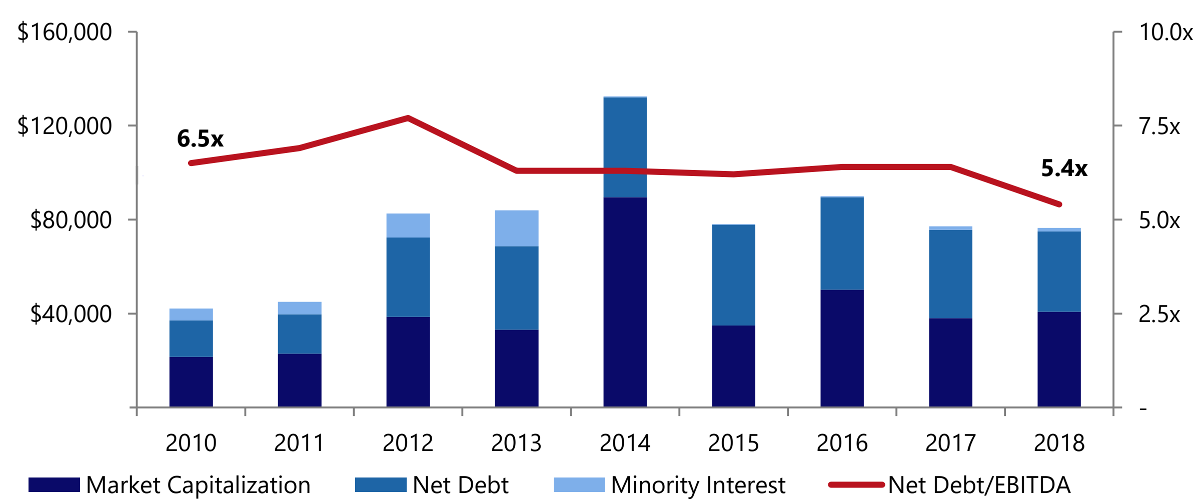
In 2018, KMI announced its intention to divest its Canadian assets which include oil terminals in Edmonton and the Cochin pipeline network, which transports 110 Mbbl/d from Alberta to Illinois. On August 21st, 2019, Kinder Morgan announced the sale of its Canadian unit to Pembina for C$4.35 billion - $2.3 billion in stock and $2.05 billion cash.

In 2018, Kinder Morgan reported revenue of $9 billion, a 4.6% increase from 2017. From this, the company reported earnings of $3.6 billion, which represented a 2.7% YoY increase. This growth can be attributed to improvement in the company's Texas intrastate natural gas pipeline operations, Hiland & South Texas Midstream segment, and KinderHawk business.

KMI has a market cap of $47.36B, and is trading at 11.7x LTM EV/EBITDA and 20.8x LTM Price/Earnings. The company has been cashflow positive since 2016.

EXHIBIT II

Enterprise Value Build (MM) & Net Debt/EBITDA



Source(s): Company Filings

Midstream Overview

The midstream sector gathers, processes, transports and markets raw crude oil and natural gas from the upstream sector to the downstream sector. The midstream sector provides the critical link between the remote producing areas and the population centres where most refineries and consumers are located. Energy transportation infrastructure companies such as Kinder Morgan are included in the midstream sector. The midstream sector is primarily comprised of transportation, storage, and fractionation.

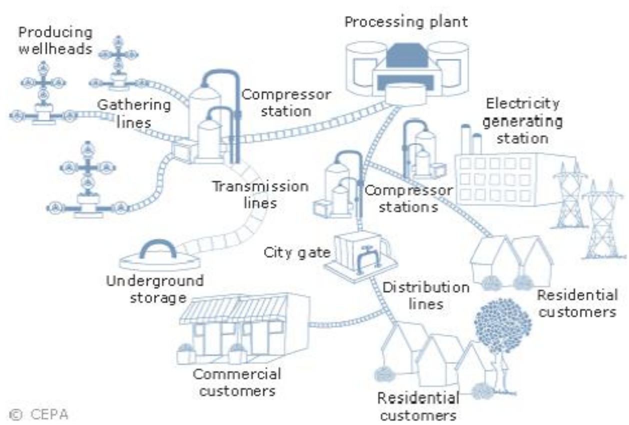
Transportation

The transportation sector includes the distribution of oil and gas. There are three main methods for the transportation of oil which include pipelines, rail cars, and tankers. Pipelines and tankers are the methods used for long distance transportation. Pipelines require high initial capital expenditures with a lengthy installation process, however once in place, involve relatively low operating costs. Due to the size of the upfront costs, the payback period for pipelines is very long. Crude oil and refined liquids are transported in separate pipelines than natural gas. Natural gas, which flows at much higher pressures than crude oil, is transported in pipelines called transmission lines.

Pipeline operators generate revenue through four main contracts: Take-or-pay contracts, cost of service contract, fee-based contract, and percentage-of-proceeds contract. Take-or-pay eliminates commodity price and volume risk and entails the shipper contracting a certain amount of capacity per day and paying a fixed rate. Cost of service enables the pipeline operator to charge for the service of shipping oil as well as a regulated allowed return on equity. There are more volume risks associated with this type of contract. Fee-based contracts allow the pipeline company to charge fees for the volume shipped. A percentage-of-proceeds contract involves a pipeline company allowing a customer to pay a portion of or the whole payment in-kind (percentage of the energy shipped). This arrangement carries commodity and volume risk as the operator purchases the oil from the producer and then markets it to an end-user or refiner.

EXHIBIT III

Natural Gas Delivery Network



RBC Energy Made Simple

Storage

The storage segment facilitates storage for crude oil, refined liquids, and natural gas in bulk terminals, refinery tanks, and holding tanks. Products are then transferred into pipelines, or ready to be shipped on a vessel. Midstream companies typically operate terminals to store oil and gas, before being transferred to a vessel or refinery. KMI operates 157 terminals at the end point of their pipelines, typically on the Gulf Coast near large refineries and ports.

Fractionation

Raw NGL-mixed stream from gas processing plants is sent via NGL pipelines to fractionation facilities that separate liquids mixture into marketable products such as ethane, propane, butane, and condensate. These are then used as feedstock for petrochemical plants and refineries, or as heating fuels.

Kinder Morgan History

Company Inception

The company was founded in 1997 as Kinder Morgan Energy Partners after a group of investors led by Richard D. Kinder and William V. Morgan acquired the liquid pipeline assets of Enron. The two founders leveraged a master limited partnership financial structure as a growth vehicle, making the company the largest publicly traded pipeline limited partnership in America.

Early in its history, KMI mostly grew through acquisitions by purchasing assets such as refined petroleum pipelines, CO2 production fields and transportation pipelines, intrastate natural gas pipelines, and bulk and liquids terminals. In 1999, William V. Morgan acquired KN Energy, an integrated natural gas pipeline company which became Kinder Morgan, Inc., Kinder Morgan's second publicly traded company.

Kinder Morgan in the 21st Century

In August 2005, KMI broadened its footprint in Canada by purchasing Terasen Inc. for $5.6 billion. This gave the company access to the oilsands via the Trans Mountain Pipeline.

After Richard D. Kinder bought out KMI to take it private in 2006, the company began trading on the NYSE once again in 2011, following the largest private equity-backed IPO in history, in which the company raised $3.3 billion. In 2012, KMI completed a $38 billion acquisition of El Paso Corporation, which made the firm the largest midstream and natural gas network operator in North America.

In 2014, KMI acquired all of the publicly-held shares of the other Kinder Morgan companies for $78 billion, thus creating one consolidated corporation.

Kinder Morgan in Canada

In May 2017, KMI completed an IPO of Kinder Morgan Canada Limited (TSX: KML). The proceeds of the offering were used by KML to indirectly acquire a 30% interest from KMI in the limited partnership that held the Canadian business of Kinder Morgan. In August 2019, KMI sold its Canadian unit to Pembina Pipeline Corp for $3.3 billion, thus ending Kinder Morgan's operations in Canada.

The Trans Mountain Pipeline

The Trans Mountain pipeline system was built in 1953, with 1,150 kilometers of pipelines that transport crude oil and refined products from Edmonton, Alberta to refineries and export terminals on the British Columbia and Washington State coasts.

In 2013, KMI applied to expand the pipeline system from a capacity of 300 mbbl/d to nearly 900 mbbl/d, including building a new pipeline, constructing 12 new pump stations, 19 new storage tanks, and 3 new marine berths. The National Energy Board (NEB) approved the expansion, but legal and social pressure from Canada's Department of Fisheries and Oceans, the Raincoast Conservation Foundation, and several indigenous groups delayed action.

In November 2016, the federal government approved the project which led to legal proceedings against both the NEB's recommendation and the federal cabinet's approval. In addition, the government of British Columbia announced its intention to restrict the transport of diluted bitumen across the province in January 2018, which led to a trade war between the province and Alberta. In response to several setbacks, KMI suspended spending on the project.

In August 2018, the Canadian government acquired the Trans Mountain pipeline project from KMI for C$4.5 billion through the CDIC. The government's intention was to seek outside investors to help complete the expansion and sell the pipeline once the project would be completed. In June 2019, the project was once again approved by the Federal cabinet.

Thesis I: Leading Position and Assets to Supply Growing NG Demand

Natural Gas Macro Expectations

The Energy & Utilities team holds conviction in the fact that United States natural gas output will significantly increase in the next decade due to increases in demand from developing nations and the continued regulations on flaring. In 2030, more than 650 million people are still expected to lack access to energy, thus leaving a sizeable runway for natural gas demand growth. India and China will account for 32% and 26% of projected incremental demand, respectively, from 2017 to 2040.

As global demand will increase, the United States will continue to be the leading global supplier of oil and gas. The United States is expected to deliver more than 50% of incremental global supply through 2025, enabled by 33% growth in oil and natural gas production. This equates to the United States producing nearly 1 out of 5 barrels of oil and 1 out of every 4 cubic meters of natural gas in the world by 2025.

In meeting rising demand, total United States natural gas production is expected to grow by over 30 bcfd, or 40%, by 2030. Specifically, more than 70% of forecasted growth is in Texas and Louisiana, where KMI has significant assets in place.

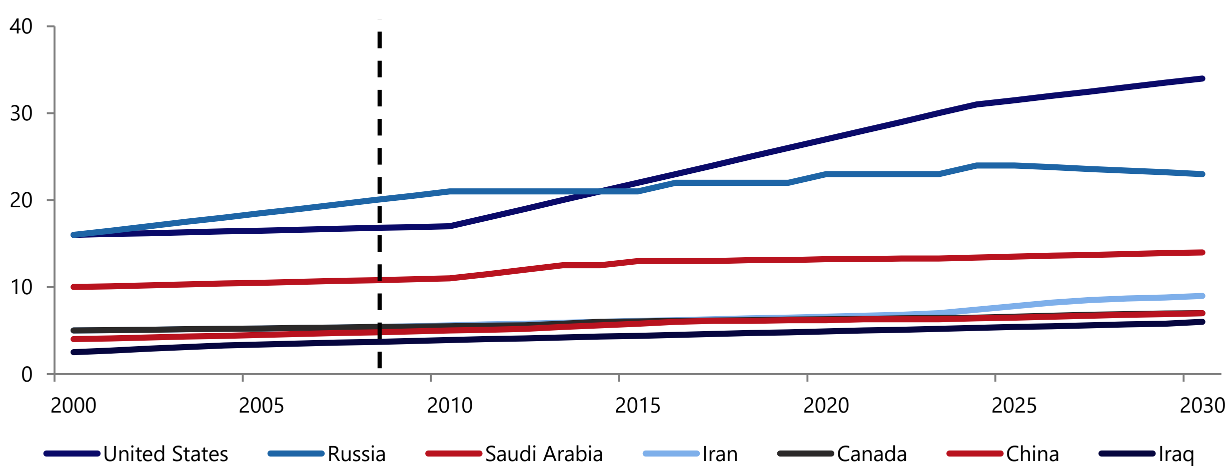
KMI's Leadership Position

KMI is putting itself in pole position to service the growing demand and supply by putting capital towards building capacity. KMI put $400 million towards new projects during Q2 2019 and currently has $5.7 billion of commercially-secured capital. Among these projects, Permian takeaway projects (including GCX, PHP, TX Intrastates, etc.) have the most capital committed at $1.6 billion, and are expected to add 7 bcfd of capacity.

With respect to its business mix, KMI's natural gas pipeline segment accounted for 63.7% of sales in 2018. These pipelines include interstate and intrastate natural gas pipeline and storage systems, natural gas and crude oil gathering systems, natural gas and treatment facilities, NGL fractionation facilities, processing transportation systems, and LNG terminals.

EXHIBIT IV

Oil & Natural Gas Production (MMbbl/d)



Source(s): KMI Investor Presentation

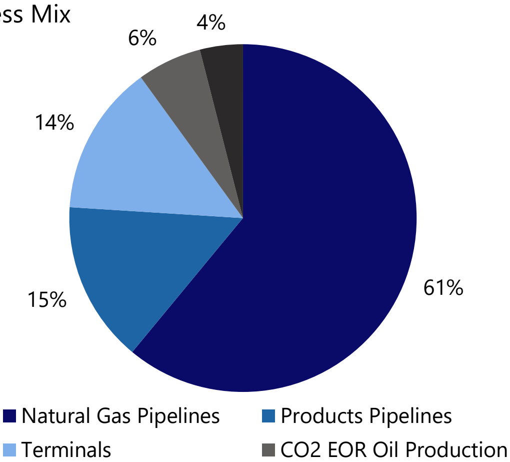
Thesis I: Leading Position and Assets to Supply Growing NG Demand

KMI's key economic moat is the scale that its 72,000 mile transportation network enables. KMI's network provides access to major natural gas supply hubs and consumer clusters across the United States and Canada. The company's extensive network transports 40% of the natural gas used in the United States. Given the high entry costs that characterize the midstream industry, this makes KMI highly defensible. In addition, the company's focus on the natural gas market is important because of the oversupply of natural gas in the United States and increasing global demand.

In summation, KMI is well-positioned to grow alongside global demand for energy, and the Energy and Utilities team believes this will result in strong Natural Gas segment growth for the company.

EXHIBIT V

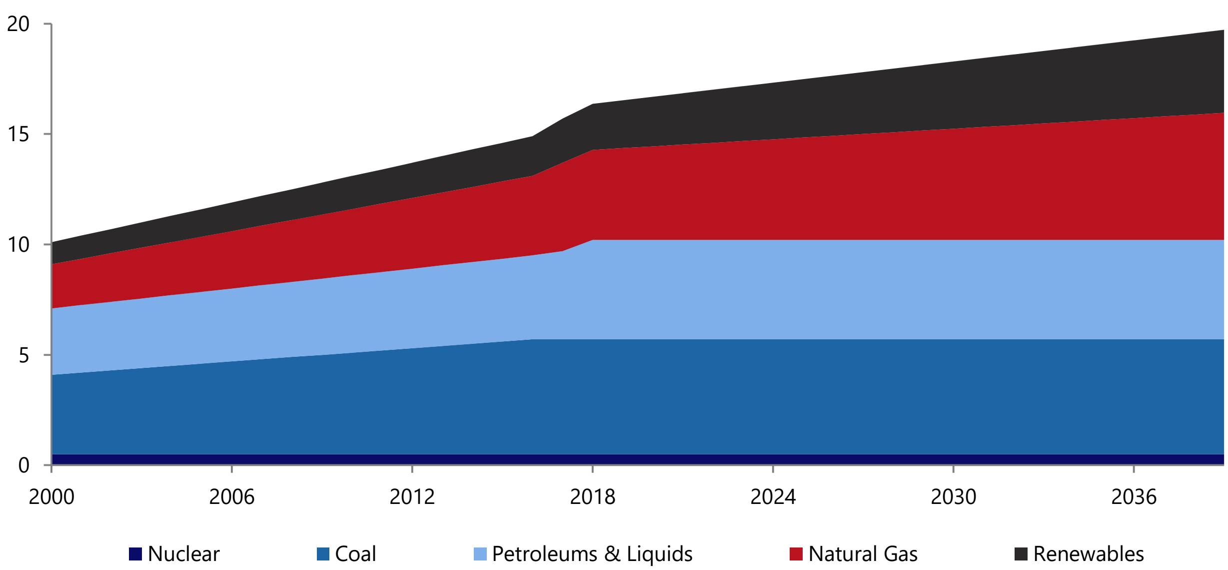
Business Mix



Source(s): KMI Investor Presentation

EXHIBIT VI

Global Energy Demand (Billion tonnes BOE)



Source(s): KMI Investor Presentation

Thesis II: Stable & Contract-Based Free Cash Flow Generation

The majority of KMI's sales are derived from multi-year, fee-based customer arrangements. The company's fees are primarily secured through "take-or-pay" contracts that are mostly independent of commodity prices.

In addition to providing financial protection from last-minute order cancellations, take-or-pay contracts also mitigate macroeconomic risk by committing customers to multi-year contacts with low pricing variability. This contract structure has led many to classify KMI and peers as bond-proxy investments, whose cash-flows are similar in business and market risk to those generated by traditional infrastructure assets.

Empirically, KMI's asset beta of 0.83 reflects this. For comparison, typical S&P and TSX Energy ETFs have betas of approximately 1.20-1.40.

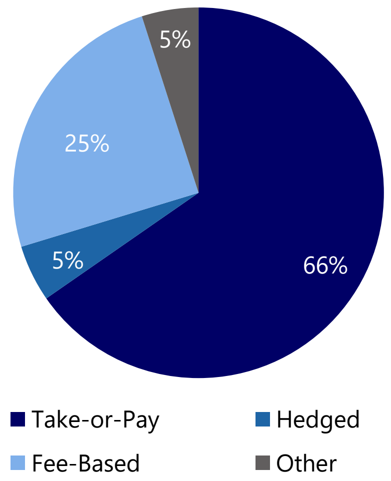
The approximately 1/3rd of cash flows not protected by take-or-pay contracts are also defensive in nature: 5% are hedged to mitigate commodity price volatility, while the remaining ~30% are generated from longer-term contracts. As of December 2018, "the remaining weighted average contract life of our natural gas transportation contracts (including intrastate pipelines' sales portfolio) was approximately six years."

Customers of KMI include major oil companies, local distribution businesses, and energy producers & transporters. 77% of KMI's customers are investment grade, and most view KMI's transportation and storage services as integral to their operational success.

Given these factors, the E&U team believes KMI has exceptionally high quality of earnings and an all-weather cash flow generation strategy.

EXHIBIT VII

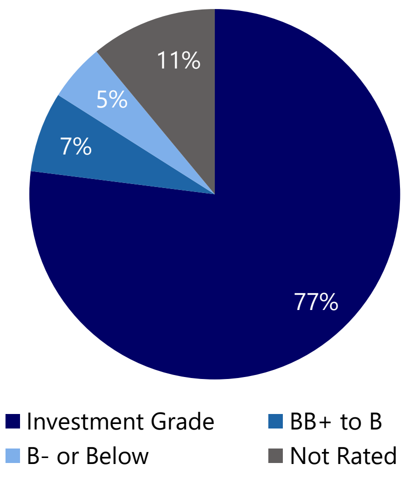
Cash Flow Stability



Source(s): Company Filings

EXHIBIT VIII

High Quality Customers



Source(s): Company Filings

Thesis III: Free-Cash-Flow Generation & the Search for Yield

During the last twelve months, Kinder Morgan generated $4.6B cash flow from operations, including $2.4B in depreciation and amortization (rough approximation for maintenance Capex). Of this core free-cash-flow generated, roughly $2.0B was distributed to shareholders in the form of dividends. At a current market capitalization of $47.6B, KMI's current dividend yield is 4.2%, while the company's implied levered free-cash-flow yield is approx. 9.6%. Historically, this levered free-cash-flow has been allocated between dividends and growth Capex.

KMI has approx. $33B of long-term debt, the majority of which is rolled-over shortly before maturity. Since 2014, KMI has issued $80.4B in debt and repaid $79.3B. In the same period of time the Company has decreased its Total Debt/Equity to 104.4% from 146.3% and decreased its Total Debt/EBITDA to 5.8x from 6.3x. The stable nature of KMIs free-cash-flow generation allows the company to manage this leverage and secure favorable financing.

The following considerations: 1) KMI's ability to consistently compound levered-free cash flow, and 2) ability to maintain its concentrated equity ownership through refinancing, lead the E&U team to believe that equity holders are likely to continue to see capital returned via large dividend programs.

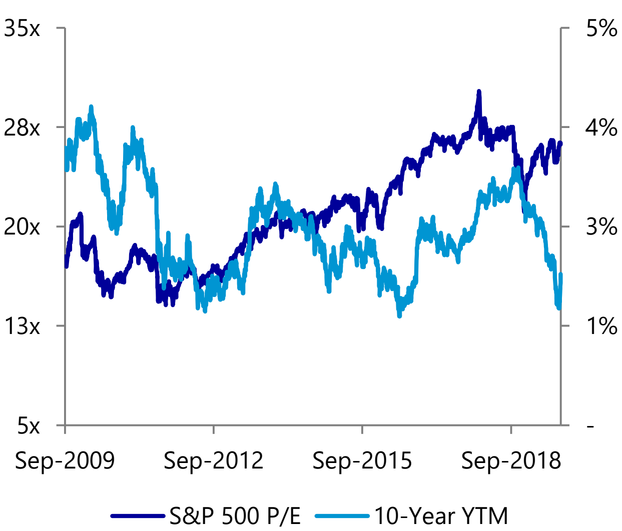
Given this, E&U views the global falling rate environment as a two-pronged benefit to KMI:

First, the decreasing cost of corporate debt is anticipated to significantly improve KMI's levered free cash flow (1% decrease to KMI's weighed avg. cost of debt of 5.25% is approx. 350MM in pre-tax savings).

Second, the inverse relationship between treasuries and asset prices is very likely to result in increased asset prices for bond-like assets, and given KMI's operational nature, E&U believes that investors will reward KMI for its pricing discipline and contractual revenues.

EXHBIT IX

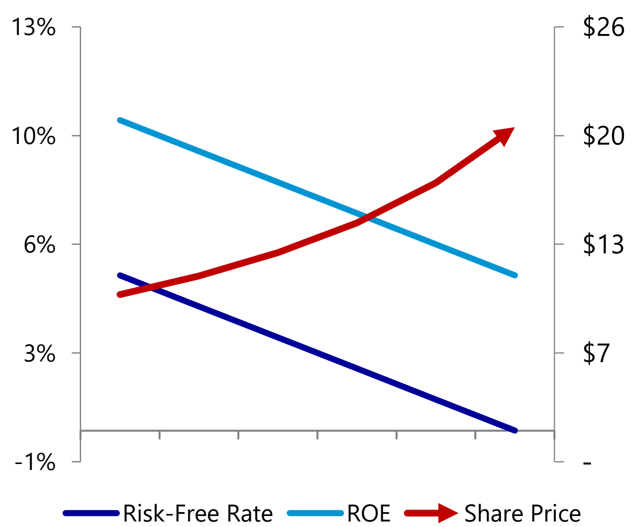
Relationship Between Multiples and Treasuries



Source(s): Company Filings

EXHIBIT X

Value of $1 in Earnings at Varying Risk-Free Rates



Source(s): Company Filings

Valuation

To incorporate the team's theses into a congruent view of KMI's financial future, E&U built a discounted cash flow model. The model's key drivers include Natural Gas Pipelines Revenue, Capital Expenditures as % of Revenue, and Weighted Average Cost of Capital.

1) **Natural Gas Pipelines Revenue (Thesis II)** – to reach macroeconomic oil and gas production consensus growth targets of 33% by 2025 in the U.S., the LNG market is estimated to grow by 4.1% annually. Given KMI's dominant position in LNG transportation, particularly in the Permian Basin, E&U believes the company is very likely to reach these targets **(see: Thesis I)**.

2) **Capital Expenditures as % of Revenue** – net of divestitures, KMI has historically spent approx. 17% of revenue on new capital projects. In the past 5 years, this 17% is roughly equal to the dollar value of KMI's annual PP&E depreciation, which reflects the anticipation of higher utilization as a result of increasing global demand, as opposed to a greater number of capital outlays as a result of increasing global demand. Thus, E&U projected forward 17.1% CapEx as % of revenue.

3) **Weighted Average Cost of Capital** – to isolate for the primary drivers of company value and understand how E&U's differentiated view on Natural Gas Pipelines growth will impact implied equity value, the team chose to use a consensus cost of capital of 6.45%.

EXHIBIT XI

Operating Model Assumptions

Operating Assumptions	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Revenues											
Natural Gas Pipelines	4.6%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%
Products Pipelines	3.1%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Terminals	2.7%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
CO2	4.9%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Kinder Morgan Canada	-	-	-	-	-	-	-	-	-	-	-
Corporate and Intersegment Elim.	-	-	-	-	-	-	-	-	-	-	-
Corporate Assets	-	-	-	-	-	-	-	-	-	-	-
COGS % Revenue	49.1%	49.1%	49.1%	49.1%	49.1%	49.1%	49.1%	49.1%	49.1%	49.1%	49.1%
SG&A % Revenue	4.1%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%
Additional Operating Expense % Revenue	2.4%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%
D&A % Revenue	16.2%	16.6%	16.6%	16.6%	16.6%	16.6%	16.6%	16.6%	16.6%	16.6%	16.6%
Tax Expense % EBT	14.7%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
CapEx % Revenue	(20.8%)	(17.1%)	(17.1%)	(17.1%)	(17.1%)	(17.1%)	(17.1%)	(17.1%)	(17.1%)	(17.1%)	(17.1%)
Change in NWC % Revenue	(5.4%)	(1.6%)	(1.6%)	(1.6%)	(1.6%)	(1.6%)	(1.6%)	(1.6%)	(1.6%)	(1.6%)	(1.6%)
Interest Expense	($1,917)	($1,917)	($1,917)	($1,917)	($1,917)	($1,917)	($1,917)	($1,917)	($1,917)	($1,917)	($1,917)

Valuation

Other Assumptions

1. E&U chose to project KMI's financials for 10 years, given the quality of relevant macroeconomic research for this time period.

2. Terminal value was calculated using a perpetual growth rate of 2% and a terminal WACC of 6.45%. Terminal value as percent of enterprise value is approximately 67%.

Thesis II & III

While the defensibility of Kinder Morgan's free-cash-flow and relative value as a quasi-bond proxy cannot be quantified in growth or risk metrics, the E&U team believes these business qualities intuitively add to the investment's margin of safety. Both attributes provide the team with confidence that KMI will be able to return capital to shareholders in all macroeconomic conditions.

Conclusion

Driven primarily by a bullish outlook on U.S. LNG demand/utilization rates, E&U's DCF demonstrates that Kinder Morgan trades at an approximately 13.3% discount to its intrinsic value. Sensitizing for Natural Gas Pipelines Revenue CAGR, KMI is fairly valued (2.4% downside) if growth falls below expectations to 3%, and steeply undervalued if growth accelerates to 5% (27.3% upside).

As such, E&U is confident in the performance of its investment in KMI and will retain its stake in the name.

EXHIBIT XI

Operating Model Assumptions

DCF Output	
Sum of PV of U-FCF	$29,924
PV of Terminal Value	$61,889
Enterprise Value	**$91,813**
(+) Cash & Equiv.	$247
(-) Debt	$36,780
(-) Minority Interest	$1,621
Equity Value	**$53,659**
Premium (Discount):	***13.30%***

EXHIBIT XII

Unlevered Free-Cash-Flow Walkdown

Income Statement	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
EBITDA	**$6,277**	**$6,320**	**$6,532**	**$6,753**	**$6,981**	**$7,218**	**$7,463**	**$7,718**	**$7,981**	**$8,255**	**$8,539**
Interest Expense	($1,917)	($1,917)	($1,917)	($1,917)	($1,917)	($1,917)	($1,917)	($1,917)	($1,917)	($1,917)	($1,917)
EBIT	**$3,980**	**$3,925**	**$4,057**	**$4,193**	**$4,335**	**$4,482**	**$4,635**	**$4,793**	**$4,956**	**$5,126**	**$5,303**
Tax Expense	$587	$824	$852	$881	$910	$941	$973	$1,006	$1,041	$1,077	$1,114
NOPAT	**$3,393**	**$3,100**	**$3,205**	**$3,313**	**$3,425**	**$3,541**	**$3,661**	**$3,786**	**$3,916**	**$4,050**	**$4,189**
(+)D&A	$2,297	$2,395	$2,476	$2,559	$2,646	$2,735	$2,828	$2,925	$3,025	$3,129	$3,236
(-) CapEX	($2,943)	($2,469)	($2,552)	($2,638)	($2,727)	($2,819)	($2,915)	($3,015)	($3,118)	($3,225)	($3,335)
(-) Increase NWC	($762)	($235)	($449)	($556)	($476)	($569)	($616)	($639)	($701)	($752)	($805)
U-FCF	**$3,509**	**$3,262**	**$3,577**	**$3,790**	**$3,820**	**$4,026**	**$4,190**	**$4,335**	**$4,524**	**$4,706**	**$4,895**
Discount Period	-	***0.5***	***1.5***	***2.5***	***3.5***	***4.5***	***5.5***	***6.5***	***7.5***	***8.5***	***9.5***
Discount Factor	-	1.03x	1.10x	1.17x	1.24x	1.33x	1.41x	1.50x	1.60x	1.70x	1.81x
Present Value of U-FCF		**$3,161**	**$3,257**	**$3,241**	**$3,069**	**$3,039**	**$2,971**	**$2,887**	**$2,830**	**$2,766**	**$2,702**

References

1. Financial Post
2. KMI Investor Presentation
3. Kinder Morgan
4. Oilprice.com
5. Energy Information Administration
6. Capital IQ