

ONEOK Inc

Solid 4Q, Conservative '24 guide; Discretionary cash abundant

Maintain Rating: BUY | PO: 83.00 USD | Price: 72.91 USD

Solid 4Q; Conservative '24 guide; Reit. Buy on FCF growth

OKE reported 4Q23 Adj. EBITDA of \$1,514mm, which was +3%/-3% relative to cons/BofA. Each segment beat cons/BofA expectations except G&P, as Rockies vols were up 1% sequentially. More importantly, OKE introduced '24 EBITDA guidance with a wide range from \$5,900mm-\$6,300mm (midpoint: \$6.1bn). Our estimate of \$6,290mm brushes up against the top end of the range, but we believe \$6.3bn of EBITDA is achievable, even incorporating 6 weeks of poor 1Q weather, where 60% of Rockies processing was down. We believe OKE's guide is conservative and the following factors are needed to hit the top end of '23 guidance: 1) G&P and transport volumes need to hit the top end of expectations 2) some ethane recovery is needed 3) 3rd party frac costs coming down ('24 estimate likely coming on earnings call) and 4) strong blending margins. We believe volumes can hit the higher end of guidance, absent a major 4Q weather event, as Bakken well productivity has increased. OKE does not need more activity (higher rig count) to hit the top end of guidance. Incentivized ethane recovery is likely with Bakken ethane frac spreads averaging >10c/gal for the rest of the year. And finally, OKE's '23 3rd party frac costs came in well below expectations, and if MB6 comes on early (official in-service 1Q25), costs could be lowered even further. Lastly, OKE is only assuming ~\$175mm/\$300mm of synergies in '24/'25, which we believe is conservative given the butane blending opportunities alone. See: our [detailed OKE upgrade note](#). Maintain Buy and OKE remains our top C-Corp pick.

OKE in a position to return more capital to investors

Companies that have increased cash return, especially through outsized distributions, like MPLX and WES have significantly outperformed this earnings season, regardless of the go forward ability to sustain growth. OKE is in the opposite position, with significant ability to return more cash to its shareholders than its announced 4% dividend increase and \$2bn buyback program over 4 years. OKE is already below its targeted leverage ratio of 3.5x, at 3.46x using Net Debt/'24 midpoint EBITDA guidance. And we understand '24 is a heavy capex year with the bulk of the spend for the WestTex expansion (\$520mm), Elk Creek expansion (\$355mm) and MB6 (\$550mm) fractionator occurring, so '25 will be a heavy FCF inflection year, as more synergies are realized. But even with the Elk Creek expansion announced, total capex of ~\$1.85bn was below our estimate of \$2.1bn. So in '24, we expect OKE to still generate \$400mm-\$500mm after dividends and >\$1bn in '25. The \$2bn repurchase program could theoretically be completed in slightly >2 years vs. OKE's target of 4 years.

Key topics for the conference call: commercial synergies

OKE noted annual run-rate synergies will be ~\$300 through YE25, but investors are keen on understanding what OKE says about longer-term commercial synergies and whether the aspirational \$700mm run-rate is achievable. And the largest driver of that will be understanding the total market potential for butane blending. Lastly, we expect OKE to provide an update on whether the previous NGL purity product pipelines, like Sterling and North, moved refined products during 4Q23 and 1Q24 to date, which would speak to batching opportunities.

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Stock Data

Price	72.91 USD
Price Objective	83.00 USD
Date Established	04-Dec-2023
Investment Opinion	B-1-7
52-Week Range	55.91 USD - 73.83 USD
Mrkt Val / Units Out (mn)	44,454 USD / 609.7
Free Float	99.6%
Average Daily Value	226.76 USD
BofA Ticker / Exchange	OKE / NYS
Bloomberg / Reuters	OKE US / OKE.N
DPU Growth	0%
Net Dbt to Eqty (Dec-2022A)	206.4%
ESGMeter™	High

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G&P – gathering and processing

Vols – volumes

MPLX – MPLX LP

WES – Western Midstream Partners, LP

FCF – free cash flow

NGL – natural gas liquids

MB6 – Mont Belvieu Fractionator 6

Exhibit 1: OKE 4Q23 Variance

Actual results vs. Cons./BofA

Earnings Variance (\$mm)	4Q23			% Beat (Miss)		% Change vs. Actual	
	Actual	Consensus	BofA	Consensus	BofA	Q/Q	Y/Y
Total Revenues	5,235	5,958	4,813	-12%	9%	25%	4%
Cost of sales and fuel	3,301	4,151	2,773	-20%	19%	18%	-15%
Gross Profit	1,934	1,806	2,040	7%	-5%	39%	70%
Gross Margin	36.9%	30.3%	42.4%	663bps	-544bps	376bps	1,431bps
Operating and maintenance	486	449	584	8%	-17%	58%	77%
Depreciation and amortization	260	258	242	1%	7%	47%	65%
Other	89	51	0				
Total operating expenses	835	758	826	10%	1%	58%	74%
Total Operating income	1,099	1,212	1,214	-9%	-9%	28%	45%
Equity in earnings from investments	70	43	83				
Interest expense	305	293	285	4%	7%	42%	84%
Other income and expenses, net	46	0	0	NM	NM	NM	NM
Earnings from continuing ops. before taxes	910	983	1,012	-7%	-10%	53%	45%
Income tax expense	222	206	243	8%	-9%	57%	56%
Tax Rate	24.4%	21.0%	24.0%	343bps	40bps		
Net Income	688	666	769	3%	-11%	52%	42%
Net Income (clean)	688	664	768	4%	-10%	52%	18%
Earnings per share - Diluted (Clean)	\$1.18	\$1.32	\$1.26	-11%	-6%	NM	NM
Average Diluted Shares Outstanding	586	588	611	0%	-4%	NM	NM
Segment EBITDA							
Natural gas gathering and processing	323	339	329	-5%	-2%	0%	21%
Natural gas liquids	613	598	608	3%	1%	0%	8%
Natural gas pipelines	132	130	122	1%	8%	6%	0%
Refined Products	424	437	454	-3%	-7%	NM	NM
Other	22	(38)	41				
Total EBITDA (BBG)	1,514	1,466	1,554	3%	-3%	38%	57%
SEGMENT DETAILS							
Natural Gas G&P							
Total gas processed (MMcf/d)	2,378	2,374	2,343	0%	2%	3%	17%
Rockies gas processed (MMcf/d)	1,590	1,616	1,588	-2%	0%	1%	20%
Mid-Con gas processed (MMcf/d)	788	758	755	4%	4%	6%	11%
NGL							
Rocky Mountain (Mbb/d)	399	413	399	-3%	0%	2%	20%
Mid-Continent (Mbb/d)	542	594	580	-9%	-7%	-8%	10%
Gulf Coast/Permian (Mbb/d)	426	445	440	-4%	-3%	-2%	17%
Total Avg Raw Feed Thruput Vols (Mbb/d)	1,367	1,452	1,419	-6%	-4%	-3%	15%
Natural Gas Pipelines							
Natural gas transportation capacity contracted (MMcf/d) - capacity contracted	7,920	7,814	7,704	1%	3%	3%	4%
Natural Gas Segment capex	73	39	30	88%	143%	4%	77%

Source: BofA Global Research, Company report, Bloomberg, Visible Alpha

BofA GLOBAL RESEARCH

Price objective basis & risk**ONEOK Inc (OKE)**

Our PO of \$83 PO is derived from our discounted cash flow valuation, which implies a 10.9x 2024E EV/EBITDA multiple. We forecast a ten-year outlook, which we believe is the limit of market recognition, and then forecast a terminal decline of 0.5% while using a 7.0% WACC.

Upside risks to our estimates and price objective are: (1) stronger and sustained commodity prices, (2) faster oil and NGL demand growth, (3) increased oil producer capital spending, (4) quicker than expected deleveraging, (5) favorable commodity price differentials and (6) lower corporate taxes.

Downside risks to our estimates and price objective are: (1) materially lower commodity

prices, (2) lower oil and NGL demand growth and (3) decreased oil producer capital spending in the Bakken which may translate to lower/flat volumes.

Analyst Certification

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ONEOK Inc (OKE) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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