



# Williams Companies (WMB)

Updated February 20<sup>th</sup>, 2019 by Aristofanis Papadatos

## Key Metrics

|                             |      |  |       |                                 |       |
|-----------------------------|------|--|-------|---------------------------------|-------|
| <b>Current Price:</b>       | \$27 | <b>5 Year CAGR Estimate:</b>               | 5.8%  | <b>Volatility Percentile:</b>   | 85.5% |
| <b>Fair Value Price:</b>    | \$20 | <b>5 Year Growth Estimate:</b>             | 6.0%  | <b>Momentum Percentile:</b>     | 39.9% |
| <b>% Fair Value:</b>        | 132% | <b>5 Year Valuation Multiple Estimate:</b> | -5.4% | <b>Growth Percentile:</b>       | 52.0% |
| <b>Dividend Yield:</b>      | 5.2% | <b>5 Year Price Target</b>                 | \$27  | <b>Valuation Percentile:</b>    | 11.1% |
| <b>Dividend Risk Score:</b> | F    | <b>Retirement Suitability Score:</b>       | D     | <b>Total Return Percentile:</b> | 19.7% |

## Overview & Current Events

Williams Companies 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.

In mid-February, Williams reported (2/13/19) financial results for the fourth quarter of fiscal 2018. In the quarter, it posted a loss of \$0.47 per share, mostly due to write-offs of gathering assets, as management now expects lower future revenues from these assets. Excluding these write-offs, earnings-per-share decreased 5% over prior year, from \$0.20 to \$0.19. Nevertheless, it was a strong year for Williams. The company grew its adjusted earnings-per-share by 25% and its distributable cash flow by 11%, from \$2.58 billion to \$2.87 billion, thus improving its dividend coverage ratio from 1.61 to 1.69. The strong performance resulted from higher volumes in the Northeast gathering & processing segment and the completion of the Atlantic Sunrise project.

## Growth on a Per-Share Basis

| Year                   | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019          | 2024          |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>             | \$0.75 | \$1.30 | \$1.55 | \$1.11 | \$0.81 | \$0.80 | \$0.54 | \$0.60 | \$0.63 | \$0.79 | <b>\$0.95</b> | <b>\$1.20</b> |
| <b>CFS<sup>d</sup></b> | \$3.27 | \$3.88 | \$4.30 | \$2.13 | \$2.01 | \$2.35 | \$2.86 | \$2.95 | \$2.73 | \$2.37 | <b>\$2.50</b> | <b>\$3.35</b> |
| <b>DPS</b>             | \$0.44 | \$0.49 | \$0.78 | \$1.20 | \$1.44 | \$1.96 | \$2.45 | \$1.68 | \$1.20 | \$1.36 | <b>\$1.40</b> | <b>\$1.80</b> |
| <b>Shares</b>          | 583    | 585    | 591    | 681    | 683    | 747    | 749    | 750    | 826    | 1213   | <b>1220</b>   | <b>1300</b>   |

The large share count increase of Williams in 2018 resulted from the acquisition of the remaining 24% stake of its MLP, Williams Partners, for \$10.5 billion in an all-stock deal. The deal simplified the company's operating structure.

As the performance of Williams is 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 3.3% 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, thanks to management's guidance for 15% annual growth rate of gathered volumes in the North East until 2021 and a series of expansion projects, we expect Williams to grow its cash flow per share by at least 6% per year over the next five years.

## Valuation Analysis

| Year             | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Now         | 2024        |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| <b>Avg. P/CF</b> | 5.0  | 5.5  | 6.8  | 14.8 | 17.7 | 20.8 | 16.0 | 7.9  | 10.8 | 11.6 | <b>10.8</b> | <b>8.2</b>  |
| <b>Avg. Yld.</b> | 2.7% | 2.3% | 2.7% | 3.8% | 4.0% | 4.0% | 5.4% | 7.2% | 4.1% | 5.0% | <b>5.2%</b> | <b>6.7%</b> |

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If we exclude the years 2013-2015, in which the 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 10.8. As we expect the stock to revert to its average valuation level over the next five years, the stock is likely to incur a 5.4% annualized drag due to the contraction of its valuation level.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2024  |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Payout | 13.5% | 12.6% | 18.1% | 56.3% | 71.6% | 83.4% | 85.7% | 57.0% | 44.0% | 57.4% | 56.0% | 53.7% |

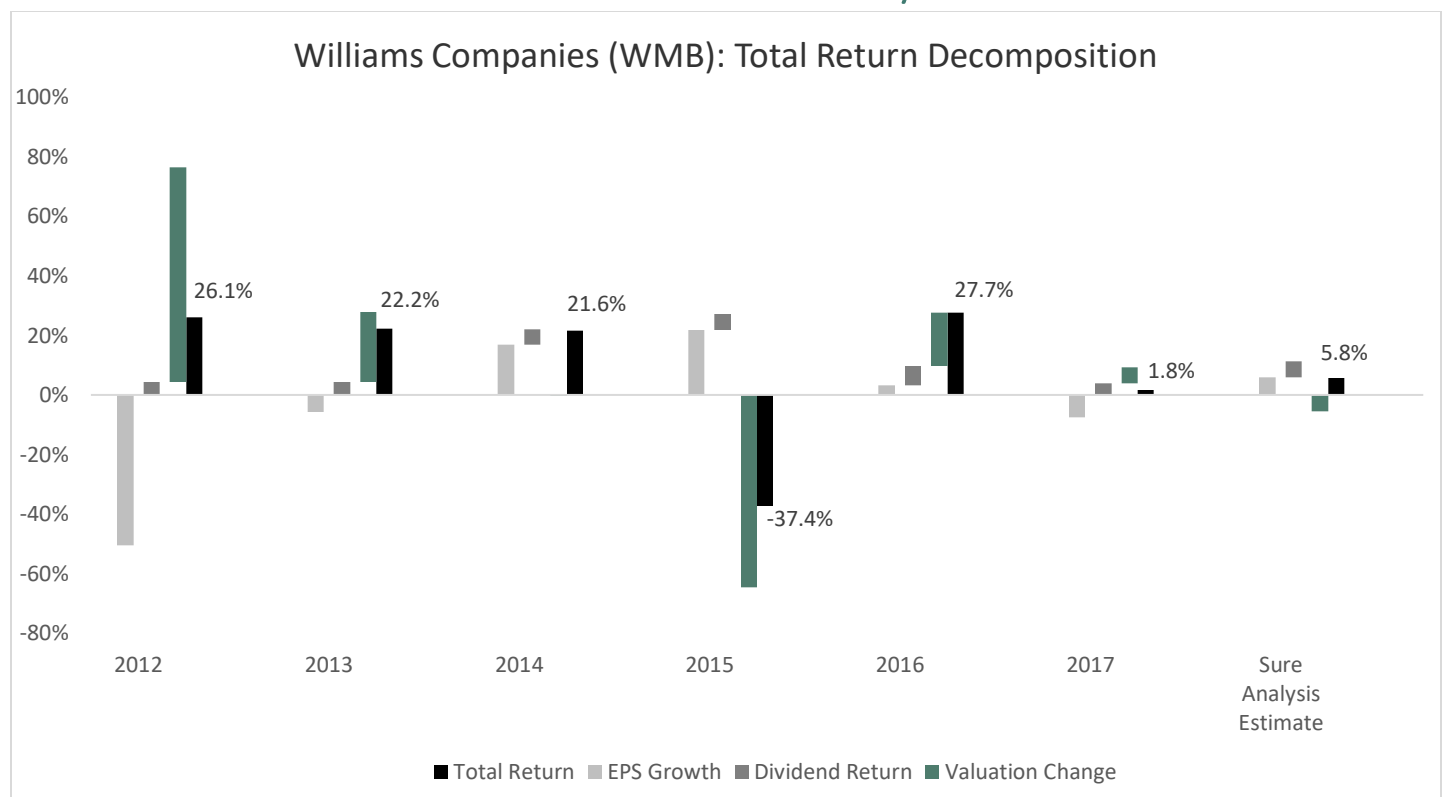
Williams offers an attractive 5.2% dividend yield while it has a payout ratio of 57.4%. As the company seems to be in a sustained recovery phase, its dividend can be considered safe for the foreseeable future.

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, 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 enjoying a recovery of its business but the stock is richly valued and hence it can offer just a 5.8% average annual return over the next five years, mostly thanks to its 5.2% dividend. The company has a volatile performance record, operates with a high amount of leverage and is vulnerable to economic downturns. As a result, the company earns a sell recommendation from Sure Dividend at current prices.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

| Year                          | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Total Assets</b>           | 26006 | 25280 | 24972 | 16502 | 24327 | 27142 | 50455 | 49020 | 46835 | 46352 |
| <b>Cash &amp; Equivalents</b> | 1438  | 1867  | 758   | 889   | 839   | 681   | 240   | 100   | 170   | 899   |
| <b>Acc. Receivable</b>        | 913   | 816   | 497   | 637   | 620   | 600   | 972   | 1041  | 938   | 976   |
| <b>Inventories</b>            | 260   | 222   | 225   | 169   | 175   | 194   | 231   | 127   | 138   | 113   |
| <b>Goodwill &amp; Int.</b>    | 1011  | 1011  | N/A   | 44    | 2353  | 2290  | 11573 | 10017 | 9663  | 8791  |
| <b>Total Liabilities</b>      | 16952 | 16261 | 16353 | 13916 | 16900 | 18221 | 30283 | 32795 | 32789 | 30177 |
| <b>Accounts Payable</b>       | 1052  | 934   | 432   | 691   | 920   | 960   | 865   | 744   | 623   | 978   |
| <b>Long-Term Debt</b>         | 7701  | 8276  | 9108  | 8722  | 10736 | 11579 | 21582 | 24487 | 23502 | 20935 |
| <b>Total Equity</b>           | 8440  | 8447  | 7288  | 1296  | 4752  | 4864  | 8777  | 6148  | 4643  | 9656  |
| <b>D/E Ratio</b>              | 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  |
|-------------------------|-------|------|--------|-------|-------|-------|-------|-------|-------|-------|
| <b>Return on Assets</b> | 5.6%  | 1.1% | -4.4%  | 1.8%  | 4.2%  | 1.7%  | 5.4%  | -1.1% | -0.9% | 4.7%  |
| <b>Return on Equity</b> | 19.1% | 3.4% | -13.9% | 8.8%  | 28.4% | 8.9%  | 31.0% | -7.7% | -7.9% | 30.4% |
| <b>ROIC</b>             | 9.1%  | 1.7% | -6.3%  | 2.6%  | 5.8%  | 2.2%  | 6.8%  | -1.4% | -1.1% | 5.8%  |
| <b>Shares Out.</b>      | 578   | 583  | 585    | 591   | 681   | 683   | 747   | 749   | 750   | 826   |
| <b>Revenue/Share</b>    | 20.06 | 9.01 | 11.24  | 13.26 | 11.97 | 9.98  | 10.55 | 9.82  | 9.99  | 9.69  |
| <b>FCF/Share</b>        | -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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