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Is Kinder Morgan Inc the Perfect Retirement Stock?

High-yielding investments such as Kinder Morgan can be just the ticket for funding retirement. Learn why this company should be on your radar.

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Recently I wrote an article explaining the importance of dividend growth stocks to fulfilling your retirement dreams. I outlined the important study that was responsible for the famous "4% draw down rule" and how William Bengen, the father of that rule, citing the work of Jack Gardner and his 2008 study, amended that rule to 5% but only if one invests one's equity portfolio in high-yielding dividend growth stocks.

This is because dividend growth stocks are, historically, the best performing class of investments.

In this article I'd like to focus on a high-yielding energy company that might be able to help you fund your retirement in a comfortable, but sustainable manner.

Kinder Morgan: dividend growth king

Recently I covered **Kinder Morgan Inc**'s (NYSE:KMI) historic $70 billion merger with its subsidiaries, **Kinder Morgan Energy Partners LP**, (NYSE:KMP) **Kinder Morgan Management LLC**, (NYSE:KMR), and **El Paso Pipeline Partners LP** (NYSE:EPB), and why I thought it made the new Kinder Morgan one of America's best dividend growth stocks.

Today I'd like to present three reasons why I think Kinder Morgan should be on your radar for a portfolio designed to fund a secure and prosperous retirement.

Cash in on America's gas bonanza

The first reason is that, as North America's largest pipeline operator with 70,000 miles of pipeline (133% more than all of China), Kinder Morgan is ideally suited to take part in America's ongoing energy boom.

This is because Kinder's extensive network of pipelines, storage facilities, and processing plants service every major shale gas formation in America, as well as Canada's tar sands, which hold an estimated 2.5 trillion barrels of oil.

Over the next 11 years, energy analysis firm IHS estimates that $890 billion will be spent on expanding US energy production.

This is expected to create $640 billion in demand for new midstream (gathering, transport pipelines, processing, and storage capacity) infrastructure by 2035.

Kinder Morgan's existing backlog of future and potential projects stands at $35 billion, and as large as that figure is, it represents just 5.5% of coming midstream infrastructure boom. However, there is another major growth catalyst that you should be aware of.

Mega-merger potential

Richard Kinder, President, CEO, and founder of Kinder Morgan, recently said that one of the main reasons for his company's merger was to "pursue expansion and acquisitions in a target-rich environment."

Specifically he was referring to the 120 other MLPs with a combined enterprise value (which represents the cost of acquiring a company or partnership) of $875 billion. Combined with the $640 billion from the coming midstream infrastructure boom, this represents over $1.5 trillion in potential growth for Kinder Morgan over the coming few decades. In other words, though Kinder Morgan, with an enterprise value of $140 billion, may be enormous, it's still a small fish in a very big ocean, with plenty of room to grow. With that growth comes what retirees crave: steady, growing income in the form of Kinder's dividend, which is the best reason to own this stock.

High, secure, and growing yield

The Kinder Morgan merger is expected to close by the end of the year, and when it does, management has promised to raise the dividend 16% in 2015 and grow it 10% annually through 2020. With a current yield of 4.5%, that kind of dividend growth makes market beating total returns much more likely.

You see, Kinder Morgan has one of the best track records of meeting or beating dividend guidance of any stock I've ever seen, 18 out of the last 19 years among its family of companies and MLPs. That's a 94.7% success rate of delivering on its goals of growing income to long-term investors. If we assume management will continue its winning ways, then in 2020 the dividend would reach $3.22 per share, or an 8.3% yield on today's price.

In other words, any shares you buy today will pay you 4.5%, enough to provide a comfortable level of income in retirement. However, that dividend is likely to grow so quickly, that within a few years, the excess income will be able to offset those investments in your portfolio (a well diversified income portfolio is a must during retirement) that pay less than the 4%-5% needed to cover your expenses.

Basically, the growth in Kinder Morgan's dividend means you'll be able to live more off the dividend income and be forced to sell fewer shares to pay your bills. That not only helps with tax efficiency, but also means that your portfolio's yield will increase into the future as your investments' dividends grow. This in turn will allow you to raise your standard of living over time.

Bottom line

When it comes to funding a secure, prosperous, and sustainable retirement, numerous studies show that high-yielding dividend growth stocks are the best option for investors. Kinder Morgan Inc represents not just the bluest of the blue-chip dividend growth companies in the energy sector, but perhaps one of the best long-term investments you could make and hold during retirement.

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