



Don't Be Kinder Morgan Inc.'s Patsy

Description

By hook or by crook, **Kinder Morgan Inc.** ([NYSE:KMI](#)) was going to get investors to pay dearly for a chance to own a piece of one of the world's most controversial infrastructure assets.

Kinder Morgan Canada Limited announced May 24 that its parent would sell 102.9 million shares at \$17 apiece to the public in an IPO that will raise \$1.75 billion for the Houston-based pipeline company. In return, the public will get 30% ownership in Kinder Morgan Canada.

Kinder Morgan tried to work a deal with shippers and private equity firms to no avail. It then sought to convince a pension fund or three to sink their pensioners' hard-earned retirement funds into the \$7.4 billion project, but that didn't work either.

So, guess what? The markets are doing so well that Kinder Morgan has decided to let retail investors in on the action. For the low, low, price of \$17 per share, you can own a piece of Canadian history.

I'm not a fan of IPOs because, generally, they fail to perform, but this one is especially dangerous because Kinder Morgan is passing the buck.

Lots of debt

Take a look at the balance sheet for Kinder Morgan's Canadian business, and you'll see that it's got \$159 million in cash and \$1.4 billion in debt; that's net debt of \$1.2 billion. Assuming the over-allotment is exercised, the IPO will raise \$2 billion, leaving Kinder Morgan with \$800 million in net cash and \$6.6 billion short of what it's projected needs are to complete the Trans Mountain pipeline expansion.

At the end of March, Kinder Morgan had US\$35.1 billion in net debt on its books — 81% of its \$43.2 billion market cap. That's not an insignificant amount. Sure, it reduced its long-term debt in 2016 by more than \$5 billion, but compared to a big integrated oil company like **Exxon Mobil Corporation** ([NYSE:XOM](#)), whose US\$20.2 billion in net debt works out to just 5.8% of its \$349.9 billion market cap, it's huge.

Forget for a moment Kinder Morgan's financial condition and consider both the political nature of this

investment and the future financial implications of the Trans Mountain pipeline.

It's a political football

Greenpeace has asked Alberta's securities regulator to stop the IPO until Kinder Morgan reveals the climate risks associated with the project which will take the pipeline from the oil sands in Alberta to the B.C. coast.

"Kinder Morgan's business plan only works if the world fails to act on climate change," said Keith Stewart of Greenpeace Canada. "They may think that's a good bet, but they should be honest with potential investors about the risks being taken with their money."

Darn straight.

I'm no shrinking violet when it comes to business. However, it seems to me that nobody else is willing to step into this project. Yet Kinder Morgan feels it's necessary to throw out pie-in-the-sky numbers — \$900 million in additional annual adjusted EBITDA from the expansion by 2020 based on 707,500 barrels per day — that could influence the decision of investors to invest in the project.

Cost overruns

Let's assume that the project hits all of its targets, including the future demand for oil; there's still a tiny problem with the cost estimates to build Trans Mountain. Approximately 24% of the expenses are uncapped, including a tunnel through Burnaby Mountain in Vancouver.

Gee, what could go wrong with that? Even the City of Burnaby fire department has problems with the tunnel and its adjacent storage tanks. I just don't see how Kinder Morgan will keep the total cost of the project under budget given the environmental scrutiny it's going to face from start to finish.

It projects the pipeline expansion to be up and running by 2020. I live along the Crosstown LRT in Toronto. Original projections had it completed by 2020; it's now expected to be finished by the fall of 2021. I don't see how it will meet its schedule.

Bottom line

The capital raise might be a significant event, but under no circumstances should you buy any shares in this IPO.

Kinder Morgan Canada's IPO is a dog with fleas.

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