RIA Advice

Friday Favorites- ONEOK

ONEOK (OKE)

This week, we follow the theme of the last two Friday Favorites, specifically vetting companies that may likely benefit from the coming massive investment to upgrade and expand the nation's power grid to accommodate AI data centers and EVs. For more on our investment thesis, see our latest Real Investment Advice article, [AI Data Centers And EVs Create Incredible Opportunities.]

OKE is a natural gas midstream company. Essentially, they transport natural gas via pipelines throughout wide swaths of the country. The primary energy source for electricity generation is currently natural gas. As utilities expand their capacity to power the boom of new AI data centers, their need for natural gas will follow. Natural gas midstream companies like OKE will benefit as they generate most of their revenues by taking a "toll" on the gas moving through their pipelines. The correlation between the price of natural gas and OKE tends to be statistically insignificant.

We hold a position in OKE in our equity model and may add to it over time.

Fundamental

Like many pipeline companies and partnerships, OKE pays a high dividend (4.80%) and distributes nearly 90% of its profits as dividends.

As shown below, it has a relatively low forward P/E of 14.66 but a high PEG ratio. We question whether the growth implied in the PEG ratio accurately reflects the potential growth from the expansion of the power grid.

Stock Transaction Stats | Returns | Dividend & Splits

Earnings - Actual | Earnings - Estimates | Valuation

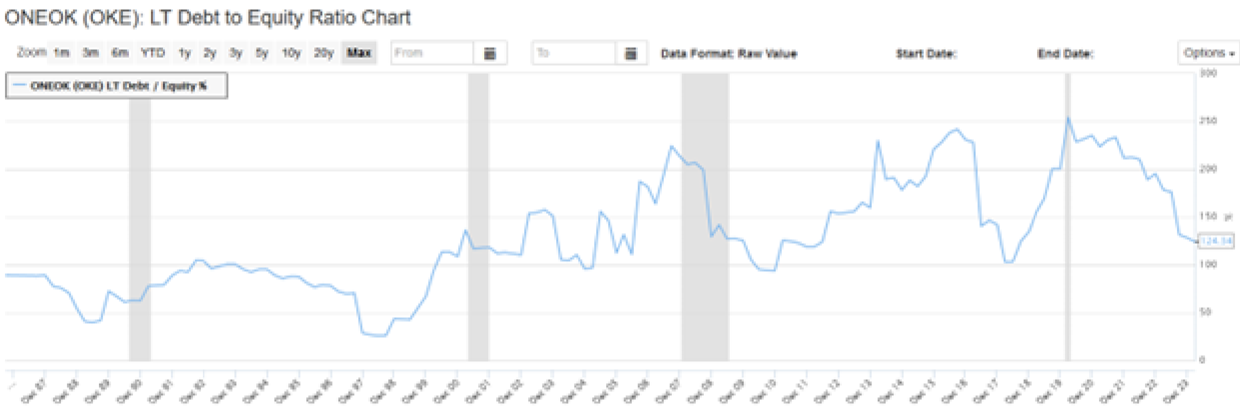
Business Health

Forward P/E	14.66
Trailing P/E	19.59
PEG Ratio	4.34
Price/Book	2.94

Its earnings have grown steadily at nearly 10% over the last ten years, and its dividends have followed.

OKE recently increased its debt load by $100 million to help fund its purchase of Magellan Midstream Partners. Magellan is primarily involved with transporting and storing refined petroleum products and crude oil. This purchase will help diversify their earnings.

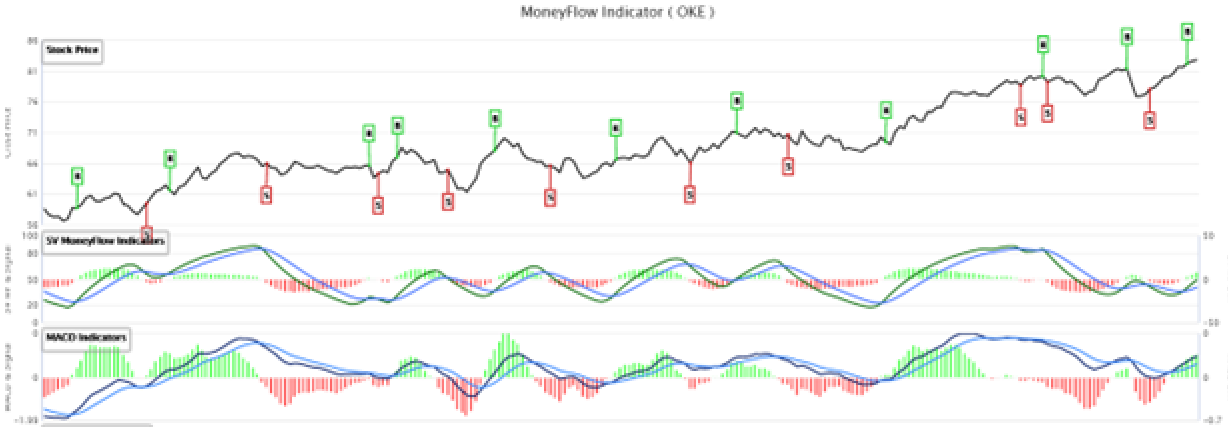
Despite the recent increase in debt, OKE's long-term debt-to-equity ratio remains at the lower end of its 20-year range. Debt may be increased if cash flows after dividend payments are insufficient to fund growth. The graph and earnings growth prospects argue that OKE can issue debt without hurting its BBB credit rating.

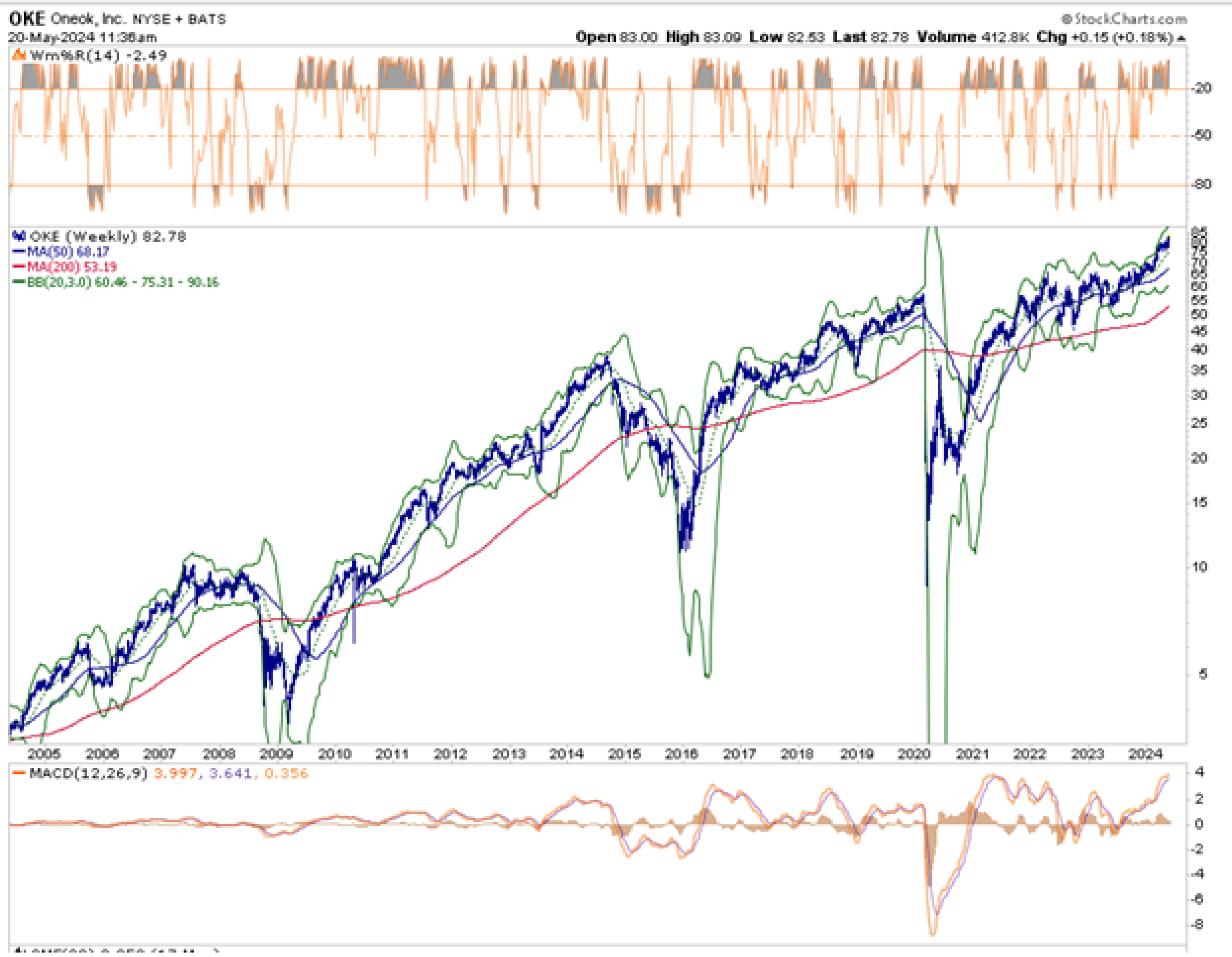


Technical

The first graph below shows the stock has been on a steady uptrend for the last year. The two indicators below the graph show the recent correction pushed its technical indicators into oversold territory. But the stock is turning up on bullish technical crosses. This bodes well for the short term.

The longer-term weekly chart argues a correction or consolidation may occur soon. The MACD on OKE (lower graph) is high and looks like it may cross in a bearish fashion. Further, the price is near the upper range of its Bollinger Bands. If a correction occurs, reasonable points to accumulate or buy shares are at the 20 and 50 weekly DMA's of $75.31 and $68.17, respectively.





Disclosure

This report is not a recommendation to buy or sell the named securities. We intend to elicit ideas about stocks meeting specific criteria and investment themes. Please read our disclosures carefully and do your own research before investing.