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Kinder Morgan, Inc. (KMI) CEO Steve Kean on Q3 2019 Results - Earnings Call Transcript

Oct. 16, 2019 7:09 PM ET32 comments | 19 Likes
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Q3: 10-16-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $0.22 misses by $-0.02 | Revenue of $3.21B (-8.62% Y/Y) misses by $-270.69M

Earning Call Audio

Kinder Morgan, Inc. (NYSE:KMI) Q3 2019 Earnings Conference Call September 16, 2019 4:30 PM ET

Company Participants

Rich Kinder - Executive Chairman

Steve Kean - Chief Executive Officer

Kim Dang - President

David Michels - Vice President & Chief Financial Officer

Dax Sanders - Executive Vice President & Chief Strategy Officer

Conference Call Participants

Colton Bean - Tudor, Pickering, Holt & Company

Shneur Gershuni - UBS

Jeremy Tonet - JPMorgan

Spiro Dounis - Credit Suisse

Keith Stanley - Wolfe Research

Tristan Richardson - SunTrust

Ujjwal Pradhan - Bank of America Securities

Christine Cho - Barclays

Operator

Welcome to the Quarterly Earnings Conference Call. At this time, all participants are in a listen-only mode. [Operator Instructions] Today's conference is being recorded, if you have any objections you may disconnect at this time.

Now, I would like to turn the meeting over to Mr. Rich Kinder, Executive Chairman of Kinder Morgan. Thank you. You may begin.

Rich Kinder

Thank you, Britney. And before we begin, as usual, I'd like to remind you that today's earnings releases by KMI and KML and this call includes forward-looking and financial outlook statements within the meaning of the Private Securities Litigation Reform Act of 1995, the Securities and Exchange Act of 1934, and applicable Canadian provincial and territorial securities laws, as well as certain non-GAAP financial measures.

Before making any investment decisions, we strongly encourage you to read our full disclosures on forward-looking and financial outlook statements and use of non-GAAP financial measure set forth at the end of KMI's and KML's earnings releases, and to review our latest filings with the SEC and Canadian provincial and territorial securities commissions, for a list of important material assumptions, expectations, and risk factors that may cause actual results to differ materially from those anticipated and described in such forward-looking and financial outlook statements.

In my opening statements on these calls before turning it over to Kim, Steve, Dax and the rest of the team, I always try to share with you our vision for the future and our financial strategy.

On the financial front, I believe we continue to execute on our plans and our decision to sell our 70% interest in Kinder Morgan Canada and our 100% interest in the U.S. portion of the Cochin Pipeline is indicative of that execution. As you know, we are receiving a 13x multiple of EBITDA on our Cochin asset, which is well above the multiple which KMI is trading as a whole on the New York Stock Exchange.

Now, we're able to use the proceeds from these sales, and Steve will talk more about this later, in a manner consistent with what we have previously indicated to maintain a strong balance sheet, expand our core assets, pay a healthy and growing dividend, and opportunistically buyback our stock, all these uses we believe benefit our shareholders. I should add that we received expression of interest in other assets at similar or higher multiples of EBITDA.

And let me say, there is absolutely no certainty as to whether these expressions of interest will result in transactions. That said, we will evaluate such interest as a matter of good governance and capital discipline. All this just indicates a substantial difference between the valuation of individual assets and that of the company as a whole when expressed as a multiple of EBITDA.

Turning to our vision for the future, on last quarter's call, I described our positive outlook on the future of natural gas, which is very important to us as we move about 40% of all the natural gas in America through our pipelines. And incidentally, that positive outlook was reinforced in the September report of the U.S. Energy Information Administration, which projects that natural gas consumption will increase by 40% between now and 2050, even in a case where renewable energy rises dramatically.

Today though, I'd like to talk about the environmental impact of this growing natural gas utilization. First, the positive side of the story. The EPA has reported that from 2007 to 2017, total CO_2 emissions in the U.S. have dropped about 14%. Even more impressive

CO_2 emissions from the electric power sector have dropped approximately 26% during the same period of time not without – notwithstanding an increase in the absolute amount of electricity generated.

As most of you know, this is largely the result of new natural gas-fired power plants, replacing older and dirtier coal plants, since natural gas emits approximately half as much CO_2 compared to coal when burned to power. This is a huge accomplishment and demonstrates that the answer to minimizing our impact on the environment isn't simply banning fossil fuels but utilizing them responsibly.

The tremendous growth in natural gas production in America has also led to its shipment as LNG to developing countries around the world to be used in large part to replace coal-fired electricity generation with cleaner natural gas. These positive developments are pretty consistently accepted across the political landscape, but the naysayers on natural gas emphasize that its production and transportation emit too much methane into the atmosphere. There's some disagreement over the extent of these emissions, but it's clear that they are low and continue to drop, due primarily to industry-led initiatives.

Let me share with you some numbers. U.S. methane emissions from natural gas systems declined more than 14% between 1990 and 2017, despite a 53% increase in natural gas production over the same period. U.S. methane emissions, as a whole, across all industry also decreased by 16% over that period.

You might be interested to know, that methane emissions from enteric fermentation, you may want to Google that, but suffice it to say that it has to do with the digestive tract of farm animals and manure management, another key phrase, combined actually rose by 18% during that same time period.

If you took those two categories out of the equation, total U.S. methane emissions were actually down 27% during that time frame. Now all that said, our industry still needs to continue to address this issue and we are. KMI is a founding member of ONE Future, a voluntary industry initiative committed to achieving a methane leakage rate of 1% or less along the entire natural gas supply chain by 2025. In fact, our members rate is now well below that 1% target.

More specific to us, the group's target for emissions in the transportation and storage segment is 0.31%. KMI has already substantially outperformed that goal with emissions from that segment of 0.04% in 2017 improving to 0.02% in 2018. In summary, our view is that the methane emissions issue is solvable, will continue to improve and at the environmental positives of natural gas far outweigh the negatives.

And now, I'll turn it over to Steve.

Steve Kean

Okay. Thanks, Rich. I'm going to start with KMI, then turn it over to our President, Kim Dang, to give an update on our segment performance. Our CFO, David Michels will take you through the numbers; and Dax Sanders will update you on KML, and then we'll take your questions.

So summary on KMI is this, we are adhering to the principles that we've laid out previously for you. We have a strong balance sheet having met our approximately 4.5 times debt-to-EBITDA target and with ratings upgrades now from all three ratings agencies.

We are maintaining our capital discipline through our return criteria, a good track record of execution, and by self-funding our investments. We are returning value to shareholders as evidenced by the 25% year-over-year dividend increase, and we continue to find attractive growth and/or divestiture opportunities. Again, strong balance sheet, capital discipline, returning value to shareholders, and finding additional opportunities, those are the principles we operate by.

During the quarter, we announced that KML had reached an agreement with Pembina Pipeline Corporation where Pembina would acquire all of the common equity of KML including KMI's 70% interest, and that KMI would sell the U.S. portion of the Cochin pipeline to Pembina for $1.546 billion. The closing of the transactions are cross conditioned and closing remains on track for a late Q4 this year or first quarter 2020.

Consistent with the principles I just stated, KMI expects to use its proceeds to reduce debt to maintain our net debt-to-adjusted EBITDA ratio of approximately 4.5 times and use remaining proceeds to invest in attractive projects and/or to opportunistically repurchase

KMI shares. And we said -- as we said when we announced the transaction, initially the proceeds will be used to reduce net debt before being put to these investments for repurchases.

Other milestones for the quarter. We placed the first unit of our Elba Island Liquefaction Facility in service on September 30. We were delayed here obviously and that has been a drag on our financial performance as you'll hear from Kim and David, but unit one is in service along with a balance of plant, meaning that we are now earning 70% of the project revenues.

And when you count also the facilities that we own at the 100% level to KMI's share specifically, it's about 80% of the total project revenues, both the joint venture as well as the facilities that we own 100%.

The remaining nine units are on the island and we are expected to place three more in service this year -- three more in service this year with the remaining six coming online next year in the first half of the year.

We also placed Gulf Coast Express or GCX in service in September. This project was a few days early. It's full. We need another one. The market needs another one. And that brings me to our 2 BCF a day Permian Highway Pipeline Project. That project is progressing well. We have about 85% of the right-of-way acquired and currently expect that we're going to timely acquire the easements we need.

We've also made good progress on the permitting front. However, we are still obtaining some of the regulatory authorizations that we need and that has progressed a little more slowly than what we put in our plan, what our plan -- project plan contemplated. That means in order to do efficient construction, we'll kick-off the construction a little bit later and that means that instead of a fourth quarter 2020 in service, we currently anticipate early 2021.

Both of our Permian Gas Pipeline projects are fully subscribed under long-term contracts that generate attractive returns and both projects bring us additional opportunities in our downstream pipelines, as on a combined basis they bring 4 BCF a day incrementally to a system that moves about 5 BCF a day today.

Those projects bring opportunities for downstream expansion. In fact two LNG facilities, Texas Gulf Coast power, industrial and petchem demand and in fact, our backlog includes about $325 million to expand and improve connectivity along our Texas Intrastate pipeline network in order to enable us to place the incremental volumes that will be hitting our system and are now hitting our system.

We are currently -- we are still working with customers on a third 2 BCF a day pipeline called Permian Pass. This is a work in progress. It's not in the backlog at this point. And since we reported on this on the second quarter call, the commercial activity has slowed, but it continues. It slowed as a result of some producer retrenchment in their Permian activities. We believe the pipeline is needed, but it may not be needed quite as soon as we were expecting three months ago.

With a total of three new 2 BCF a day projects coming online over the 2019 to 2021 period, both of ours as well as the third-party pipeline. The Permian Pass Pipeline may not be needed in 2022.

In the meantime, we're continuing to work with customers and potential partners and believe the long-term dynamics of needed gas takeaway capacity out of the Permian Basin and our extensive pipeline network in Texas put us in a good position.

These Permian projects demonstrate us taking advantage of a very positive situation for our business. There's large supply growth in Texas and large demand growth in Texas. We can bridge the two and connect to our Premier Texas Intrastate pipeline network on the Gulf Coast and stay entirely within the State of Texas, where we have more commercial flexibility.

As we pointed out at the conference, 70% of natural gas demand growth between now and 2030 is projected to be in Louisiana and Texas, and our systems are well-positioned to benefit from that.

As we said last quarter, we believe we have FERC's 501-G process largely behind us with the settlements we did on TGP and EPNG and several other of our systems. The outcomes were hard to predict, when we were putting our budget together for 2019, so we did not project them in the 2019 budget.

However, as we said when we announced -- or when we came out in January, if we got these things done, it would be a positive to the long-term value of our networks as it would help us resolve rate risk. We feel even more strongly about it, or I feel even more strongly about that statement sitting here today.

The last two Kinder Morgan pipelines with pending 501-G filings are on tomorrow's FERC meeting agenda, both of those systems are currently under rate moratoria, which the commission has been honoring. Again notwithstanding the headwind to 2019, we are delighted to have the 501-G risk largely behind us.

Finally, on our backlog, the backlog fell quarter-to-quarter and now stands at $4.1 billion. That's primarily because we placed Elba Unit one and GCX two of our largest products in the backlog in service at the end of the quarter. We remain -- we will remain disciplined here. We seek returns that are well above our cost of capital in order to deploy capital.

We believe based on our historical experience and on the size of our network and the market dynamics at play, particularly in natural gas that we'll continue to provide the opportunity to invest in $2 billion to $3 billion a year in attractive return expansion projects.

But importantly, if we don't find that much in new opportunities, we are not going to force it. We have other opportunities to deliver value to our shareholders and we expect to maintain our discipline. We will maintain our discipline.

With that, I'll turn it over to Kim.

Kim Dang

Okay. Thanks Steve. I sound like a broken record, but natural gas had another outstanding quarter, it was up 8% this quarter. Natural gas demand this year expected to increase by approximately 4 BCF a day over 2018. And so it's been the case all year, this growth is driving volume increases on our pipes.

Transport volumes in our transmission pipes is how we refer to our large diameter pipes increased by approximately 4.15 BCF a day or 13%. This marks the seventh quarter in a row on which volume exceeded the comparable prior period by 10% or more.

So, if you look on our system to see where these volumes showed up, EPNG volumes were up just under 1.2 Bcf a day, primarily due to increased Permian volumes and California storage refill.

TGP volumes were up 700 a day due to expansion projects. Kinder Morgan Louisiana volumes were up approximately 680 million cubic feet a day due to LNG exports. So, overall, for Kinder Morgan, deliveries for LNG exports were approximately 2.5 Bcf a day. That's an increase of almost 2 Bcf over the third quarter of 2018.

CIG volumes were up 585 million cubic feet a day due to increased DJ production and coal to gas switching. GCX started flowing volumes in August and went into service at the end of September, so averaged about 325 million cubic feet a day over the quarter. GCX is currently full flowing 2 Bcf a day. And then rig volumes were up approximately 250 million cubic feet a day due to increased DJ and Powder River Basin production.

On the gathering assets, volumes were up 12% or 350 million cubic feet a day, primarily driven by higher volumes in the Haynesville and in the Eagle Ford. Overall, natural gas wellhead volumes out of the key basins we serve, continues to increase. Permian Natural Gas Wellhead volumes increased 22% in the third quarter versus the third quarter of 2018. Haynesville increased 22%, Bakken increased 20% and the Eagle Ford increased 30%.

Our product segment was also up nicely in the quarter. Here we saw increased on our -- nice increases in our refined products business, primarily on SFPP due to higher average tariff and lower expenses. Refined product volumes were up just under 1% across our pipes versus the EIA numbers which were down approximately 1.3%.

Our crude and condensate business was essentially flat. Contributions from our Bakken asset were offset by reduced contributions from KMCC. As has been the case all year, increased volumes on KMCC were more than offset by lower rate. Overall, crude and condensate volumes were up about 4% in the quarter.

Terminals business was down about 1% in the quarter. The liquids business accounts for about 80% of that segment. And it had nice increases coming from expansion projects. The largest was from our baseline terminal expansion project in Edmonton. However, these increases were more than offset by the increased lease expense at our Edmonton South terminal, which became a third-party obligation post the Trans Mountain sale and a variety of smaller items.

We added about 400,000 barrels of tankage versus the third quarter of 2018. Our baseline project in Canada was the largest addition. Total leasable capacity is now over 89 million barrels. I'd also point out that we have taken Staten Island out of service and removed those barrels from all periods in our volume highlights.

Gasoline and distillate volumes, which don't have a material impact on our business given our contract structure, but do give some insight into the underlying fundamentals of our business. We're up nicely in Houston and the New York Harbor. Our bulk business was up modestly and bulk volumes were down approximately 6% due to lower coal and pet coke volumes.

Finally, our CO2 segment was down in the quarter, primarily due to lower commodity prices, but also due to lower crude and NGL volumes and higher power prices.

Our net realized crude oil price was down $8.50 per barrel approximately. NGL prices were down approximately $15 per barrel. Net crude oil production was down approximately 7%, primarily due to lower production across all of our fields.

However, at Yates, timing on the sales of the crude produced during the period is skewing the numbers. And at SACROC we did had some field wide maintenance, which impacted performance. We adjusted for these items. Production was down approximately 4.5%.

We expect free cash flow from the segment that's DCF plus expansion CapEx to be approximately $350 million for 2019, which is approximately $30 million better than our budget. This improvement versus budget is due to lower capital expenditures primarily because we elected not to proceed with Phase 3 at Tall Cotton as it did not meet our return requirements.

With that, I'll turn it over to Dave Michels

David Michels

All right. Thanks, Kim. Today we're declaring a dividend of $0.25 per share, the same as last quarter and in line with our budget to declare $1 per share for the full year of 2019, which is a 25% increase over the $0.80 per share that we declare for 2018. KMI's adjusted earnings per share and DCF per share both grew from last year's third quarter. We generated DCF per share of $0.50, which is two times or approximately $570 million in excess of the declared dividend.

In addition to the quarterly performance, our press release provides an update to our 2019 outlook. We are now expecting to end the year with adjusted EBITDA of about 3% below our budget and DCF slightly below our budget. Two discrete items that contributed to the variance were; one, the delay we experienced in placing our Elba Island facility in service; and the 501-G settlements.

The Elba delay while disappointing is largely behind us now. Now that we're recognizing majority of the revenues for that project just as Steve mentioned. And the 501-G resolution, while it wasn't in our budget was a positive outcome for Kinder Morgan.

So, moving on to our quarterly results. As you can see, we are using our updated format for earnings, so we hope you find this to be an improved presentation of our financials. I'll start with our GAAP performance then I'll move on to our non-GAAP performance. Revenues were down 9% from the third quarter of 2018, but the decline in cost of sales more than offset that lower revenue amount, meaning gross margin actually improved from the prior period.

Some of that gross margin benefit came from non-cash losses that we experienced in the third quarter of 2018, which we treat as certain items and exclude from our non-GAAP metrics. Excluding certain items, gross margin was in line period-over-period. Net income available to common stockholders was down $187 million or 27% due largely to a gain on the sale of our Trans Mountain Pipeline, which we took during the third quarter of 2018 and is also treated as a certain item.

In our materials, we call net income available to common shareholders adjusted for certain items, adjusted earnings. Our adjusted earnings were up $39 million or 8% compared to the third quarter of 2018 and adjusted earnings per share was $0.22 for the quarter, up

$0.01 or 5% from the prior period. And that includes the additional shares that resulted from the conversion of our preferred equity securities to common shares in October of last year.

Moving on to our DCF performance. Natural gas was up $85 million or 8% for the quarter. We saw greater performance versus last year across multiple assets. Excess interest rates benefited from the GCX commissioning and in-service, EPNG was up, driven by Permian supply growth, which more than offset the unfavorable impact that it experience from the 501-G rate case impacts.

TGP had increased contributions from multiple expansion projects placed in-service. Cochin had increased contributions from higher volume and rate. Kinder Morgan, Louisiana pipeline was up due to the Sabine Pass expansion.

For our products terminals and CO2 segments, Kim touched on the main drivers behind our financial performance there. Kinder Morgan Canada was down $32 million, as a result of the sale of Trans Mountain Pipeline last year.

G&A expense was higher by $14 million, due to higher non-cash pension expenses, as well as lower overhead capitalized to our projects. And those are partially offset in G&A by lower G&A resulting from our Trans Mountain sale. So that explains the main changes and adjusted EBITDA, which was $23 million, or 1% below Q3 2018.

Moving below EBITDA, interest expense was $21 million lower, driven by our lower debt balance. Sustaining capital was $21 million lower versus Q3 2018, mainly due to the timing of pipeline integrity work. We budgeted to spend more in sustaining capital for the year, this year full year versus last year. And we're still forecasted to do that, though we are trending to come in favorable to our budget for the full year.

Preferred stock dividends were down $39 million as a result of the conversion of our mandatory convertible securities last year. Other items, our unfavorable $22 million driven by a larger cash contribution to our pension plan this year versus last, so total DCF of $1.140 billion, is up $47 million or 4%.

To summarize the main drivers, greater contributions from our natural gas and product segments, lower preferred stock dividends, lower interest expense in sustaining capital, partially offset by lower contributions from our CO2 segment, driven by lower commodity prices, the sale of Trans Mountain Pipeline and a higher cash pension contribution.

DCF per share of $0.50 was up $0.01 or 2% from last year. The same drivers as DCF, but that includes the impact from the incremental shares issued as a result of our preferred stock version.

For the full year versus our budget, EBITDA as I mentioned is expected to be 3% below and the back the drivers of that variance include lower oil and NGL prices as well as lower volumes impacting our CO2 segment, the Elba delay in the 501-G settlements, partially offset by greater contributions from EPNG, resulting from strong Permian supply growth.

Full year DCF is expected to be slightly below budget, due to the same items impacting EBITDA as well as the benefit of favorable interest expense and an add back of non-cash pension expenses.

Moving on to the balance sheet, we ended the quarter at 4.7 times debt-to-EBITDA, slightly higher than the 4.5 times at the beginning of the year 2019 and we forecast to end the year with leverage a 4.6 times, which is the same year-end level we announced last quarter. Adjusted net debt ended the quarter at $35.2 billion, up about $380 million from last quarter, and an increase of $1.073 billion from year-end 2018.

To reconcile the change in the quarter, we generated DCF of $1.14 billion. We spent about $700 million on growth capital and contributions to our joint ventures. We paid out $570 million of dividends and we had a working capital use of approximately $250 million, mainly interest expense payments in the quarter, so that gets you to close to the $380 million increase in debt for the quarter.

For the full year, we generated DCF of $3.639 billion. We spent $2.2 billion on growth capital and joint venture contributions. We paid out dividends of $1.59 billion. We paid taxes on the Trans Mountain sale of $340 million and we had a working capital use of about $550 million largely interest payments also being the largest use. And that gets you to the main pieces of the $1.073 billion increase in adjusted net debt for the year.

I'll now turn it back to Steve.

Steve Kean

Okay. And we're going to update you on KML, progress on the transaction, as well as the financial results stats.

Rich Kinder

Thanks, Steve. Before a few brief comments on the numbers, I'll update you on where we stand on the pending sale of KML to Pembina. Consistent with previous comments, we still expect the deal will close either late in the current quarter or in the first quarter of next year. At this point, we have received early termination of the U.S. Hart-Scott-Rodino review period, which is a condition to close. The remaining conditions to close include KML shareholder and related court approvals and other regulatory approvals including approval by the Canadian Competition Bureau, which we expect will be the longest lead item.

With respect to shareholder approval, the common and preferred shareholder meetings are scheduled for December 10th. As a reminder, while there will be a vote of the preferred shareholders on a proposal to exchange KML preferred, for Pembina preferred as part of the transaction, closing of the transaction itself is not dependent upon that vote or any approval of the preferred shareholders.

With respect to approval by the Canadian Competition Bureau, we are proactively engaged with Pembina and the Competition Bureau to respond to requests for information in order to facilitate the bureau's review.

Now moving toward the results. Today, the KML Board declared a dividend for the third quarter of 0.1625 per restricted voting share or $0.65 annualized, which is consistent with previous guidance. Earnings per restricted voting share from continuing operations for the third quarter are $0.08 and that is derived from approximately $16.6 million of income from continuing operations, which is the same as net income. Income from continuing operations is down approximately $5.6 million versus the same quarter in 2018.

Looking at the largest drivers of that variance, revenue increased across most of KML's assets and was led by the contribution from the Base Line Tank and Terminal assets, being fully online and an increase in Cochin -- from Cochin due to the indexing of rates and the timing of incremental volumes in 2019.

However, the increase in revenue was more than offset by higher G&A, mostly associated with the cost of selling KML and lower interest income due to the non-recurrence of income on the Trans Mountain sale proceeds received in 2018. There were several other smaller moving pieces including slightly higher O&M and DD&A and lower income tax expense.

Total DCF from continuing operations for the quarter is $47.8 million, which is up approximately $8.8 million from the comparable period in 2018. Beyond the items, I've already mentioned, cash taxes were favorable by $9.8 million. That $9.8 million is driven by a refund received in the third quarter of 14.7, representing the overpayment of cash taxes for 2018 netted against $5 million of installments made for 2019.

Looking forward, as we said in the release, we expect our results for the year to be consistent with our budget of approximately $213 million in EBITDA and approximately $109 million in DCF. Finally, as we said in our release, due to the transaction and the lead up to it following the announcement of our normal course issuer bid buyback, we will not utilize any of that program at this point.

And with that, I'll turn it back to Steve.

Steve Kean

Okay. We're ready to answer questions on both entities. And as we've been doing here recently, we're going to ask that you limit your questions per person to one question with a follow-up. But if you’ve got additional unanswered questions, get back in the queue and we will get back to you. All right, Brittany, if you'd open it up.

Question-and-Answer Session

Operator

We will now begin our question-and-answer session. [Operator Instructions] And our first question comes from Colton Bean from Tudor, Pickering, Holt & Company. Your line is now open.

Steve Kean

Good afternoon.

Colton Bean

Good afternoon. So, just given the backlog that you all have in place today, is there a scenario where operating cash flow is sufficient to fund both the dividend and the capital program in 2020? I guess, as a follow on, when would you expect to make decisions regarding proceeds from Cochin and PBL shares?

Steve Kean

Okay. So, we haven't started our 2020 budget process yet. We were taking that up here right quick, but we -- so we won't know the final answer to that question. I mean this year with the dividend at the level that it was, we had what we call a self-funding gap of what's projected to be about $100 million, which means we've almost entirely funded our capital program and our JV contributions of around $2.7 billion, $2.8 billion and the dividend out of the cash that we generate.

Obviously, with dividend going up next year, that could be a little tighter. But until we know exactly what we’ve got in the capital plan for next year, we don't have a specific answer. I think it's safe to say we will be largely self-funding our CapEx along with paying the increased dividend next year.

On the timing, so we'll have the Cochin -- well, when the Cochin proceeds come in, we should -- one of us should probably mention, as we said when we announced the transaction, the Cochin proceeds by themselves would take our projected net debt-to-EBITDA to 4.4 times versus the 4.6 times that we talked about earlier.

We'd expect that -- again as I've said, we would hold that on the balance sheet if you will and wait for the right opportunity. And when it comes to the right opportunity, we'll be looking at capital projects that we have very attractive turns -- returns at well above our cost of capital or at share repurchases.

The share repurchases we will do opportunistically and not programmatically. And so, we're not talking about specific prices at which we would transact or anything like that, but we'll have the proceeds available.

When it comes to the Pembina shares in particular, of course, we would expect to convert those to cash at some point. We represent -- the proceeds represent less than 5% of Pembina's trading outstanding stock. So, we think that we can convert those shares into cash in a very non-disruptive way, and we don't have to be in a hurry to do so. And then we'll deploy the capital in share repurchases as I said opportunistically.

Colton Bean

Got it, that's helpful. And then just a quick follow-on. And so, understanding that there were impacts from field maintenance in the quarter for the EOR business, should we expect any impact at base decline rates from the reductions in the capital program?

Steve Kean

I think that at current -- we believe that at current prices, if you think about the smaller fields, Goldsmith, Katz, and Tall Cotton, we would probably -- we're going to be managing those for free cash flow not expecting to invest considerable capital in them. That can change if oil prices change. But for right now that would be our plan on those, and we will focus our attention on SACROC and Yates. And that's where most of the oil is anyway, having most of the production in any case. And so, I would expect to see declines in the smaller fields and then we'll see what projects are available to us at the return thresholds that we've set in the two larger fields.

Operator

And our next question comes from Shneur Gershuni from UBS. Your line is now open.

Shneur Gershuni

Hi, good afternoon, everyone.

Steve Kean

Good afternoon.

Shneur Gershuni

Steve, you had previously guided to 2.3 -- $2 billion to $3 billion worth of CapEx as kind of -- the run rate number that you've sort of been talking about. And I realize you're not through your capital program at this point or the valuation of your capital program for 2020 at this point. But I was wondering if you can talk about what drivers would bring you to the lower end versus the upper end as you contemplate the backlog?

You mentioned discipline earlier. Does the slowing of commercial discussions around the third Permian pipeline potentially bring CapEx to the lower end? I'm just wondering if you can give us sort of a little bit of color of what -- how both things will move around between the upper and the lower bound of your CapEx than you've previously given?

Steve Kean

Yeah and the short answer to your question on the Permian Pass is that yeah that would bring it toward the lower end until it ultimately gets sanctioned. So, if you think about where these projects are likely to come from, clearly we've got some in terminals and refined products, but the lion's share of the project opportunities as we look down the road are the things that aren't in the backlog right now are in the natural gas sector. And they relate to additional Permian takeaway capacity as well as feeding LNG facilities in the second wave of LNG.

And as I said, mostly concentrated on -- in Texas and Louisiana and so it's the timing of those project sanctions or sanctioning FIDs that will drive our capital -- our backlog and our capital budgets in the years ahead.

Shneur Gershuni

Great. And then a quick clarification, you just mentioned that on a pro forma basis, this is already Colton's question before -- on a pro forma basis for the KML-Cochin sale that you would technically end the year at 4.4 times versus 4.6 times, did that not include the sale of the Pembina shares? Is that just on the cash that's coming in and the 4.4 times would in theory be lower if you sold those shares as well too?

Steve Kean

Yeah. That's just on the Cochin cash proceeds, and it does assume an end of the year close, which is not a certainty. As we've said, we maybe able to close as soon as the end of this quarter or early 2020, but if you make that assumption of a close in this year and the use of -- and the receipt of the $1.546 billion of U.S. Cochin proceeds alone that's where you get that number.

Operator

And our next question comes from Jeremy Tonet from JPMorgan. Your line is now open.

Jeremy Tonet

Hi. Good afternoon. Just wanted to pick up on the CO2 side, that was a bit low, our estimates there. I was just wondering how much CapEx does it take to keep the production flat there or the 4.5% decline rate should we expect that to continue? Any thoughts you can provide there?

Steve Kean

Yeah. So, we don't invest in our CO2 business based on what investment level would be required to keep production flat or to grow production in aggregate. The way we invest the capital is, if the capital that we're investing and the oil that we expect to free up and sell as a result of it, if that produces a return, that clears our return criteria, then we invest. And so, we've had times when SACROC's been up year-over-year. We've had times certainly when it's been down. But we continue to find things to do at SACROC. It's just that we don't invest specifically to maintain production.

As I said earlier, I mean, I think you can expect that without capital investment in the smaller fields, you would tend to see a decline there. And as I said, we're going to maintain capital discipline there and we will continue to look for the opportunities to make sense at SACROC and Yates.

Jeremy Tonet

Got it. And then, going over to the M&A opportunities you're seeing, it seems like there was indications of interest in some of your assets at the north of 13 times. So I was just wondering, if you could provide any more color there. Is this kind of in the FERC-regulated assets like citrus? Is this on GMP? Or kind of what's more of the thought process there? If you can monetized that something better than what you trade at, is there anything holding you back from doing that?

Rich Kinder

Well, Jeremy, we're not government on specific expression of interest that we've had. I made that point simply to again drive home as I think the Cochin transaction does also, that there's interest in individual assets at multiple of EBITDA well above where KMI as a whole is trading.

Operator

And our next question comes from Spiro Dounis from Credit Suisse. Your line is now open.

Spiro Dounis

Hey, good afternoon. Maybe just following up on the M&A question. I won't ask you to may be point out specific assets. But just maybe help us think about, where the interest is coming from. Obviously, we've seen interest from private equity in the space, but now also, some strategic deals are getting done.

So just curious, as you think about the -- who the potential buyers could be? Can you describe them? And is there any room or interest for you to may be sale a portion of an asset, while retaining some of the operational control of it?

Rich Kinder

We would certainly entertain selling a portion of an asset and maintaining operational control. That's a good fit with what I believe Steve and the team are doing to continue to position KMI as really good operators in every respect from safety to efficiency.

And so, that's certainly something we entertain. We're not going to comment further on where the interest is from. But I think all of you know that there is a lot of money out there looking for a home in the midstream area of the energy section.

Spiro Dounis

Yes, understood. And then just on Permian Pass, I appreciate the color around the customer side. Just curious, if you're seeing JV partner start to show up or express any levels of interest early on. And just a quick tag along on Permian Highway and sorry if I missed it, but is there any incremental cost associated with the delay? And is that going to be spread across the partners equally?

Steve Kean

Yes. Taking the last one first. Yes, moderately, I would say. And, yes, it's borne by the project and all of its investors. On Permian Pass, there's definitely interest from people, shippers as well as partners or prospective partners. What I was trying to get across there is that, particularly there's no secret, as you saw, how people came out and laid out there capital plans in the producing sector, following -- as part of second quarter earnings. The growth is still there. It's maybe not growing on the same slope. And so, that naturally implies, I think, still a need, both, still need for the pipeline project, but perhaps a later in-service date and a later FID.

Operator

And our next question comes from Keith Stanley from Wolfe Research. Your line is now open.

Keith Stanley

Hi. Good afternoon. Curious, just updated views on acquisitions as part of the growth strategy, just you're going to have a lot more financial flexibility next year, equity currencies maybe a little better on relative terms. Just updated thoughts there?

Steve Kean

It's really no update, in the sense that we are always looking to see what makes sense. What makes sense particularly in our sector and -- but those things are very hard to project, very hard to predict and call your shots on, but we continue to leave the offense on the field.

Keith Stanley

Okay. And so I just have one follow-up on the asset sale side as well. How would you assess asset sales from here? It's a little different this time around with leverage already at your target, maybe not a clear use of sales proceeds besides buybacks. So just how would you assess asset sales given where you are financially now?

Steve Kean

I mean, I think you look at, we would look at it the same way we'd look at any other sales proceeds. The first use of those proceeds would be to make sure that we have maintained leverage target that we've achieved. And so that's first.

And then from there, it's again probably initially sits on the balance sheet and then opportunistically share repurchases or to fund our capital program. It's the same kind of order of operations that we've talked about on KML proceeds and other proceeds.

Operator

And our next question comes from Tristan Richardson from SunTrust. Your line is now open.

Tristan Richardson

Good afternoon. Appreciate all your comments on the stringent project approval criteria and returning cash to shareholders. When you look at 2020 marking the end of your multi-year outlook period, do you guys plan on outlining a multi-year plan similar -- in a similar way or do you think about this kind of on an annual basis now?

Steve Kean

I think, well, first of all, like if you're asking specifically about the dividend, that's a Board decision and we will be evaluating that. As we've said before, I think the right long-term assumption is to assume a dividend that grows in line, more in line with the growth in the underlying business, but I wouldn't expect a multi-year program.

Rich Kinder

Now I think we've been very clear when we gave the three-year plan and we've achieved all those objectives as we promised. And after we pay out the $1.25 next year, during the year the Board will look at what the opportunities are for the future. But I think Steve is absolutely right. We're looking at this year-to-year and not set out a multi-year plan.

Steve Kean

But the principles will be multi-year, which is a strong balance sheet, investment in attractive returning projects and returning value to shareholders through share repurchases or dividends. Those principles will – and having a well covered dividend, those principles will occur.

Rich Kinder

Exactly right.

Tristan Richardson

Very helpful. Thank you. And then just one quick follow-up on PHP, talked about being most of the way there on regulatory and right-of-way permitting, et cetera. The sort of the largest pinch points over the areas of the regulatory process that brought the delays, do you see those as sort of in the rearview mirror now in this last stretch such that they gave you that comfort to talk about the early 2021 date?

Steve Kean

Yeah. So, good point. We've made a lot of progress lately in getting permits as well as getting our right-of-way done and where we've had to proceed to eminent domain, it's something we avoid using. But as well as the second quarter court decision that we got that cleared the way for the project to proceed in large part. We still have some more work to do. We don't see anything in that work that we have to do on the permitting front that is in anyway insurmountable. In fact, we think we've already done that work. It needs to be processed now and ruled upon. But we made our plans assuming that, that process would conclude and this was our projection, not an agency's production. But we assumed things would conclude earlier, and it's taking a little longer. But I think being thoroughly reviewed thoroughly done.

Operator

[Operator Instructions] Our next question comes from Ujjwal Pradhan from Bank of America Securities. Your line is now open.

Ujjwal Pradhan

Good afternoon. Thanks for taking my question. First one on me, just in terms of thinking about your credit rating and the leverage target, given that you have a clear line of sight here into the actual proceeds and growing free cash flow, do you see any potential to lower your leverage target and maybe aim for a high BBB rating and maybe have a higher age accretion? And how your conversations have been with rating agencies in this regard? And then I have a follow-up.

Steve Kean

Okay. Well, I'll start and then ask David or Anthony to fill – or Kim to fill in. But I think we feel good being a BBB class and getting the upgrade from BBB minus. We do evaluate whether it makes sense to improve on that target and that evaluation has so far shown that we really get very, very little cost of capital benefit and in fact, the extra deleveraging that we would do, would forestall opportunities to create shareholder value to an extent that we don't think is warranted. But David?

David Michels

Well, I'll just add that in terms of our – I wouldn't add anything more to that part of your answer to what Steve just said -- provided. But I would say, in terms of recent rating agency conversations that we've had. We just got upgraded by all three just within the last year. They went to a thorough analysis on upgrading us. It's very difficult to get upgraded. So they take a very cautious approach. So I think we're in real good standing with them – with our current leverage target and our current leverage.

Ujjwal Pradhan

Got you. And Rich in your introductory comments, you talked about the environmental positives of your business especially on the natural gas side. But one area, I think was missing was your CO2 business and their related EOR although a smaller scale versus your other business. Given that you are trapping carbon dioxide underground in the process, do you think your operation qualify for ESG eligibility and any governmental incentives? And we have seen one of your competitors in the business talk about it at length, so just wanted to get some of your thoughts there?

Rich Kinder

So, you're right. We capture CO2 and we put it in the ground and it stays there. And we get valuable oil out as a consequence of that. That has been primarily geologically sourced CO2 really exclusively geologically sourced CO2. There are opportunities to potentially capture man-made CO2 and there are some tax credits to help support that activity. So far in any sizable way, we have not found it to be economic and have not found the sources of available CO2 from say, large ethanol plants, for example, to be of sufficient -- to be numerous and often of a high enough quantity for us to take full advantage -- to take advantage of that opportunity. But if you think about the long term and you think that at some point, CO2 sequestration capacity is going to be valuable, because of the carbon tax or something else, certainly, it's something that we know how to do.

Operator

And our next question comes from Christine Cho from Barclays. Your line is now open.

Christine Cho

Good evening, everyone. So I wanted to start on, I guess, follow-up on the capital allocation. When we think about what you could potentially do in stock buybacks, should we assume that leverage stays at your targeted 4.5 times?

So, like for next year, that it looks like may be your CapEx shakes out light and your net debt falls below that, that we should think that you would likely buyback stock? And what are the puts and takes to why you would maybe want to take leverage lower or higher than that? Do you think higher with potential M&A opportunities?

Steve Kean

We don't anticipate increasing leverage in order to repurchase shares when that's -- when it's above our target, okay? So, we expect to maintain our target as we use our share repurchase program. And as I said before, we -- the share repurchases would come opportunistically. And as I've said on that KML proceeds, we'd likely initially let those be on the balance sheet and then we'll look for the right opportunities to use it. But we're not telegraphing specific metrics or pricing that we're looking for.

Christine Cho

Okay. And would you potentially take your leverage higher if you saw a good M&A opportunity and the rating agencies were okay with it?

Steve Kean

If the rating agencies were okay with it, yes, that's an if, but I think it's the way -- and this is purely theoretical, okay?

Christine Cho

Right

Steve Kean

But the way that would work is, if you saw yourself having a very clear path back to these metrics and a rapid one and one that you could confidently execute on. And I think it would only be in those circumstances.

Rich Kinder

But let me just say that, obviously, it took us a good amount of time and a lot of work to get where we are now. And we would certainly -- that's a fundamental part of our philosophy is to maintain a strong balance sheet. And we can speculate all you want about what might happen in M&A, but let me just say that the Board is very committed to maintaining a strong balance sheet and that will certainly be a really big factor in any decision we make.

And to amplify what Steve said, again, as we've said so many times over the last three years, there are four things we can do with the money and all of them benefit our shareholders. I think, we've shown by increasing the dividend, we're returning real value to the shareholders. If you take $1.25 dividend on the stock price, it's turning the bar 20, its equivalent return if you look one year out.

We have the ability to, as Steve said, substantially fund our own capital projects. We have the ability to maintain a strong balance sheet and we have the ability, at some point, opportunistically, to buy back shares. So, I can assure you that the Board is going to make decisions that are in the best interest of shareholders here. We have a large amount of insider ownership on the Board. So, we're certainly going to look out for what's best for our shareholders.

Operator

And there are no further questions at this time.

Rich Kinder

Okay. Thank you very much. Have a good evening.

Operator

Thank you for your participation in today's conference. All participants may disconnect at this time.