

Kinetik Holdings Inc.

Strong '24 guidance and a path to investment grade despite headwinds

Reiterate Rating: BUY | PO: 39.00 USD | Price: 35.32 USD

PM Summ: Strong '24 guide/FCF given known headwinds

On Thursday, 2/29, KNTK (+5.1%) outperformed the AMNA (+0.8%) after reporting Adj. EBITDA of \$228mm, +1%/+1% vs. Cons/BofA. FY23 EBITDA of \$839mm was in line with KNTK guide at the midpoint. KNTK's '23 exit processed gas volumes of 1.5 Bcf/d missed the 1.6 Bcf/d guide due to modest producer schedule changes and curtailments with elevated CO2 concentrations. But '24 EBITDA guidance of \$905-\$960mm (midpoint \$933mm) was higher than investor expectations, in our opinion, after 1) factoring 4Q23 exit processing volumes falling below expectations of 1.6 Bcf/d 2) Alpine High activity delayed from mid '24 to '25, given current gas prices and 3) lower commodity pricing impacting percent-of-proceed (POP) contracts. With '24 capex guided to \$125-\$165mm (midpoint \$145mm), KNTK will be able to turn off the DRIP, and still have ~\$100mm of FCFaD to de-lever from 4.1x (YE23) to ~3.5x by YE24. And while the GCX sale has failed to materialize, it might be in KNTK's best interest to keep the asset, as it can keep ~\$52mm of EBITDA that is needed to meet IG criterion of \$1bn annual EBITDA while de-levering appropriately, with the asset EBITDA. With a 9% div. yield, KNTK has a floor on its stock price, and inc. the div. would not be a good use of capital. Our '24/'25/'26 EBITDA estimates are \$940mm/\$983mm/\$1,028mm. We Reiterate our Buy and \$39 PO.

Blending overcomes quality constraints in the Delaware

KNTK noted on the call that treating is emerging as one of the most overlooked capacity constraints in the Delaware, as producers step out from the core. In particular, the Bone Spring and Avalon formations in Lea County and more northern parts of the Delaware have the most challenged gas quality. The curtailments that caused the processed gas volume miss came on a 45 well package that was being brought online, but that is now being blended into the system. The variation in gas from north to south Delaware allows for blending, and historically more sweet volumes from the southern Delaware are now more sour blended, also with added capacity. KNTK also noted on the call that they would announce a venture for full utilization of waste CO2 in the coming month.

Project status: NM gathering, GCX expansion not close

The NM gathering expansion finished in January, which was two months ahead of schedule and under budget. We do not believe a GCX expansion is close, as [competing](#) Katy to Agua Dulce bullet lines seem to have the upper hand to supplying AD. But as we described above, holding GCX vs. selling, is likely a better outcome in this environment.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.83	2.62	2.59	2.91	3.26
EPS Change (YoY)	NA	43.2%	-1.1%	12.4%	12.0%
Consensus EPS (Bloomberg)			1.88	2.06	2.06
DPS	3.00	3.00	3.00	3.00	3.00
Valuation (Dec)					
P/E	19.3x	13.5x	13.6x	12.1x	10.8x
Dividend Yield	8.5%	8.5%	8.5%	8.5%	8.5%
EV / EBITDA*	13.8x	13.5x	12.0x	11.5x	11.0x
Free Cash Flow Yield*	6.9%	4.0%	12.6%	13.5%	14.6%

* For full definitions of *IQmethod*™ measures, see page 4.

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29 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E EPS	2.60	2.59
2025E EPS	3.01	2.91
2026E EPS	NA	3.26
2024E EBITDA (m)	926.5	939.5
2025E EBITDA (m)	983.3	982.7
2026E EBITDA (m)	NA	1,027.8

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Stock Data

Price	35.32 USD
Price Objective	39.00 USD
Date Established	13-Jul-2023
Investment Opinion	C-1-7
52-Week Range	26.32 USD - 37.17 USD
Mrkt Val / Units Out (mn)	4,758 USD / 134.7
Free Float	41.9%
Average Daily Value	10.62 USD
BofA Ticker / Exchange	KNTK / NAS
Bloomberg / Reuters	KNTK US / KNTKN
DPU Growth	0%
Net Dbt to Eqty (Dec-2023A)	130.3%
ESGMeter™	Medium

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AMNA/ GCX – Alerian Midstream
Energy Index/ Gulf Coast Express

NM/ AD/ FCFaD/ IG/ DRIP – New
Mexico/ Agua Dulce/ free cash flow
after distribution/ investment grade/
dividend reinvestment plan

iQprofileSM Kinetik Holdings Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	NA	2.4%	4.6%	5.2%	5.9%
Return on Equity	NM	NM	NM	NM	NM
Operating Margin	12.4%	12.7%	35.0%	37.7%	40.3%
Free Cash Flow	329	191	600	643	697

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.4x	2.0x	1.9x	1.8x	1.7x
Asset Replacement Ratio	1.1x	1.9x	0.4x	0.4x	0.4x
Tax Rate	1.0%	NM	NM	NM	NM
Net Debt-to-Equity Ratio	148.9%	130.3%	128.6%	122.7%	112.1%
Interest Cover	1.0x	0.8x	1.6x	1.8x	2.0x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,213	1,256	913	968	1,029
% Change	NA	3.5%	-27.3%	6.0%	6.3%
Gross Profit	672	741	865	919	980
% Change	NA	10.2%	16.7%	6.3%	6.6%
EBITDA	822	839	940	983	1,028
% Change	NA	2.0%	12.0%	4.6%	4.6%
Net Interest & Other Income	103	(6)	79	83	88
Net Income (Adjusted)	251	386	399	448	502
% Change	NA	54.1%	3.2%	12.3%	12.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	251	386	399	448	502
Depreciation & Amortization	260	301	358	352	346
Change in Working Capital	25	(25)	0	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	77	103	0	0	0
Capital Expenditure	(284)	(575)	(156)	(157)	(151)
Free Cash Flow	329	191	600	643	697
% Change	NA	-42.0%	214.9%	7.1%	8.4%
Share / Issue Repurchase	(645)	(6)	(12)	(12)	(12)
Cost of Dividends Paid	(39)	(70)	(462)	(462)	(462)
Change in Debt	355	235	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	6	223	349	518	741
Trade Receivables	204	231	231	231	231
Other Current Assets	31	58	58	58	58
Property, Plant & Equipment	2,535	2,754	2,553	2,358	2,163
Other Non-Current Assets	3,143	3,277	3,277	3,277	3,277
Total Assets	5,920	6,542	6,467	6,441	6,470
Short-Term Debt	23	38	38	38	38
Other Current Liabilities	205	213	201	190	178
Long-Term Debt	3,369	3,607	3,607	3,607	3,607
Other Non-Current Liabilities	51	57	57	57	57
Total Liabilities	3,647	3,916	3,904	3,893	3,881
Total Equity	2,273	2,626	2,563	2,550	2,590
Total Equity & Liabilities	5,920	6,542	6,467	6,442	6,471

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Natural Gas-Pipelines

Company Description

KNTK was created in February 2022 as a merger between Altus Midstream and EagleClaw. It is the only pure play Permian midstream company and operates exclusively in the Delaware basin. Businesses are gas gathering and processing (G&P), crude gathering, water gathering, and gas/NGL/oil pipeline takeaway.

Investment Rationale

Our Buy rating reflects KNTK's growing, capital-light processing business combined with its stable take-or-pay gas pipeline business. We believe that KNTK's bundled G&P and gas takeaway product will give it a leg up vs. competitors in the Permian basin.

Stock Data

Average Daily Volume

300,665

Quarterly Earnings Estimates

	2023	2024
Q1	0.03A	NA
Q2	0.49A	NA
Q3	0.29A	NA
Q4	1.75A	NA

Price objective basis & risk

Kinetik Holdings Inc. (KNTK)

Our PO of \$39 is derived from our Discounted Cash Flow Valuation which implies a 10.4x 2024 EV/EBITDA multiple. We forecast a ten-year outlook, which we believe is the limit of market recognition and then forecast a terminal growth rate of 1.0% while using a 9.0% weighted-average cost of capital (WACC).

Upside risks to our price objective are 1) higher commodity prices, 2) increased rich gas production on KNTK's contracted acreage, 3) winning acreage dedications at pace faster than modeled.

Downside risks to our price objective are 1) US economic weakness and/or commodity prices, 2) slower Permian production growth, 3) inability to win new acreage dedications.

Analyst Certification

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US - Pipelines and MLPs Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Energy Transfer LP	ET	ET US	Neel Mitra, CFA
	Enterprise Products Partners, L.P.	EPD	EPD US	Neel Mitra, CFA
	Kinetik Holdings Inc.	KNTK	KNTK US	Neel Mitra, CFA
	Kodiak Gas Services, Inc.	KGS	KGS US	Neel Mitra, CFA
	ONEOK Inc	OKE	OKE US	Neel Mitra, CFA
	Targa Resources Corp.	TRGP	TRGP US	Neel Mitra, CFA
	The Williams Companies, Inc.	WMB	WMB US	Neel Mitra, CFA
NEUTRAL				
	Kinder Morgan Inc	KMI	KMI US	Neel Mitra, CFA
	Plains All American Pipeline, L.P.	PAA	PAA US	Neel Mitra, CFA
	Plains GP Holdings, L.P.	PAGP	PAGP US	Neel Mitra, CFA
UNDERPERFORM				
	Equitrans Midstream Corporation	ETRN	ETRN US	Neel Mitra, CFA
	MPLX LP	MPLX	MPLX US	Neel Mitra, CFA
	Western Midstream Partners, LP	WES	WES US	Neel Mitra, CFA
RVW				
	Golar LNG Limited	GLNG	GLNG US	Neel Mitra, CFA



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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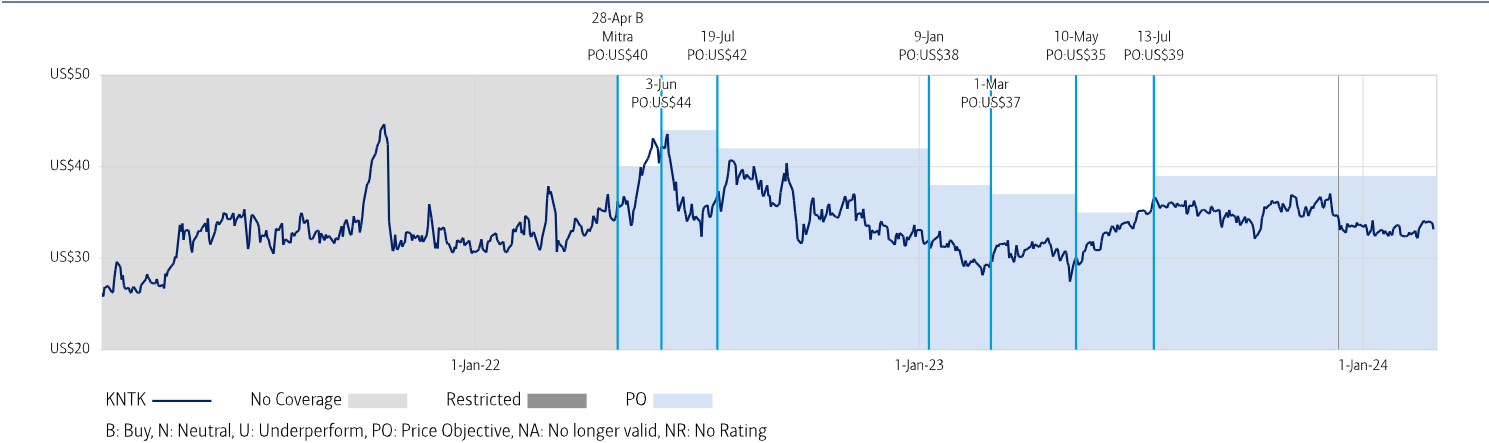
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Kinetik (KNTK) Price Chart



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

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)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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