

Corporate Credit > U.S. Investment Grade



Kinder Morgan Inc.

Updated: November 2, 2015

Trade Idea:

- ▶ Buy Kinder Morgan Inc. 10-year bonds

Investment Rationale:

- We are maintaining our outperform relative value recommendation on KMI at this time. This is based mainly on the fact that the bonds are still quoted slightly behind ETP (also outperform) and well behind WES and CPGX, which are all comparably rated. Only SXL is quoted slightly wider at this time, which is a much smaller, less liquid name. In our view, we think the main reason that MLP names have underperformed relative to the energy sector is due more to bond market technicals than fundamentally driven. We believe that MLP spreads should tighten significantly if, and when, the bond market recovers and the appetite for higher yielding bonds increases. At this point, we are cautiously optimistic that market conditions will improve by the end of the year. We will continue to monitor the market closely.
- KMI reported EBITDA of \$5.2 billion for the nine-months ended 9/30/15, down 2% from the same period last year. Interest expense increased 15%, which caused EBITDA/interest coverage to drop to 3.43x from 4.03x last year. Leverage on a TD/EBITDA was also weaker at 6.05x as of 9/30/15 from 5.71x at YE 2014. Distribution coverage was 1.00x for 3Q 2015, which is the same as the same period last year.
- The company remains bullish due to the need for pipeline infrastructure to move and store natural gas, crude oil and NGLs from the growing shale plays and oil sands, which should be the main driver of growth. In addition, the trend toward LNG for export and natural gas export to Mexico should provide some long-term demand upside, which is already leading to some firm capacity pipeline contracts.

Recommendation(s):

View	Trade Horizon	Ticker	CPN	Maturity	Ratings		CCY	Issue Size	Yield	Spread			Cash Price	ISIN
					S&P	Moody's				Entry	Target	Loss		
Outperform	6 mos.	KMI	4.30	6/1/2025	BBB	Baa2	USD	1.5B	5.62	353	313	393	90.35	US49456 BAF