Barron's Warns on Kinder Morgan

On Saturday, Barron’s ran a front cover piece that was negative on Kinder Morgan (“Yield of Dreams”). Andrew Bary has written many thoughtful pieces for Barron’s over the years. In this case he basically reproduced a negative report written by Hedgeye’s Kevin Kaiser from last year. Kinder Morgan Inc (KMI) was down yesterday because evidently some readers of Barron’s haven’t heard of Kevin Kaiser.

The issue Kaiser raises is whether Kinder Morgan Partners (KMP) and El Paso (EPB) skimp on maintenance in order to increase their Distributable Cash Flow (DCF) of which close to 50% goes to the General Partner, KMI. We like KMI for this reason as we’ve noted before. They benefit from increased assets and cashflows at KMP and EPB without having to put up any capital. Rich Kinder does too, since he owns $8BN of the stock.

As for whether they do skimp on maintenance cap ex or not, the evidence would seem to suggest they don’t. Kinder Morgan’s safety record is at least as good as their peers; their return on invested capital has been consistent and above their cost of capital; their leverage ratios have also remained stable. From these perspectives, we feel comfortable with their management of these assets. As the development of shale oil and gas creates the need for investments in energy infrastructure, Kinder Morgan will be a significant player (they have a current project backlog of $14BN against an enterprise value of about $100BN). KMI should see growth in cashflows from the increased DCF at the MLPs it controls. Its forward dividend yield is 5%, and expected to grow at 8% over the next several years. Kinder Morgan issued a response to the Barron’s article yesterday.

No doubt KMI has performed poorly in recent months, partly because they lowered their forecast dividend growth from 9-10% last year but also due to negative sentiment caused by Hedgeye’s analysis. We continue to think it’s an attractive investment at current levels.