



Rating: Sell  
 S&P 500: 1365

## Kinder Morgan (KMP, KMR) Mounting Oil Losses

<i>Symbol</i>	KMP	<i>Ebitda Next Twelve Months ending 3/31/09 (US\$mm)</i>	1,010
<i>Rating</i>	Sell	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	57.70	<i>Natural Gas and Oil Production/Ebitda (%)</i>	18
<i>Pricing Date</i>	4/16/08	<i>Adjusted Reserves/Production NTM</i>	8.0
<i>Shares (mm)</i>	188	<i>EV/Ebitda</i>	15.0
<i>Market Capitalization (US\$mm)</i>	10,860	<i>PV/Ebitda</i>	7.4
<i>Debt (US\$mm)</i>	4,210	<i>Undeveloped Reserves (%)</i>	42
<i>Enterprise Value (EV) (US\$mm)</i>	15,070	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	38.42
<i>Present Value (PV) (US\$mm)</i>	7,410	<i>Present Value Proven Reserves(US\$/boe)</i>	24.35
<i>Net Present Value (US\$/share)</i>	17	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.06
<i>Debt/Present Value</i>	0.57	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.60
<i>McDep Ratio - EV/PV</i>	2.03	<i>Price/Earnings Next Twelve Months</i>	22
<i>Distribution Yield (%/year)</i>	6.4	<i>Indicated Annual Distribution (US\$/sh)</i>	3.68
Note: Estimated cash flow and earnings at recent quarter rate annualized.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
For historical analysis of KMP since 2001 see <a href="http://www.mcdep.com/2kmp.htm">www.mcdep.com/2kmp.htm</a>			

### Summary and Recommendation

Losses from shorting crude oil may exceed a cumulative \$2 billion by the end of 2008 taking into account the latest quarterly results reported on April 16 by sell-recommended **Kinder Morgan Energy Partners (KMP)** and **Kinder Morgan Management LLC (KMR)**. Directed by the heavily-conflicted general partner (GP), the partnership apparently sold short through 2012 an amount of crude oil approximating the expected volume from its Sacroc and Yates properties in West Texas. When benchmark crude oil was \$98 a barrel in the latest quarter, the partnership gave up precious production for \$50 a barrel. Ironically, one of the parties that profits from taking partnership oil at half price and selling it at full price is an owner of the GP, Wall Street house Goldman Sachs, as we judge from the partnership's limited disclosures. Aside from highlighting an obvious conflict of interest, past and future oil losses heighten the risks for the partnership in what has become a precarious economic environment for highly-leveraged, opaque entities. The partnership needs to borrow money and sell new units to pay its distribution, not to mention fund a multibillion dollar capital program. Should more realistic recognition of risk cause that financing to dry up as it did for venerable Bear Stearns, unit price would likely react so fast that few investors would be able to sell near the current price. Valuation also remains high as the partnership has the highest unlevered cash flow multiple (EV/Ebitda) of any stock in our oil and gas research coverage. Finally, it is hard to justify the extreme level of compensation to the general partner which equals or exceeds the distributions to limited partners who have furnished essentially all the capital.

On the positive side, the outlook appears favorable for the energy infrastructure industry in which the partnership operates. Despite our concerns, stock market performance for the partnership has been about average on the face of it. Taking account of financial leverage, performance has been below average. Compared to buy recommendations, the underperformance gap widens further.

Kurt H. Wulff, CFA

**McDep LLC**  
**Independent Stock Idea**  
 April 16, 2008



Symbol	KMR	Ebitda Next Twelve Months ending 3/31/09 (US\$m)	350
Rating	Sell	North American Natural Gas/Ebitda (%)	0
Price (US\$/sh)	53.69	Natural Gas and Oil Production/Ebitda (%)	18
Pricing Date	4/16/08	Adjusted Reserves/Production NTM	8.0
Shares (mm)	65	EV/Ebitda	14.2
Market Capitalization (US\$m)	3,490	PV/Ebitda	7.4
Debt (US\$m)	1,450	Undeveloped Reserves (%)	42
Enterprise Value (EV) (US\$m)	4,940	Natural Gas and Oil Ebitda (US\$/boe)	38.42
Present Value (PV) (US\$m)	2,560	Present Value Proven Reserves(US\$/boe)	24.36
Net Present Value (US\$/share)	17	Present Value Proven Reserves(US\$/mcf)	4.06
Debt/Present Value	0.57	Earnings Next Twelve Months (US\$/sh)	2.60
McDep Ratio - EV/PV	1.93	Price/Earnings Next Twelve Months	21
Dividend Yield (%/year)	6.9	Indicated Annual Dividend (US\$/sh)	3.68
Note: Estimated cash flow and earnings at recent quarter rate annualized.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
For historical analysis of KMR since 2001 see <a href="http://www.mcdep.com/2kmr.htm">www.mcdep.com/2kmr.htm</a>			

<b>Kinder Morgan Energy Partners, L.P.</b>									
<b>Next Twelve Months Financial Results</b>									
									<i>Next</i>
	<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>Months</i>
	<i>3/31/07</i>	<i>12/31/07</i>	<i>2007</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>
<b>Oil Volume</b>									
Oil (mmb)	3.3	3.1	<b>13</b>	3.2	3.2	3.3	3.3	<b>13</b>	<b>13</b>
Oil (mbd)	37	33	<b>35</b>	36	36	36	36	<b>36</b>	<b>36</b>
<b>Oil Price (\$/bbl)</b>									
WTI Cushing	58.08	90.67	<b>72.28</b>	97.94	110.94	109.74	107.92	<b>106.64</b>	<b>108.74</b>
Partnership	36.54	43.75	<b>39.68</b>	53.39	55.16	55.01	54.78	<b>54.59</b>	<b>54.88</b>
<b>Oil Revenue (\$mm)</b>	<b>120</b>	<b>134</b>	<b>507</b>	<b>172</b>	<b>178</b>	<b>180</b>	<b>179</b>	<b>709</b>	<b>711</b>
<b>Ebitda</b>									
Products Pipelines	143	138	<b>585</b>	141	141	141	141	<b>564</b>	<b>564</b>
Natural Gas Pipelines	136	178	<b>601</b>	188	188	188	188	<b>752</b>	<b>752</b>
CO2 Pipelines	125	145	<b>537</b>	200	200	200	200	<b>800</b>	<b>800</b>
Terminals	99	124	<b>442</b>	126	126	126	126	<b>504</b>	<b>504</b>
Trans Mountain		14	<b>57</b>	30	30	30	30	<b>120</b>	<b>120</b>
Overhead	(69)	(69)	<b>(276)</b>	(85)	(85)	(85)	(85)	<b>(339)</b>	<b>(339)</b>
Total Ebitda	434	530	<b>1,946</b>	600	600	600	600	<b>2,401</b>	<b>2,401</b>
Deprec., Deplet., & Amort.	128	138	<b>540</b>	158	158	158	158	<b>632</b>	<b>632</b>
Other Non Cash			-					-	-
<b>Ebit</b>	<b>306</b>	<b>392</b>	<b>1,406</b>	<b>442</b>	<b>442</b>	<b>442</b>	<b>442</b>	<b>1,769</b>	<b>1,769</b>
Interest	90	101	<b>390</b>	97	97	97	97	<b>388</b>	<b>388</b>
<b>Ebt</b>	<b>216</b>	<b>291</b>	<b>1,016</b>	<b>345</b>	<b>345</b>	<b>345</b>	<b>345</b>	<b>1,381</b>	<b>1,381</b>
General Partner	140	170	<b>614</b>	187	180	180	181	<b>727</b>	<b>722</b>
<b>Net Income (\$mm)</b>	<b>76</b>	<b>121</b>	<b>402</b>	<b>158</b>	<b>166</b>	<b>165</b>	<b>164</b>	<b>653</b>	<b>659</b>
<b>Units (mm)</b>	<b>231</b>	<b>242</b>	<b>237</b>	<b>251</b>	<b>252</b>	<b>253</b>	<b>254</b>	<b>252</b>	<b>253</b>
Net Income Per Unit (\$/un)	0.33	0.50	<b>1.69</b>	0.63	0.66	0.65	0.65	<b>2.59</b>	<b>2.60</b>
Distribution Per L.P. Unit	0.83	0.88	<b>3.39</b>	0.92	0.92	0.92	0.92	<b>3.68</b>	<b>3.68</b>
<b>Distribution (\$mm)</b>	<b>336</b>	<b>376</b>	<b>1,409</b>	<b>410</b>	<b>411</b>	<b>413</b>	<b>414</b>	<b>1,648</b>	<b>1,654</b>
General Partner	144	163	<b>606</b>	179	180	180	181	<b>719</b>	<b>722</b>
Limited Partner	192	213	<b>803</b>	231	232	233	233	<b>929</b>	<b>932</b>
<b>General Partner Share</b>									
Earnings	65%	58%	<b>60%</b>	54%	52%	52%	52%	<b>53%</b>	<b>52%</b>
Distribution	43%	43%	<b>43%</b>	44%	44%	44%	44%	<b>44%</b>	<b>44%</b>

**McDep LLC**  
**Independent Stock Idea**

April 16, 2008



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