



Williams Companies (WMB)

Updated November 26th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	\$25	5 Year CAGR Estimate:	7.5%	Volatility Percentile:	93.8%
Fair Value Price:	\$20	5 Year Growth Estimate:	6.0%	Momentum Percentile:	29.2%
% Fair Value:	122%	5 Year Valuation Multiple Estimate:	-3.9%	Growth Percentile:	48.5%
Dividend Yield:	5.4%	5 Year Price Target	\$27	Valuation Percentile:	16.4%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	33.6%

Overview & Current Events

Williams is a leading U.S. provider of infrastructure related to natural gas. It has operations across the natural gas value chain, including gathering, processing, transportation and storage of natural gas and natural gas liquids. Williams owns and operates more than 33,000 miles of pipelines, including Transco, the largest pipeline in the U.S. Its operations handle approximately 30 percent of U.S. natural gas.

Williams was adversely affected by the downturn in the natural gas market, which coincided with the downturn in the oil market in 2014. However, the natural gas market has begun to recover since early 2016 so the worst is over.

In late October, Williams reported (10/31/18) its financial results for the third quarter of fiscal 2018. It exceeded the analysts' estimates on both lines and thus confirmed its ongoing recovery. Revenues increased 22% and adjusted earnings-per-share jumped 60% over last year's quarter, from \$0.15 to \$0.24. Distributable cash flow rose 27% and the company achieved a dividend coverage ratio of 1.86 in the quarter. This great performance resulted from higher volumes in the Northeast and Transco expansion projects brought online in the Atlantic-Gulf segment. Moreover, the Atlantic Sunrise project and the Gulf Connector project will further enhance growth in the fourth quarter and next year.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$2.23	\$0.75	\$1.30	\$1.55	\$1.11	\$0.81	\$0.80	\$0.54	\$0.60	\$0.63	\$0.90	\$1.20
CFS¹	\$4.55	\$3.27	\$3.88	\$4.30	\$2.13	\$2.01	\$2.35	\$2.86	\$2.95	\$2.73	\$2.50	\$3.35
DPS	\$0.43	\$0.44	\$0.49	\$0.78	\$1.20	\$1.44	\$1.96	\$2.45	\$1.68	\$1.20	\$1.36	\$1.80
Shares	578	583	585	591	681	683	747	749	750	826	1210	1300

The large share count increase of Williams this year is due to the acquisition of the remaining 24% stake of its MLP, Williams Partners, for \$10.5 billion in an all-stock deal. This deal simplifies the company's operating structure.

As the performance of Williams is greatly affected by the strength of the natural gas market, its performance record has been remarkably volatile. It is also disappointing that the company has failed to grow its earnings-per-share and its cash flow per share over the last decade. Nevertheless, Williams has grown its cash flow per share at a 5.0% average annual rate over the last five years. In addition, it is in the early phases of a rebound thanks to the recovery of the natural gas market and the contributions of the new construction projects. Moreover, Williams benefits from the positive long-term trends of the natural gas market, including environmental policies towards cleaner fuels. North American demand for natural gas is expected to grow at a 4.6% average annual rate over the next five years. Overall, we expect Williams to grow its cash flow per share by at least 6% per year over the next five years.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/CF	6.5	5.0	5.5	6.8	14.8	17.7	20.8	16.0	7.9	10.8	10.0	8.2
Avg. Yld.	1.5%	2.7%	2.3%	2.7%	3.8%	4.0%	4.0%	5.4%	7.2%	4.1%	5.4%	6.7%

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

1. Cash Flow Per Share



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If we exclude the years 2013-2015, in which depressed cash flows resulted in abnormally high price-to-cash flow ratios, Williams has traded at an average price-to-cash flow ratio of 8.2 during the last decade. The stock is currently trading at a higher price-to-cash flow ratio of 10.0. As we expect the stock to revert to its average valuation level over the next five years, the stock is likely to incur a 3.9% annualized drag due to the contraction of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Payout	9.4%	13.5%	12.6%	18.1%	56.3%	71.6%	83.4%	85.7%	57.0%	44.0%	54.4%	53.7%

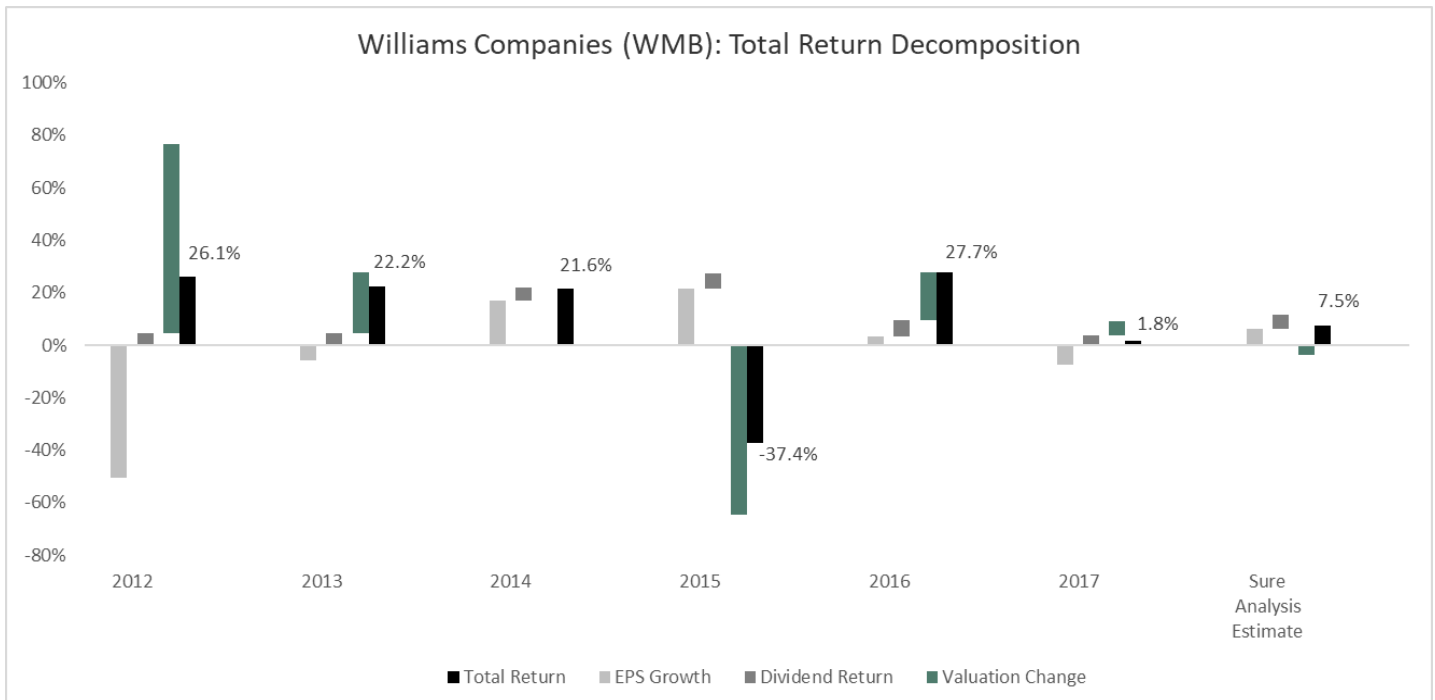
Williams offers an attractive 5.4% dividend yield while it has a payout ratio of 54.4%. As the company seems to be in a sustained recovery phase, its dividend can be considered safe for the foreseeable future.

On the other hand, Williams was severely affected in the Great Recession and the downturn of the energy market that began in 2014. It cut its dividend in 2016. Furthermore, it has a high amount of debt, as its current assets (\$2.0 billion) are lower than its current liabilities (\$2.8 billion), its interest expense consumes about half of its operating income and its net debt of \$30.6 billion is about 15 times its annual earnings. As a result, the company will be vulnerable whenever it faces an unforeseen downturn.

Final Thoughts & Recommendation

Williams is currently trading around its 2-year lows. Thanks to the ongoing recovery of its business, the stock can offer a 7.5% average annual return over the next five years, mostly thanks to its 5.4% dividend. Nevertheless, due to its poor performance record and its high leverage, the stock fails to earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	11890	5278	6638	7930	7486	6860	7637	7360	7499	8031
Gross Profit	3114	1566	3378	3996	3990	3833	4621	5581	5774	5731
Gross Margin	26.2%	29.7%	50.9%	50.4%	53.3%	55.9%	60.5%	75.8%	77.0%	71.4%
SG&A Exp.	504	494	504	477	571	512	661	741	723	608
Operating Profit	2533	1072	1407	1867	1612	1375	1621	1533	1573	1731
Op. Margin	21.3%	20.3%	21.2%	23.5%	21.5%	20.0%	21.2%	20.8%	21.0%	21.6%
Net Profit	1418	285	-1097	376	859	430	2114	-571	-424	2174
Net Margin	11.9%	5.4%	-16.5%	4.7%	11.5%	6.3%	27.7%	-7.8%	-5.7%	27.1%
Free Cash Flow	-201	185	-137	643	-694	-1355	-1916	-459	1629	116
Income Tax	677	204	114	124	360	401	1249	-399	-25	-1974

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	26006	25280	24972	16502	24327	27142	50455	49020	46835	46352
Cash & Equivalents	1438	1867	758	889	839	681	240	100	170	899
Acc. Receivable	913	816	497	637	620	600	972	1041	938	976
Inventories	260	222	225	169	175	194	231	127	138	113
Goodwill & Int.	1011	1011	N/A	44	2353	2290	11573	10017	9663	8791
Total Liabilities	16952	16261	16353	13916	16900	18221	30283	32795	32789	30177
Accounts Payable	1052	934	432	691	920	960	865	744	623	978
Long-Term Debt	7701	8276	9108	8722	10736	11579	21582	24487	23502	20935
Total Equity	8440	8447	7288	1296	4752	4864	8777	6148	4643	9656
D/E Ratio	0.91	0.98	1.25	6.73	2.26	2.38	2.46	3.98	5.06	2.17

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	5.6%	1.1%	-4.4%	1.8%	4.2%	1.7%	5.4%	-1.1%	-0.9%	4.7%
Return on Equity	19.1%	3.4%	-13.9%	8.8%	28.4%	8.9%	31.0%	-7.7%	-7.9%	30.4%
ROIC	9.1%	1.7%	-6.3%	2.6%	5.8%	2.2%	6.8%	-1.4%	-1.1%	5.8%
Shares Out.	578	583	585	591	681	683	747	749	750	826
Revenue/Share	20.06	9.01	11.24	13.26	11.97	9.98	10.55	9.82	9.99	9.69
FCF/Share	-0.34	0.32	-0.23	1.07	-1.11	-1.97	-2.65	-0.61	2.17	0.14

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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