

Kinder Morgan, Inc.

Model Update

Our primary KMI modeling changes include: 1) recent results and filings, 2) updates to dividend guidance and share repurchases, 3) updates to the expansion backlog, 4) growth and maintenance capex revisions, 5) updated tax estimates, 6) current commodity strip and CO2 hedges, 7) more conservative contract roll assumptions for MEP, FEP and Ruby, and 8) other related changes to our modeling estimates. Additionally, we establish a DCF/share derived YE18 price target of \$23/share (replaces prior YE17 PT of \$25) and maintain our Overweight rating

Overweight

KMI, KMI US

Price: \$19.18

▼ **Price Target: \$23.00**

Previous: \$25.00

Energy MLPs

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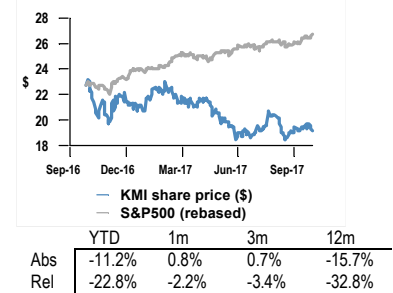
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J.P. Morgan Securities LLC

Price Performance



Kinder Morgan, Inc. (KMI;KMI US)

FYE Dec	2015A	2016A	2017E (Prev)	2017E (Curr)	2018E (Prev)	2018E (Curr)
EBITDA (\$ mn)						
Q1 (Mar)	1,850	1,883	1,820A	1,820A	1,879	1,844
Q2 (Jun)	1,773	1,762	1,744	1,728A	1,823	1,770
Q3 (Sep)	1,803	1,770	1,766	1,697	1,865	1,797
Q4 (Dec)	1,947	1,830	1,911	1,883	2,063	2,006
FY	7,373	7,245	7,242	7,128	7,629	7,418
Bloomberg EBITDA FY (\$ mn)	7,288	7,219	-	7,150	-	7,416

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

Price (\$)	19.18
Date Of Price	29 Sep 17
52-week Range (\$)	23.36-18.23
Market Cap (\$ mn)	42,774.59
Fiscal Year End	Dec
Shares O/S (mn)	2,230
Price Target (\$)	23.00
Price Target End Date	31-Dec-18

See page 6 for analyst certification and important disclosures.

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North America Equity Research
01 October 2017

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Investment Thesis, Valuation and Risks

Kinder Morgan, Inc. (Overweight; Price Target: \$23.00)

Investment Thesis

As one of the largest domestic energy companies, we believe KMI's scale, diversification and industry-leading platforms make KMI a core holding. With fee-based cash flows underpinning ~91% of margins (~66% take or pay), we believe KMI possesses significant cash flow stability. After KMI's difficult decision to reduce the dividend, we believe KMI has a strong path to self-funding capex and improving the B/S over time, a position that not all peers share. We believe that KMI significantly lifting the dividend as planned over the next several years should narrow KMI's discount to peers and drive upside.

Price Target Calculation	
PV of DCF/share	\$15.04
PV of Terminal Value	\$8.42
2018 YE PT	\$23.00
Assumptions	
Terminal Growth Rate	0.0%
Discount Rate	10.0%

Valuation

We base our Dec 2018 price target on a discounted cash flow methodology in which we forecast DCF/share unit for ten years past 2017 and use an appropriate terminal growth rate and required rate of return based on leverage/liquidity risk, dividend coverage outlook, volumetric/recontracting risk, commodity/marketing risk, take-or-pay contract profile, and other factors.

KMI Price Target Calculation

Distributable Cash Flow Discount Model	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Discount periods		1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00	9.00	10.00
DCF/Share	\$2.04	\$1.96	\$2.18	\$2.30	\$2.34	\$2.44	\$2.52	\$2.61	\$2.69	\$2.79	\$2.18
YoY DCF/LP Unit Growth		-3.8%	11.0%	5.6%	1.6%	4.1%	3.7%	3.2%	3.3%	3.8%	-21.8%
Total Dividend Coverage Ratio	2.6x	2.0x	1.7x	1.8x	1.7x	1.7x	1.7x	1.6x	1.6x	1.6x	1.3x
Terminal Value of DCF/LP Unit											\$21.85
Total Cash Flows Available to Equity	\$0.57	\$1.96	\$2.18	\$2.30	\$2.34	\$2.44	\$2.52	\$2.61	\$2.69	\$2.79	\$24.03
PV of Cash Flows Available to Equity	\$0.57	\$1.79	\$1.80	\$1.73	\$1.60	\$1.51	\$1.43	\$1.34	\$1.26	\$1.18	\$9.27

Source: J.P. Morgan estimates.

Risks to Rating and Price Target

KMI specific risks include: (1) regulatory risk regarding new pipeline build; (2) lack of visibility to a higher dividend in the near/medium term could reduce investor demand, (3) risks associated with crude oil production and insufficient CO2 maintenance capex to sustain production and reserves, (4) law of large numbers leads to growth slowing faster than expected and growth through acquisitions possesses risk, and (5) exposure to floating interest rate (KMI targets a 50/50 fixed/floating).

Midstream industry risks include: (1) narrow basis differentials weighing on contract renewal rates and disincentivizing shipments of uncontracted capacity; (2) prolonged decreases in energy demand, weighing on asset intrinsic values; (3) extended periods of low energy price volatility weighing on asset extrinsic values; (4) cost inflation risk on negotiated contracts without inflation escalators; (5) direct commodity price exposure closer to the wellhead under certain contracts; (6) indirect commodity price exposure due to natural declines in well throughput; and (7) regulatory risk from adverse FERC, EPA, BC and/or federal government rulings.

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Income Statement

	2015A	1Q16A	2Q16A	3Q16A	4Q16A	2016A	1Q17A	2Q17A	3Q17E	4Q17E	2017E	2018E	2019E
Income Statement	2015A	1Q16A	2Q16A	3Q16A	4Q16A	2016A	1Q17A	2Q17A	3Q17E	4Q17E	2017E	2018E	2019E
Natural Gas Pipelines	4,125.0	1,130.0	958.0	957.0	984.0	4,029.0	1,019.0	905.0	892.1	1,018.3	3,834.4	4,095.6	4,347.2
CO2	1,141.0	223.0	227.0	229.0	238.0	917.0	222.0	220.0	226.8	231.1	900.0	860.0	786.9
Products Pipelines	1,096.0	287.0	296.0	294.0	308.0	1,185.0	287.0	290.0	288.1	314.7	1,179.8	1,223.7	1,269.0
Terminals	1,055.0	269.0	283.0	285.0	296.0	1,133.0	302.0	299.0	289.9	323.7	1,214.6	1,284.8	1,352.3
Kinder Morgan Canada	163.0	40.0	40.0	43.0	38.0	161.0	43.0	43.0	42.7	44.7	173.4	175.1	177.6
Other	(18.0)	(9.0)	(8.0)	(2.0)	(3.0)	(22.0)	-	-	-	-	-	-	-
Segment EDBA before DD&A	7,562.0	1,940.0	1,796.0	1,806.0	1,861.0	7,403.0	1,873.0	1,757.0	1,739.7	1,932.5	7,302.2	7,639.2	7,933.0
General and administrative	(628.0)	(176.0)	(158.0)	(159.0)	(147.0)	(640.0)	(174.0)	(149.0)	(149.0)	(154.4)	(626.4)	(635.7)	(645.3)
Depreciation	(2,360.0)	(565.0)	(568.0)	(564.0)	(571.0)	(2,268.0)	(573.0)	(592.0)	(575.6)	(580.4)	(2,321.0)	(2,418.8)	(2,589.9)
Operating Income	4,574.0	1,199.0	1,070.0	1,083.0	1,143.0	4,495.0	1,126.0	1,016.0	1,015.1	1,197.7	4,354.8	4,584.7	4,697.8
Interest expense, net	(2,082.0)	(511.0)	(510.0)	(505.0)	(476.0)	(2,002.0)	(477.0)	(468.0)	(462.5)	(464.6)	(1,872.2)	(1,900.2)	(2,080.4)
Other, net	-	-	-	-	-	-	-	-	-	-	-	-	-
Income (Loss) from Cont. Operations before Taxes	2,492.0	688.0	560.0	578.0	667.0	2,493.0	649.0	548.0	552.6	733.0	2,482.7	2,684.5	2,617.4
Income taxes	(843.0)	(242.0)	(193.0)	(191.0)	(213.0)	(839.0)	(234.0)	(199.0)	(199.3)	(264.3)	(896.6)	(967.9)	(943.7)
Income from Continuing Operations	1,649.0	446.0	367.0	387.0	454.0	1,654.0	415.0	349.0	353.4	468.7	1,586.1	1,716.6	1,673.7
Income (Loss) from Discontinued Ops, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Loss)	1,649.0	446.0	367.0	387.0	454.0	1,654.0	415.0	349.0	353.4	468.7	1,586.1	1,716.6	1,673.7
Net Income Attributable to Noncontrolling Interests	(18.0)	(5.0)	(6.0)	(5.0)	(5.0)	(21.0)	(5.0)	(6.0)	(16.6)	(17.8)	(45.4)	(77.7)	(92.0)
Net Income Attributable to Preferred Convertibles	(26.0)	(39.0)	(39.0)	(39.0)	(39.0)	(156.0)	(39.0)	(39.0)	(39.0)	(39.0)	(156.0)	(156.0)	-
Adjusted Net Income Attributable to KMI Common Shares	1,605.0	402.0	322.0	343.0	410.0	1,477.0	371.0	304.0	297.7	411.9	1,384.7	1,482.9	1,581.7
Weighted Average number of Common Shares	2,175.0	2,229.2	2,229.3	2,239.0	2,239.0	2,234.1	2,239.0	2,239.0	2,230.2	2,230.2	2,234.6	2,215.1	2,232.3
Adjusted EPS	\$0.74	\$0.18	\$0.14	\$0.15	\$0.18	\$0.66	\$0.17	\$0.14	\$0.13	\$0.18	\$0.62	\$0.67	\$0.71
Distributable Cash Flow and Dividend	2015A	1Q16A	2Q16A	3Q16A	4Q16A	2016A	1Q17A	2Q17A	3Q17E	4Q17E	2017E	2018E	2019E
Adjusted EBITDA	7,373.0	1,883.0	1,762.0	1,770.0	1,830.0	7,245.0	1,820.0	1,728.0	1,697.1	1,883.3	7,128.4	7,417.8	7,687.7
Interest Expense	(2,082.0)	(511.0)	(510.0)	(505.0)	(476.0)	(2,002.0)	(477.0)	(468.0)	(462.5)	(464.6)	(1,872.2)	(1,900.2)	(2,080.4)
Cash Taxes	(32.0)	(2.0)	(37.0)	(22.0)	(18.0)	(79.0)	3.0	(48.0)	(10.0)	(34.0)	(89.0)	(56.0)	(56.0)
Sustaining Capex	(565.0)	(108.0)	(137.0)	(134.0)	(161.0)	(540.0)	(104.0)	(156.0)	(156.0)	(214.0)	(630.0)	(712.9)	(787.1)
Other Items	31.0	10.0	11.0	11.0	11.0	43.0	12.0	5.0	5.0	1.0	23.0	-	-
Distributable Cash Flow	4,725.0	1,272.0	1,089.0	1,120.0	1,186.0	4,667.0	1,254.0	1,061.0	1,073.5	1,171.7	4,560.2	4,748.7	4,764.2
Preferred dividends	(26.0)	(39.0)	(39.0)	(39.0)	(39.0)	(156.0)	(39.0)	(39.0)	(39.0)	(39.0)	(156.0)	(156.0)	-
Distributable Cash Flow to Common Shareholders	4,699.0	1,233.0	1,050.0	1,081.0	1,147.0	4,511.0	1,215.0	1,022.0	1,034.5	1,132.7	4,404.2	4,592.7	4,364.2
DCF/Share	\$2.11	\$0.55	\$0.47	\$0.48	\$0.51	\$2.02	\$0.54	\$0.46	\$0.46	\$0.51	\$1.97	\$2.04	\$1.96
Dividend Coverage	1.31x	4.42x	3.77x	3.88x	4.11x	4.05x	4.36x	3.67x	3.71x	4.06x	3.95x	2.55x	1.96x
Dividend Declared	\$1.61	\$0.13	\$0.13	\$0.13	\$0.13	\$0.50	\$0.13	\$0.13	\$0.13	\$0.13	\$0.50	\$0.80	\$1.00
Dividend Declared Growth YoY	-7.8%	-74.0%	-74.5%	-75.5%	0.0%	-68.8%	0.0%	0.0%	0.0%	0.0%	0.0%	60.0%	25.0%
Dividend Coverage	1.31x	4.42x	3.77x	3.88x	4.11x	4.05x	4.36x	3.67x	3.71x	4.06x	3.95x	2.55x	1.96x

Source: Company reports and J.P. Morgan estimates.

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Balance Sheet and Cash Flow Statement

Balance Sheet	2015A	1Q16A	2Q16A	3Q16A	4Q16A	2016A	1Q17A	2Q17A	3Q17E	4Q17E	2017E	2018E	2019E
Cash and cash equivalents	229.0	175.0	180.0	357.0	684.0	684.0	396.0	452.0	128.4	56.2	56.2	169.8	232.4
Other current assets	2,595.0	2,306.0	2,290.0	3,006.0	2,545.0	2,545.0	2,279.0	2,274.0	2,274.0	2,274.0	2,274.0	2,274.0	2,274.0
Total current assets	2,824.0	2,481.0	2,470.0	3,363.0	3,229.0	3,229.0	2,675.0	2,726.0	2,402.4	2,330.2	2,330.2	2,443.8	2,506.4
Net PPE	40,547.0	41,042.0	41,199.0	38,780.0	38,705.0	38,705.0	39,023.0	39,423.0	40,029.9	40,451.0	40,451.0	43,761.8	46,115.4
Other assets	40,733.0	40,706.0	40,648.0	39,461.0	38,371.0	38,371.0	38,095.0	38,054.0	38,054.0	38,054.0	38,054.0	38,054.0	38,054.0
Total assets	84,104.0	84,229.0	84,317.0	81,604.0	80,305.0	80,305.0	79,793.0	80,203.0	80,486.4	80,835.1	80,835.1	84,259.6	86,675.8
Short-term debt	821.0	1,702.0	3,419.0	2,944.0	2,696.0	2,696.0	3,928.0	3,224.0	3,224.0	3,224.0	3,224.0	3,224.0	3,224.0
Other current liabilities	3,244.0	2,694.0	3,147.0	3,100.0	3,228.0	3,228.0	2,761.0	3,139.0	3,139.0	3,139.0	3,139.0	3,139.0	3,139.0
Total current liabilities	4,065.0	4,396.0	6,566.0	6,044.0	5,924.0	5,924.0	6,689.0	6,363.0	6,363.0	6,363.0	6,363.0	6,363.0	6,363.0
Long-term debt	42,406.0	42,105.0	40,201.0	38,518.0	37,354.0	37,354.0	35,464.0	35,100.0	35,217.7	35,248.2	35,248.2	38,733.2	40,745.3
Other long-term liabilities and deferred credits	2,230.0	2,182.0	2,077.0	2,074.0	2,225.0	2,225.0	2,635.0	2,526.0	2,526.0	2,526.0	2,526.0	2,526.0	2,526.0
Total partners' capital	35,403.0	35,546.0	35,473.0	34,968.0	34,802.0	34,802.0	35,005.0	36,214.0	36,379.7	36,697.9	36,697.9	36,637.3	37,041.6
Total liabilities and partner's capital	84,104.0	84,229.0	84,317.0	81,604.0	80,305.0	80,305.0	79,793.0	80,203.0	80,486.4	80,835.1	80,835.1	84,259.6	86,675.8
Credit Stats													
Consolidated Debt/EBITDA	5.6x	5.6x	5.6x	5.3x	5.3x	5.2x	5.3x	5.1x	5.2x	5.2x	5.2x	5.5x	5.5x
Consolidated EBITDA/interest	3.5x	3.6x	3.6x	3.6x	3.6x	3.6x	3.6x	3.7x	3.8x	3.8x	3.8x	3.9x	3.7x
Cash Flow Statement													
Net income	208.0	314.0	375.0	(183.0)	215.0	721.0	445.0	383.0	297.7	411.9	1,537.7	1,482.9	1,581.7
Depreciation and amortization	2,309.0	551.0	552.0	549.0	557.0	2,209.0	558.0	577.0	575.6	580.4	2,291.0	2,418.8	2,589.9
Other non-cash items	2,734.0	425.0	227.0	789.0	591.0	2,032.0	192.0	191.0	-	-	383.0	-	-
Change in working capital	52.0	(240.0)	140.0	(4.0)	(71.0)	(175.0)	(309.0)	129.0	173.5	211.8	205.3	960.4	1,004.3
Net cash provided by (used in) operations	5,303.0	1,050.0	1,294.0	1,151.0	1,292.0	4,787.0	886.0	1,280.0	1,046.8	1,204.1	4,416.9	4,862.1	5,175.8
Capex	(3,896.0)	(811.0)	(659.0)	(639.0)	(773.0)	(2,882.0)	(664.0)	(672.0)	(1,182.5)	(1,001.5)	(3,520.0)	(5,729.6)	(4,943.6)
Acquisitions	(2,079.0)	(330.0)	(3.0)	-	-	(333.0)	(4.0)	-	-	-	(4.0)	-	-
Other	269.0	(3.0)	(74.0)	1,472.0	115.0	1,510.0	31.0	(264.0)	-	-	(233.0)	-	-
Net cash used in investing activities	(5,706.0)	(1,144.0)	(736.0)	833.0	(658.0)	(1,705.0)	(637.0)	(936.0)	(1,182.5)	(1,001.5)	(3,757.0)	(5,729.6)	(4,943.6)
Debt net	(800.0)	274.0	(227.0)	(697.0)	(781.0)	(1,431.0)	(605.0)	(1,189.0)	117.7	30.5	(1,645.8)	3,485.0	2,012.1
Equity net	5,422.0	87.0	-	1.0	29.0	117.0	397.0	1,276.0	12.2	12.3	1,697.5	(575.8)	50.6
Dividend	(4,258.0)	(320.0)	(326.0)	(325.0)	(325.0)	(1,296.0)	(328.0)	(325.0)	(278.8)	(278.8)	(1,210.5)	(1,772.1)	(2,232.3)
Other	(37.0)	(6.0)	-	(785.0)	772.0	(19.0)	(2.0)	(59.0)	(39.0)	(39.0)	(139.0)	(156.0)	-
Net cash provided by financing activities	327.0	35.0	(553.0)	(1,806.0)	(305.0)	(2,629.0)	(538.0)	(297.0)	(187.9)	(274.9)	(1,297.8)	981.1	(169.7)
Effect of foreign exchange rate changes	(10.0)	5.0	-	(1.0)	(2.0)	2.0	1.0	9.0	-	-	10.0	-	-
Net increase (decrease) in cash and equivalents	(86.0)	(54.0)	5.0	177.0	327.0	455.0	(288.0)	56.0	(323.6)	(72.3)	(627.8)	113.6	62.6
Cash and cash equivalents, beginning	315.0	229.0	175.0	180.0	357.0	229.0	684.0	396.0	452.0	128.4	684.0	56.2	169.8
Cash and cash equivalents, end	229.0	175.0	180.0	357.0	684.0	684.0	396.0	452.0	128.4	56.2	56.2	169.8	232.4

Source: Company reports and J.P. Morgan estimates.

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North America Equity Research
01 October 2017

J.P.Morgan

Kinder Morgan, Inc.: Summary of Financials

Income Statement - Annual	FY15A	FY16A	FY17E	FY18E	Income Statement - Quarterly	1Q17A	2Q17A	3Q17E	4Q17E
D&A	(2,360)	(2,268)	(2,321)	(2,419)	D&A	(573)A	(592)A	(576)	(580)
SG&A			-	-	SG&A	-	-	-	-
Other income / (expense)	0	0	0	0	Other income / (expense)	0A	0A	0	0
Adj.EBITDA	7,373	7,245	7,128	7,418	Adj.EBITDA	1,820A	1,728A	1,697	1,883
Interest expense	(2,082)	(2,002)	(1,872)	(1,900)	Interest expense	(477)A	(468)A	(463)	(465)
Income tax provision	(843)	(839)	(897)	(968)	Income tax provision	(234)A	(199)A	(199)	(264)
Net income	1,605	1,477	1,385	1,483	Net income	371A	304A	298	412
Total non-recurring items, net of tax	0	0	0	0	Total non-recurring items, net of tax	0A	0A	0	0
Net income (recurring)	1,605	1,477	1,385	1,483	Net income (recurring)	371A	304A	298	412
Diluted units outstanding (millions)	-	-	-	-	Diluted units outstanding (millions)	-	-	-	-
Distributable Cash Flow - Annual	FY15A	FY16A	FY17E	FY18E	Distributable Cash Flow - Quarterly	1Q17A	2Q17A	3Q17E	4Q17E
EBITDA for DCF	7,373	7,245	7,128	7,418	EBITDA for DCF	1,820A	1,728A	1,697	1,883
Interest expense for DCF	(2,082)	(2,002)	(1,872)	(1,900)	Interest expense for DCF	(477)A	(468)A	(463)	(465)
Other non-cash items	31	43	23	0	Other non-cash items	12A	5A	5	1
Sustaining capex	(565)	(540)	(630)	(713)	Sustaining capex	(104)A	(156)A	(156)	(214)
Distributable cash flow (DCF)	4,725	4,667	4,560	4,749	Distributable cash flow (DCF)	1,254A	1,061A	1,074	1,172
GP Share of Distribution	-	-	-	-	GP Share of Distribution	-	-	-	-
Distribution Run Rate	-	-	-	-	Distribution Run Rate	-	-	-	-
DCF/LP unit (DPU)	2.11	2.02	1.97	2.04	DCF/LP unit (DPU)	0.56A	0.48A	0.48	0.53
Distribution coverage (x)	1.3	4.0	3.9	2.6	Distribution coverage (x)	4.5A	3.8A	3.9	4.2
Balance Sheet	FY15A	FY16A	FY17E	FY18E	Cash Flow	FY15A	FY16A	FY17E	FY18E
Cash and cash equivalents	229	684	56	170	Net income	208	721	1,538	1,483
Current assets	2,824	3,229	2,330	2,444	Depreciation and amortization	2,309	2,209	2,291	2,419
PP&E	40,547	38,705	40,451	43,762	Change in working capital	-	-	-	-
Non-current assets	81,280	77,076	78,505	81,816	Non cash items	2,734	2,032	383	0
Total assets	84,104	80,305	80,835	84,260	Net operating cash flow	5,303	4,787	4,417	4,862
Current liabilities	4,065	5,924	6,363	6,363	Cash flow from investing activities	(5,706)	(1,705)	(3,757)	(5,730)
Long-term debt	42,406	37,354	35,248	38,733	Net units issued	5,422	117	1,698	(576)
Other non-current liabilities	2,230	2,225	2,526	2,526	Net debt issued/(repurchased)	(800)	(1,431)	(1,646)	3,485
Partner's capital	35,403	34,802	36,698	36,637	Distribution paid	(4,258)	(1,296)	(1,211)	(1,772)
Total liabilities & equity	84,104	80,305	80,835	84,260	Other financing activity	(37)	(19)	(139)	(156)
					Cash flow from financing activities	327	(2,629)	(1,298)	981
					Increase/(decrease) in cash	(86)	455	(628)	114
					Cash at beginning of the period	315	229	684	56
					Cash at end of the period	229	684	56	170
Ratio Analysis and Valuation	FY15A	FY16A	FY17E	FY18E					
EBITDA growth	(0.1%)	(1.7%)	(1.6%)	4.1%					
Distribution growth	-	-	-	-					
DCF/LP unit growth	0.6%	(4.0%)	(2.4%)	3.4%					
Debt / EBITDA	5.9	5.5	5.4	5.7					
EBITDA / interest	3.5	3.6	3.8	3.9					

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Dec

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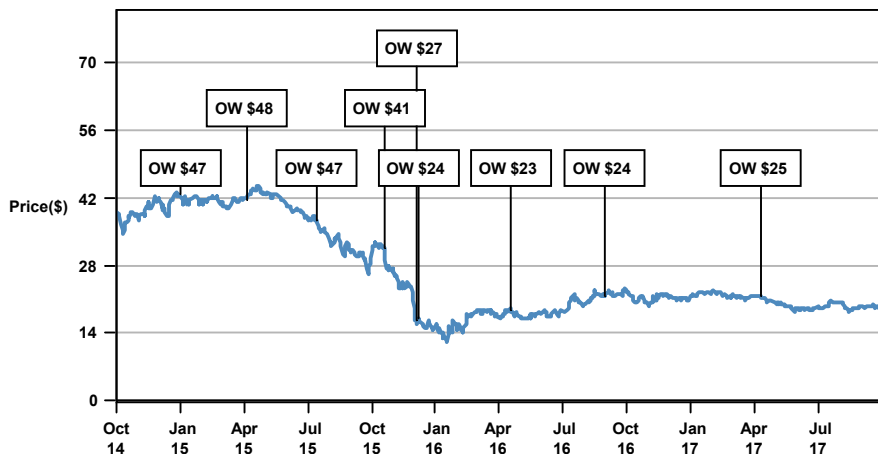
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Kinder Morgan, Inc. (KMI, KMI US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
02-Jan-15	OW	42.81	47.00
06-Apr-15	OW	41.72	48.00
15-Jul-15	OW	37.40	47.00
21-Oct-15	OW	31.42	41.00
07-Dec-15	OW	16.42	27.00
10-Dec-15	OW	17.01	24.00
19-Apr-16	OW	18.50	23.00
01-Sep-16	OW	21.61	24.00
12-Apr-17	OW	21.61	25.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Mar 23, 2011.

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*Percentage of investment banking clients in each rating category.

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