

Rating: Sell  
 S&P 500: 1431

## Kinder Morgan (KMI, KMP, KMR) Good Bye KMI

<i>Symbol</i>	KMI	KMP	KMR	KMx
<i>Rating</i>	Sell	Sell	Sell	
<i>Price (US\$/sh)</i>	106.08	48.44	47.9	
<i>Pricing Date</i>	1/17/07	01/17/07	01/17/07	
<i>Publicly Held Shares (mm)</i>	133	151	52	
<i>Market Capitalization (US\$mm)</i>	14,100	7,310	2,490	23,900
<i>Debt (US\$mm)</i>	14,100	2,610	900	17,600
<i>Enterprise Value (EV) (US\$mm)</i>	28,200	9,920	3,390	41,500
<i>Present Value (PV) (US\$mm)</i>	18,500	4,870	1,680	25,100
<i>Net Present Value (US\$/share)</i>	33	15	15	
<i>Debt/Present Value</i>	0.76	0.54	0.54	0.70
<i>McDep Ratio - EV/PV</i>	1.53	2.04	2.02	1.66
<i>Ebitda Next Twelve Months ending 12/31/07 (US\$mm)</i>	2,070	630	219	2,920
<i>North American Natural Gas/Ebitda (%)</i>	0	0	0	
<i>Natural Gas and Oil Production/Ebitda (%)</i>	7	16	16	
<i>Adjusted Reserves/Production NTM</i>	7.2	7.2	7.2	
<i>EV/Ebitda</i>	13.6	15.9	15.7	14.2
<i>PV/Ebitda</i>	8.9	7.8	7.8	8.6
<i>Undeveloped Reserves (%)</i>	42	42	42	
<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	22.87	22.87	22.87	
<i>Present Value Proven Reserves(US\$/boe)</i>	17.01	17.01	16.99	
<i>Present Value Proven Reserves(US\$/mcf)</i>	2.84	2.84	2.83	
<i>Earnings Next Twelve Months (US\$/sh)</i>	5.06	1.28	1.28	
<i>Price/Earnings Next Twelve Months</i>	21	38	37	26
<i>Indicated Annual Distribution (US\$/sh)</i>	3.50	3.32	3.32	
<i>Distribution Yield (%/yr)</i>	3.3	6.9	6.9	4.8
<i>Ebitda by Function</i>				
<i>Natural Gas Pipelines</i>	1442	163	57	1661
<i>Oil Products Pipelines</i>	242	180	63	485
<i>CO2 Pipelines</i>	213	158	55	427
<i>Terminals</i>	173	129	45	346

Reported results may vary widely from estimates.

Estimated present value per share revised only infrequently.

### Summary and Recommendation

Financial risk increases for sell-recommended **Kinder Morgan Energy Partners (KMP)** and **Kinder Morgan Management LLC (KMR)** when general partner **Kinder Morgan Inc. (KMI)** ceases to exist as a publicly traded equity within the next two months as contemplated. Highly leveraged KMI takes on more debt to buy out public shareholders. In addition to high financial risk, KMP and KMI have high valuation risk considering that the general partner has a hidden

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equity interest of at least 43% that is disguised on the partnership balance sheet. The ruse fools Bloomberg, for example, which presents KMP as a reasonably priced stock at around seven times EBITDA rather than as a high-priced stock at a double digit unlevered cash flow multiple. The partnership has ambitious projects that may require an accelerated pace of funding that may be difficult to achieve if investors and lenders scrutinize the partnership's financial position more carefully. The artificial nature of the quarterly results reported on January 17 is further illustrated by the general partner supporting the otherwise disappointing financial performance of the partnership by paying about \$20 million in bonuses to partnership employees.

Kurt H. Wulff, CFA

**Kinder Morgan Energy Partners, L.P.**  
**Next Twelve Months Financial Results**

	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3</i>	<i>Q4</i>	<i>Next Twelve Months</i>
	<i>12/31/05</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>12/31/07</i>
<b>Oil Volume</b>									
Oil (mmb)	3.4	3.4	3.5	<b>14</b>	3.4	3.4	3.5	3.5	<b>14</b>
Oil (mbd)	37	37	38	<b>37</b>	38	38	38	38	<b>38</b>
<b>Oil Price (\$/bbl)</b>									
WTI Cushing	60.02	70.42	59.99	<b>66.05</b>	53.28	55.17	56.58	57.74	<b>55.69</b>
Partnership	30.62	35.30	33.23	<b>33.82</b>	32.31	32.59	32.80	32.97	<b>32.67</b>
<b>Oil Revenue (\$mm)</b>									
	104	120	115	<b>459</b>	109	111	113	114	<b>447</b>
<b>Ebitda</b>									
Products Pipelines	127	117	129	<b>502</b>	126	130	117	129	<b>502</b>
Natural Gas Pipelines	140	141	140	<b>556</b>	144	131	141	140	<b>556</b>
CO2 Pipelines	114	127	115	<b>489</b>	122	125	127	115	<b>489</b>
Terminals	85	98	107	<b>397</b>	90	102	98	107	<b>397</b>
Overhead	(52)	(64)	(64)	<b>(259)</b>	(65)	(65)	(65)	(65)	<b>(260)</b>
Total Ebitda	414	419	428	<b>1,685</b>	417	423	418	426	<b>1,684</b>
Deprec., Deplet., & Amort.	91	107	117	<b>414</b>	117	117	117	117	<b>468</b>
Other Non Cash			(20)	<b>(20)</b>					
<b>Ebit</b>	323	312	331	<b>1,291</b>	300	306	301	309	<b>1,216</b>
Interest	68	88	85	<b>333</b>	85	85	85	85	<b>340</b>
<b>Ebt</b>	255	224	246	<b>958</b>	215	221	216	224	<b>876</b>
General Partner	126	134	139	<b>533</b>	144	144	145	145	<b>578</b>
<b>Net Income (\$mm)</b>	129	90	107	<b>425</b>	71	77	71	79	<b>298</b>
<b>Units (mm)</b>	219	226	230	<b>225</b>	231	232	233	234	<b>232</b>
Net Income Per Unit (\$/un)	0.59	0.40	0.46	<b>1.89</b>	0.31	0.33	0.31	0.34	<b>1.28</b>
Distribution Per L.P. Unit	0.79	0.81	0.83	<b>3.25</b>	0.83	0.83	0.83	0.83	<b>3.32</b>
<b>Distribution (\$mm)</b>	301	319	334	<b>1,275</b>	335	337	338	339	<b>1,349</b>
General Partner	128	136	143	<b>544</b>	144	144	145	145	<b>578</b>
Limited Partner	173	183	191	<b>731</b>	192	192	193	194	<b>771</b>
<b>General Partner Share</b>									
Earnings	49%	60%	57%	<b>56%</b>	67%	65%	67%	65%	<b>66%</b>
Distribution	42%	43%	43%	<b>43%</b>	43%	43%	43%	43%	<b>43%</b>

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**Kinder Morgan, Inc.**  
**Next Twelve Months Financial Results**

	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3</i>	<i>Q4</i>	<i>Next Twelve Months</i>
	<i>12/31/05</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>12/31/07</i>
<b>Ebitda</b>									
Natural Gas Pipelines	238	273	345	<b>1,238</b>	334	272	273	345	<b>1,224</b>
Kinder Morgan Energy Partner:	208	211	215	<b>846</b>	209	212	210	214	<b>846</b>
Total Ebitda	446	484	559	<b>2,084</b>	543	484	483	559	<b>2,069</b>
Deprec., Deplet., & Amort.	42	156	156	<b>624</b>	156	156	156	156	<b>624</b>
Kinder Morgan Energy Partner:	83	(98)	(101)	<b>(374)</b>	(101)	(101)	(101)	(101)	<b>(404)</b>
<b>Ebit</b>	321	425	504	<b>1,834</b>	488	429	428	504	<b>1,849</b>
Interest	69	205	203	<b>797</b>	203	203	203	203	<b>812</b>
<b>Ebt</b>	252	220	301	<b>1,037</b>	285	226	225	301	<b>1,037</b>
Income Tax	88	77	106	<b>363</b>	100	79	79	105	<b>363</b>
<b>Net Income (\$mm)</b>	164	143	196	<b>674</b>	186	147	146	195	<b>674</b>
<b>Shares (millions)</b>	127	135	133	<b>135</b>	133	133	133	133	<b>133</b>
Per Share (\$)	1.29	1.06	1.47	<b>5.01</b>	1.39	1.10	1.10	1.47	<b>5.06</b>
Tax Rate	35%	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>

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