



Independent Stock Idea

July 17, 2008

rating: sell
s&p 500: 1245

Kinder Morgan (KMP, KMR) Oil Hedge Loss Twice Cash Flow

<i>Symbol</i>	KMP	<i>Ebitda Next Twelve Months ending 6/30/09 (US\$mm)</i>	1,000
<i>Rating</i>	Sell	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	55.55	<i>Natural Gas and Oil Production/Ebitda (%)</i>	19
<i>Pricing Date</i>	7/16/08	<i>Adjusted Reserves/Production NTM</i>	8.0
<i>Shares (mm)</i>	184	<i>EV/Ebitda</i>	15.0
<i>Market Capitalization (US\$mm)</i>	10,230	<i>PV/Ebitda</i>	7.8
<i>Debt (US\$mm)</i>	4,680	<i>Undeveloped Reserves (%)</i>	42
<i>Enterprise Value (EV) (US\$mm)</i>	14,910	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	42.39
<i>Present Value (PV) (US\$mm)</i>	7,810	<i>Present Value Proven Reserves(US\$/boe)</i>	28.75
<i>Net Present Value (US\$/share)</i>	17	<i>Present Value Proven Reserves(US\$/mcfe)</i>	4.79
<i>Debt/Present Value</i>	0.60	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.47
<i>McDep Ratio - EV/PV</i>	1.91	<i>Price/Earnings Next Twelve Months</i>	22
<i>Distribution Yield (%/year)</i>	7.1	<i>Indicated Annual Distribution (US\$/sh)</i>	3.96
Note: Estimated cash flow and earnings at recent quarter rate annualized.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
For historical analysis of KMP since 2001 see www.mcdep.com/2kmp.htm			

Summary and Recommendation

We continue to recommend sale of the units of **Kinder Morgan Energy Partners (KMP)** and **Kinder Morgan Management (KMR)** on the basis of high valuation, high financial risk, misleading accounting and conflicted credit ratings. Latest quarterly results reported on July 16 after the market close included an increase in “Accumulated Other Comprehensive Loss” of \$1.4 billion, apparently from oil hedging, more than twice Ebitda (Earnings before interest, tax, depreciation and amortization). Indicating high valuation, the multiple of Enterprise Value (Market Cap and Debt) to Ebitda at 15 times is three times the median for thirty energy stocks in our coverage. Balance sheet debt at a ratio of 0.6 times Present Value is 6 times the median while financial risk is further escalated by debt exposure not reported. Also the omission from the balance sheet of the equity equivalent of general partner compensation at 77% of limited partner distributions misleads investors into calculating Enterprise Value that is too low and therefore valuation by the EV/Ebitda multiple that is lower than it is on a consistent representation. Bond raters, paid by Kinder Morgan, contribute further to inflated stock price and high risk with business practices and erroneous financial models that were exposed in the failure of municipal bond insurers and collateralized debt. The ability heretofore of KMP and KMR to raise new capital in overpriced equity and generously rated debt has kept the story aloft for now.

Kurt H. Wulff, CFA



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Symbol	KMR	Ebitda Next Twelve Months ending 3/31/09 (US\$m)	410
Rating	Sell	North American Natural Gas/Ebitda (%)	0
Price (US\$/sh)	53.35	Natural Gas and Oil Production/Ebitda (%)	19
Pricing Date	7/16/08	Adjusted Reserves/Production NTM	8.0
Shares (mm)	75	EV/Ebitda	14.5
Market Capitalization (US\$m)	4,000	PV/Ebitda	7.8
Debt (US\$m)	1,900	Undeveloped Reserves (%)	42
Enterprise Value (EV) (US\$m)	5,910	Natural Gas and Oil Ebitda (US\$/boe)	42.39
Present Value (PV) (US\$m)	3,180	Present Value Proven Reserves(US\$/boe)	28.76
Net Present Value (US\$/share)	17	Present Value Proven Reserves(US\$/mcf)	4.79
Debt/Present Value	0.60	Earnings Next Twelve Months (US\$/sh)	2.47
McDep Ratio - EV/PV	1.86	Price/Earnings Next Twelve Months	22
Dividend Yield (%/year)	7.4	Indicated Annual Dividend (US\$/sh)	3.96
Note: Estimated cash flow and earnings at recent quarter rate annualized.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
For historical analysis of KMR since 2001 see www.mcdep.com/2kmr.htm			

Kinder Morgan Energy Partners, L.P.									
Next Twelve Months Financial Results									
	Q2	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next
	6/30/07	3/31/08	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	Twelve Months
									6/30/09
Oil Volume									
Oil (mmb)	3.2	3.2	3.2	3.3	3.3	13	3.2	3.2	13
Oil (mbd)	35	36	35	35	35	36	35	35	35
Oil Price (\$/bbl)									
WTI Cushing	64.91	97.94	123.99	145.38	146.41	128.43	146.91	146.11	146.20
Partnership	38.12	53.39	57.97	60.47	60.58	58.11	60.63	60.55	60.56
Oil Revenue (\$mm)	122	172	187	197	197	753	193	195	782
Ebitda									
Products Pipelines	149	141	137	137	137	552	137	137	548
Natural Gas Pipelines	145	188	183	183	183	737	183	183	732
CO2 Pipelines	129	200	217	217	217	851	217	217	868
Terminals	110	126	140	140	140	546	140	140	560
Trans Mountain	21	30	33	33	33	129	33	33	132
Overhead	(71)	(85)	(82)	(82)	(82)	(331)	(82)	(82)	(328)
Total Ebitda	483	600	628	628	628	2,484	628	628	2,512
Deprec., Deplet., & Amort.	136	158	166	166	166	656	166	166	664
Other Non Cash				-	-	-	-	-	-
Ebit	347	442	462	462	462	1,828	462	462	1,848
Interest	97	97	99	99	99	394	99	99	396
Ebt	250	345	363	363	363	1,434	363	363	1,452
General Partner	148	187	196	202	203	787	203	204	812
Net Income (\$mm)	102	158	167	161	161	647	160	159	641
Units (mm)	235	251	257	258	259	256	260	261	259
Net Income Per Unit (\$/un)	0.43	0.63	0.65	0.63	0.62	2.53	0.62	0.61	2.47
Distribution Per L.P. Unit	0.83	0.92	0.96	0.99	0.99	3.86	0.99	0.99	3.96
Distribution (\$mm)	341	410	440	457	459	1,766	460	462	1,838
General Partner	146	179	193	202	203	777	203	204	812
Limited Partner	195	231	247	255	256	989	257	258	1,027
General Partner Share									
Earnings	59%	54%	54%	56%	56%	55%	56%	56%	56%
Distribution	43%	44%	44%	44%	44%	44%	44%	44%	44%



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