

Rating: Sell  
 S&P 500: 1310

## **Kinder Morgan (KMI, KMP, KMR) False Debt Promotion Unmasked**

<i>Symbol</i>	KMI	KMP	KMR	KMx
<i>Rating</i>	Sell	Sell	Sell	
<i>Price (US\$/sh)</i>	91.29	48.64	44.19	
<i>Pricing Date</i>	4/19/06	04/19/06	04/19/06	
<i>Publicly Held Shares (mm)</i>	135	146	48	
<i>Market Capitalization (US\$mm)</i>	12,300	7,090	2,130	21,500
<i>Debt (US\$mm)</i>	13,600	2,740	910	17,300
<i>Enterprise Value (EV) (US\$mm)</i>	25,900	9,830	3,040	38,800
<i>Present Value (PV) (US\$mm)</i>	18,100	4,920	1,630	24,700
<i>Net Present Value (US\$/share)</i>	33	15	15	
<i>Debt/Present Value</i>	0.75	0.56	0.56	0.70
<i>McDep Ratio - EV/PV</i>	1.44	1.99	1.86	1.57
<i>Ebitda Next Twelve Months ending 3/31/07 (US\$mm)</i>	2,090	600	200	2,890
<i>North American Natural Gas/Ebitda (%)</i>	0	0	0	
<i>Natural Gas and Oil Production/Ebitda (%)</i>	7	17	17	
<i>Adjusted Reserves/Production NTM</i>	7.3	7.3	7.3	
<i>EV/Ebitda</i>	12.4	16.5	15.4	13.4
<i>PV/Ebitda</i>	8.6	8.3	8.3	8.5
<i>Undeveloped Reserves (%)</i>	42	42	42	
<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	23.71	23.71	23.71	
<i>Present Value Proven Reserves(US\$/boe)</i>	18.27	18.27	18.26	
<i>Present Value Proven Reserves(US\$/mcf)</i>	3.04	3.04	3.04	
<i>Earnings Next Twelve Months (US\$/sh)</i>	5.81	1.69	1.69	
<i>Price/Earnings Next Twelve Months</i>	16	29	26	19
<i>Indicated Annual Distribution (US\$/sh)</i>	3.50	3.24	3.24	
<i>Distribution Yield (%/yr)</i>	3.8	6.7	7.3	5.1
<i>Ebitda by Function</i>				
<i>Natural Gas Pipelines</i>	1507	163	54	1724
<i>Oil Products Pipelines</i>	225	168	56	449
<i>CO2 Pipelines</i>	203	152	51	406
<i>Terminals</i>	155	116	39	310

Reported results may vary widely from estimates.

Estimated present value per share revised only infrequently.

### **Summary and Recommendation**

Some of the false promotion that appears to contribute to the overpricing of the securities of sell-recommended **Kinder Morgan Inc. (KMI)**, **Kinder Morgan Energy Partners (KMP)**, and **Kinder Morgan Management LLC (KMR)** was unmasked as general partner KMI added the debt of limited partner KMP to KMI's balance sheet. As a result, KMI's reported liabilities

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increased almost \$10 billion or 57% by its own pro forma comparison in its disclosure of latest quarterly financial statistics. There has been no unmasking yet of a second source of false promotion, as we see it, overstatement of earnings. We also see regular evidence of a third source of false promotion when company and press reports extol dollar a year compensation for management with no mention that general partner KMI extracts the highest compensation in the energy industry from limited partner KMP. The unmasking of false debt promotion comes at a time when the company wants to raise new capital to fund its multi-billion dollar projects and make the cash distributions it has promised to owners. Should any difficulty in financing become evident, investors could see accelerated stock price impairment toward estimated net present value of \$33 a share for KMI and \$15 a unit for KMP and KMR.

### Hidden Debt Exposed

In its financial statements for the first quarter of 2006, KMx complied partly with a proceeding last year by the Emerging Issues Task Force of the Financial Accounting Standards Board. EITF 04-5 concluded a general partner who controls a limited partnership should account for the partnership on a consolidated basis.

Our numbers did not change substantively because we have been estimating the impact of proportional consolidation. Our measure of debt approximates Total Assets minus a standard amount of Current Assets minus Equity minus Deferred Taxes. On that basis the consolidated ratio of debt to present value we calculate is 0.70, the composite of 0.75 for the general partner and 0.56 for the limited partners.

In simplest terms, KMx has been running a debt pyramid. Normal debt limits might be 0.5. KMx has been borrowing up to 0.5 in the general partner, fictionalizing the limited partnership as independent and then borrowing up to 0.5 again. The limited partnership, in turn, has further unconsolidated entities that borrow more and increase the size of the pyramid.

Kurt H. Wulff, CFA

<b>Kinder Morgan, Inc.</b>									
<b>Next Twelve Months Financial Results</b>									
	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next Twelve Months</i>
	<i>3/31/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>
<b>Ebitda</b>									
Natural Gas Pipelines	139	238	571	349	299	299	359	1,304	1,290
Kinder Morgan Energy Partners	185	208	782	209	191	197	203	800	800
Total Ebitda	324	446	1,353	558	489	495	561	2,104	2,089
Deprec., Deplet., & Amort.	29	42	131	156	156	156	156	624	534
Kinder Morgan Energy Partners	31	83	177	(85)	(85)	(85)	(85)	(338)	(338)
<b>Ebit</b>	264	321	1,045	486	418	424	490	1,818	1,893
Interest	41	69	199	189	189	189	189	756	687
<b>Ebt</b>	223	252	846	297	229	235	301	1,062	1,206
Income Tax	78	88	296	104	80	82	105	372	422
<b>Net Income (\$mm)</b>	145	164	550	193	149	153	196	690	784
<b>Shares (millions)</b>	124	127	124	135	135	135	135	135	135
Per Share (\$)	1.17	1.29	4.42	1.43	1.10	1.13	1.45	5.11	5.81
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next</i>
	<i>3/31/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>Months</i>
									<i>3/31/07</i>
<b>Oil Volume</b>									
Oil (mmb)	3.5	3.4	<b>14</b>	3.3	3.4	3.4	3.4	<b>13</b>	<b>13</b>
Oil (mbd)	39	37	<b>37</b>	37	37	37	37	<b>37</b>	<b>37</b>
<b>Oil Price (\$/bbl)</b>									
WTI Cushing	49.65	60.02	<b>56.31</b>	63.33	70.45	73.34	73.89	<b>70.25</b>	<b>72.89</b>
Partnership	29.85	30.62	<b>29.70</b>	32.66	33.57	33.92	33.98	<b>33.54</b>	<b>33.86</b>
<b>Oil Revenue (\$mm)</b>	104	104	<b>405</b>	109	113	115	116	<b>453</b>	<b>457</b>
<b>Ebitda</b>									
Products Pipelines	126	127	<b>503</b>	126	126	126	126	<b>504</b>	<b>504</b>
Natural Gas Pipelines	124	140	<b>501</b>	144	115	122	140	<b>521</b>	<b>521</b>
CO2 Pipelines	123	114	<b>472</b>	122	115	120	114	<b>471</b>	<b>471</b>
Terminals	74	85	<b>319</b>	90	90	90	90	<b>360</b>	<b>360</b>
Overhead	(79)	(52)	<b>(238)</b>	(66)	(66)	(66)	(66)	<b>(263)</b>	<b>(263)</b>
Total Ebitda	368	414	<b>1,557</b>	416	380	392	404	<b>1,593</b>	<b>1,593</b>
Deprec., Deplet., & Amort.	85	91	<b>349</b>	93	93	93	93	<b>372</b>	<b>372</b>
<b>Ebit</b>	283	323	<b>1,208</b>	323	287	299	311	<b>1,221</b>	<b>1,221</b>
Interest	59	68	<b>262</b>	76	76	76	76	<b>304</b>	<b>304</b>
<b>Ebt</b>	224	255	<b>946</b>	247	211	223	235	<b>917</b>	<b>917</b>
General Partner	112	126	<b>478</b>	130	134	134	135	<b>533</b>	<b>538</b>
<b>Net Income (\$mm)</b>	112	129	<b>468</b>	117	77	89	100	<b>384</b>	<b>378</b>
<b>Units (mm)</b>	208	219	<b>213</b>	221	222	223	224	<b>222</b>	<b>223</b>
Net Income Per Unit (\$/un)	0.54	0.59	<b>2.20</b>	0.53	0.35	0.40	0.45	<b>1.73</b>	<b>1.69</b>
Distribution Per L.P. Unit	0.74	0.79	<b>3.07</b>	0.80	0.81	0.81	0.81	<b>3.23</b>	<b>3.24</b>
<b>Distribution (\$mm)</b>	265	301	<b>1,129</b>	308	313	315	316	<b>1,252</b>	<b>1,261</b>
General Partner	111	128	<b>476</b>	131	134	134	135	<b>534</b>	<b>538</b>
Limited Partner	154	173	<b>653</b>	177	180	180	181	<b>718</b>	<b>723</b>
<b>General Partner Share</b>									
Earnings	50%	49%	<b>51%</b>	53%	63%	60%	57%	<b>58%</b>	<b>59%</b>
Distribution	42%	42%	<b>42%</b>	43%	43%	43%	43%	<b>43%</b>	<b>43%</b>

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