

Rating: Sell
S&P 500: 1312

Kinder Morgan (KMI, KMP, KMR) Debt Exposé

<i>Symbol</i>	KMI	KMP	KMR	KMx
<i>Rating</i>	Sell	Sell	Sell	
<i>Price (US\$/sh)</i>	91.15	48.34	44.17	
<i>Pricing Date</i>	4/5/06	04/05/06	04/05/06	
<i>Publicly Held Shares (mm)</i>	139	145	46	
<i>Market Capitalization (US\$mm)</i>	12,700	7,010	2,020	21,700
<i>Debt (US\$mm)</i>	13,000	2,620	830	16,500
<i>Enterprise Value (EV) (US\$mm)</i>	25,700	9,630	2,850	38,200
<i>Present Value (PV) (US\$mm)</i>	17,600	4,800	1,510	23,900
<i>Net Present Value (US\$/share)</i>	33	15	15	
<i>Debt/Present Value</i>	0.74	0.55	0.55	0.69
<i>McDep Ratio - EV/PV</i>	1.46	2.01	1.88	1.60
<i>Ebitda Next Twelve Months ending 3/31/07 (US\$mm)</i>	2,150	610	191	2,950
<i>North American Natural Gas/Ebitda (%)</i>	0	0	0	
<i>Natural Gas and Oil Production/Ebitda (%)</i>	6	19	19	
<i>Adjusted Reserves/Production NTM</i>	6.3	6.3	6.3	
<i>EV/Ebitda</i>	11.9	15.9	14.9	12.9
<i>PV/Ebitda</i>	8.2	7.9	7.9	8.1
<i>Undeveloped Reserves (%)</i>	42	42	42	
<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	21.91	21.91	21.91	
<i>Present Value Proven Reserves(US\$/boe)</i>	19.39	19.39	19.36	
<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.23	3.23	3.23	
<i>Earnings Next Twelve Months (US\$/sh)</i>	5.01	2.03	2.03	
<i>Price/Earnings Next Twelve Months</i>	18	24	22	20
<i>Indicated Annual Distribution (US\$/sh)</i>	3.50	3.20	3.20	
<i>Distribution Yield (%/yr)</i>	3.8	6.6	7.2	5.1
<i>Ebitda by Function</i>				
<i>Natural Gas Pipelines</i>	1563	170	53	1787
<i>Oil Products Pipelines</i>	224	168	53	444
<i>CO2 Pipelines</i>	211	158	50	419
<i>Terminals</i>	152	114	36	302

Reported results may vary widely from estimates.

Estimated present value per share revised only infrequently.

Summary and Recommendation

Our rationale for recommending sale of the equity securities of **Kinder Morgan Inc. (KMI)**, **Kinder Morgan Energy Partners (KMP)**, and **Kinder Morgan Management LLC (KMR)** may be more evident to investors when general partner KMI reports its share of partnership debt. Responding to an action last year by the Financial Accounting Standards Board, the company's disclosure may be made when first quarter results are released on April 19. The event would

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begin to acknowledge that the tri-headed entity understates debt and overstates earnings. Perhaps starting to anticipate unfavorable accounting news, all three high McDep Ratio stocks are trading below their 200 day average price. The weakness 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 to be Exposed

Apparently KMx intends to comply partly with a proceeding last year by the Emerging Issues Task Force of the Financial Accounting Standards Board, EITF 04-5, that concludes a general partner who controls a limited partnership should account for the partnership on a consolidated basis. According to the Form 10-K filed by KMI with the Securities and Exchange Commission, had the company complied at year end 2005, liabilities on KMI's balance sheet would have increased by \$9.7 billion, or more than 50%.

Our numbers will not change substantively, we do not expect, 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 ratio of debt to present value for the general partner, as we show it, is 0.74. The consolidated number we calculate is 0.69, the composite of 0.74 for the general partner and 0.55 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.

Earnings Overstated

Still to come, we believe KMx should take a writedown for the impairment of the balance sheet equity value of limited partners as a result of the escalating general partner "incentive" compensation. Half the limited partners' equity value, about \$2 billion, has effectively been taken by the general partner by its deception.

Stock Market Value Exceeds Business Value

The swashbuckling conglomerateurs of 35 years ago overstated earnings and understated debt with convertible securities and then binged on acquisitions with hyped stock. Aggressive managers during the past decade issued themselves buckets of options, hyped the stock with overstated earnings that did not take account of the options expense and cashed in to the detriment of long-term investors. KMx overstates earnings and understates debt by disguising general partner compensation. Stock prices for the KMx entities exceed business value by up to 101% as indicated by a McDep Ratio of 2.01 for KMP. Inflated stock prices facilitated acquisitions that otherwise would have been difficult to make. Among other factors, accounting changes exposed the historical abuses of convertible securities and stock options. Now, accounting changes may have begun to expose the abuses of exploding general partner compensation.

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Kinder Morgan, Inc.
Next Twelve Months Financial Results

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</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>
Ebitda									
Natural Gas Pipelines	139	238	571	334	334	334	334	1,336	1,336
Kinder Morgan Energy Partners	187	210	789	206	198	204	210	818	818
Total Ebitda	326	448	1,360	540	532	538	544	2,154	2,154
Deprec., Deplet., & Amort.	29	42	131	66	66	66	66	264	264
Kinder Morgan Energy Partners	33	85	184	85	85	84	83	337	335
Ebit	264	321	1,045	389	381	388	395	1,553	1,555
Interest	41	69	199	120	120	120	120	480	480
Ebt	223	252	846	269	261	268	275	1,073	1,075
Income Tax	78	88	296	94	91	94	96	376	376
Net Income (\$mm)	145	164	550	175	170	174	179	698	699
Shares (millions)	124	127	124	139	139	139	139	139	139
Per Share (\$)	1.17	1.29	4.42	1.26	1.22	1.25	1.28	5.00	5.01
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</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>
Oil Volume									
Oil (mmb)	4.0	3.9	16	3.9	3.9	3.9	3.9	16	16
Oil (mbd)	45	43	43	43	43	43	43	43	43
Oil Price (\$/bbl)									
WTI Cushing	49.65	60.02	56.31	63.20	67.17	69.14	69.65	67.29	68.95
Partnership	29.73	30.22	29.43	30.62	31.10	31.32	31.38	31.11	31.30
Oil Revenue (\$mm)	120	119	465	118	121	124	124	487	490
Ebitda									
Products Pipelines	126	127	503	127	127	127	127	508	508
Natural Gas Pipelines	124	140	501	124	115	122	140	501	501
CO2 Pipelines	123	114	472	123	115	120	114	472	472
Terminals	74	85	319	85	85	85	85	340	340
Overhead	(79)	(52)	(238)	(52)	(52)	(52)	(52)	(207)	(207)
Total Ebitda	368	414	1,557	407	390	402	414	1,614	1,614
Deprec., Deplet., & Amort.	85	91	349	91	91	91	91	364	364
Ebit	283	323	1,208	316	299	311	323	1,250	1,250
Interest	59	68	262	68	68	68	68	272	272
Ebt	224	255	946	248	231	243	255	978	978
General Partner	112	126	478	130	131	131	132	524	527
Net Income (\$mm)	112	129	468	118	100	112	123	453	451
Units (mm)	208	219	213	220	221	222	223	221	222
Net Income Per Unit (\$/un)	0.54	0.59	2.20	0.54	0.45	0.50	0.55	2.05	2.03
Distribution Per L.P. Unit	0.74	0.79	3.07	0.80	0.80	0.80	0.80	3.20	3.20
Distribution (\$mm)	265	301	1,129	306	307	309	310	1,232	1,237
General Partner	111	128	476	130	131	131	132	524	527
Limited Partner	154	173	653	176	177	177	178	708	711
General Partner Share									
Earnings	50%	49%	51%	52%	57%	54%	52%	54%	54%
Distribution	42%	42%	42%	43%	43%	43%	43%	43%	43%

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