



Kinder Morgan Canada Ltd. Tries to Scale Mountain After IPO Setback

Description

The **Kinder Morgan Canada Ltd.** (TSX:KML) IPO went off without a hitch May 30. The Canadian operation of Houston-based pipeline company **Kinder Morgan Inc.** ([NYSE:KMI](#)) sold 102.9 million shares at \$17 each, raising \$1.8 billion, the fourth-largest IPO in TSX history.

While you wouldn't know it by reading a local Houston business publication, Kinder Morgan Canada IPO investors have every reason to question the company's future success.

"Kinder Morgan Canada Ltd. has no further concessions planned on the expansion of its Trans Mountain pipeline in British Columbia, despite opposition expected from an incoming local government," wrote Joshua Mann of the *Houston Business Journal* June 5. "Kinder Morgan Canada plans to continue with the project as proposed."

Isn't that special.

Forget about the fact that the new coalition government in B.C. is not a friend of the Trans Mountain expansion project for a moment and just consider the IPO itself without the environmental concerns clouding your judgement.

Below the range

Originally priced between \$19 and \$21, it went off a toonie lower than the bottom of its range, immediately dropping below \$16 in its first day of trading. It's since rebounded to within 50 cents of its IPO price.

University of Florida Professor Jay Ritter, an IPO expert, studied 5,057 U.S. IPOs from 1990 to 2010 and found that offerings like Kinder Morgan Canada averaged 3% first-day returns compared to 11% for those priced in the range and 50% for those above the range.

Anyone who follows Ritter knew that this wasn't going to be a good opening, no matter the political climate, although this most likely had a lot to do with the lower IPO price.

The good news for anyone who bought KML stock is that the long-term performance of IPOs isn't any different than other companies with similar characteristics.

So, what now?

We wait for the fight to play out between the federal government, the B.C. government, and Kinder Morgan.

Kinder Morgan feels the law is on its side.

"Our execution planning is complete, our approvals are in hand, and we are now ready to commence construction activities this fall generating thousands of direct jobs for Canadians, including significant benefits to Indigenous communities in Alberta and British Columbia," said Ian Anderson, president of Kinder Morgan Canada Limited, in the May 25th press release.

What else are you going to say when you're about to sell \$1.8 billion in stock to investors? "Our project's on the rocks, but give us the money anyway"?

I don't think so.

Prime Minister Justin Trudeau believes the federal government was correct to allow the \$7.4 billion project to proceed.

"The decision we took on the Trans Mountain pipeline was based on facts and evidence on what is in the best interests of Canadians and indeed, all of Canada," Trudeau said while at the G7 meetings in Italy. "Regardless of the change in government in British Columbia or anywhere, the facts and evidence do not change."

The new B.C. government, a power-sharing agreement between the NDP and Green Party, are dead set against the pipeline and have already indicated that they will do everything in their power to stop the Trans Mountain expansion from going ahead.

"[We will] immediately employ every tool available to the new government to stop the expansion of the Kinder Morgan pipeline, the seven-fold increase in tanker traffic on our coast and the transportation of raw bitumen through our province," stated the agreement between the two parties.

Ultimately, experts believe the pipeline will be built given the federal government holds all the power in this situation, but it's very doubtful it will still be completed by the end of 2019.

In the meantime, the various stakeholders will thrash it out in court.

Bottom line on KML stock

On May 25, I [argued](#) why investors shouldn't buy Kinder Morgan Canada's IPO. For me, it all came down to the level of debt maintained by its parent company, Kinder Morgan.

It's just too high for my liking, but especially so given the potential delays it now faces on the legal front.

Kinder Morgan might say the expansion is good for shareholders, but I'm not buying it. Those who

purchased its stock in the IPO are patsies.

You know what happens to patsies? Nothing good.

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