



Williams Companies (WMB)

Updated November 18th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$22	5 Year CAGR Estimate:	10.3%	Volatility Percentile:	69.8%
Fair Value Price:	\$21	5 Year Growth Estimate:	6.0%	Momentum Percentile:	21.8%
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.4%	Growth Percentile:	56.8%
Dividend Yield:	6.9%	5 Year Price Target	\$27	Valuation Percentile:	54.9%
Dividend Risk Score:	D	Retirement Suitability Score:	B	Total Return Percentile:	77.8%

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. The stock has a market cap of \$27 billion.

In late October, Williams reported (10/30/19) financial results for the third quarter of fiscal 2019. The company posted strong results thanks to its Atlantic-Gulf and Northeast gathering & processing segments. Williams grew its adjusted earnings-per-share by 8%, from \$0.24 to \$0.26, and its distributable cash flow by 8%, from \$764 million to \$822 million; achieving a dividend coverage ratio of 1.78.

Management expects the positive momentum to remain in place in the running quarter. It is also remarkable that Williams achieved its target for leverage (net debt to adjusted EBITDA) of 4.5 in the third quarter, one quarter earlier than expected according to its previous guidance.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.75	\$1.30	\$1.55	\$1.11	\$0.81	\$0.80	\$0.54	\$0.60	\$0.63	\$0.79	\$0.95	\$1.20
CFS¹	\$3.27	\$3.88	\$4.30	\$2.13	\$2.01	\$2.35	\$2.86	\$2.95	\$2.73	\$2.37	\$2.50	\$3.35
DPS	\$0.44	\$0.49	\$0.78	\$1.20	\$1.44	\$1.96	\$2.45	\$1.68	\$1.20	\$1.36	\$1.52	\$1.80
Shares¹	583	585	591	681	683	747	749	750	826	1,210	1,215	1,300

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. Thanks to ongoing expansion projects, Williams expects to enhance Transco's capacity from 17.2 to more than 18.0 million dekatherms per day in the next winter heating season. 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 a 15% annual growth rate of gathered volumes in the Northeast 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.

¹ In millions.

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.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/CF	5.0	5.5	6.8	14.8	17.7	20.8	16.0	7.9	10.8	11.6	8.8	8.2
Avg. Yld.	2.7%	2.3%	2.7%	3.8%	4.0%	4.0%	5.4%	7.2%	4.1%	5.0%	6.9%	6.5%

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 price-to-cash flow ratio of 8.8. If the security were to revert to its average valuation level over the next five years, the stock could incur a 1.4% 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%	60.8%	53.7%

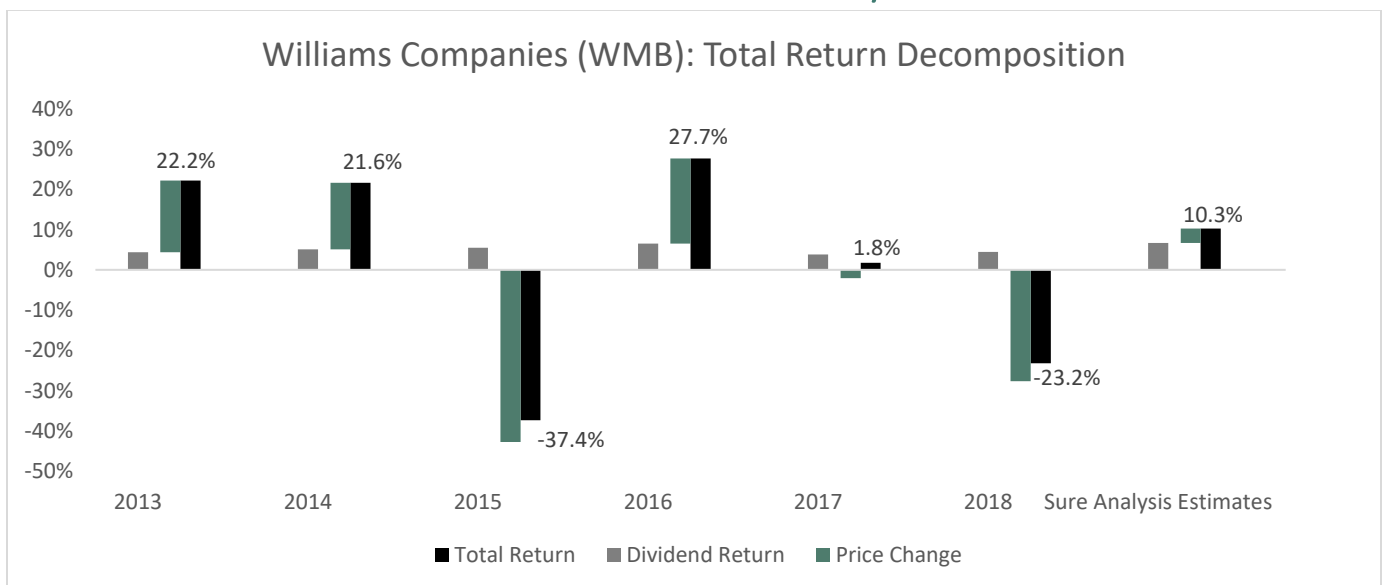
Williams raised its dividend by 12% this year and it is now offering an attractive 6.9% dividend yield while it has a payout ratio of 60.8%. As the company seems to be in a sustained recovery phase, its dividend can be considered safe for the foreseeable future.

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, its current assets (\$1.4 billion) are much lower than its current debt (\$3.3 billion), its interest expense consumes 52% of its operating income and its net debt of \$28.3 billion is about 9 times its annual distributable cash flows. The company will thus be vulnerable whenever it faces an unforeseen downturn.

Final Thoughts & Recommendation

Williams has shed -22% in the last four months and hence it has become somewhat attractive, particularly given its strong business momentum. In the absence of a downturn, the stock could offer a 10.3% average annual return over the next five years, primarily thanks to its 6.9% dividend. Nevertheless, as the company has a volatile performance record, operates with a high amount of leverage and is vulnerable to economic downturns, the stock maintains its hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	5278	6638	7930	7486	6860	7637	7360	7499	8031	8686
Gross Profit	1566	2766	3335	3234	3018	3445	3843	4011	3995	4117
Gross Margin	29.7%	41.7%	42.1%	43.2%	44.0%	45.1%	52.2%	53.5%	49.7%	47.4%
SG&A Exp.	494	504	477	571	512	661	741	722	594	569
Operating Profit	1072	1407	1867	1612	1375	1621	1533	1562	1754	1974
Op. Margin	20.3%	21.2%	23.5%	21.5%	20.0%	21.2%	20.8%	20.8%	21.8%	22.7%
Net Profit	285	-1097	376	859	430	2114	-571	-424	2174	-155
Net Margin	5.4%	-16.5%	4.7%	11.5%	6.3%	27.7%	-7.8%	-5.7%	27.1%	-1.8%
Free Cash Flow	185	-137	643	-694	-1355	-1916	-459	2104	649	30
Income Tax	204	114	124	360	401	1249	-399	-25	-1974	138

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	25280	24972	16502	24327	27142	50455	49020	46835	46352	45302
Cash & Equivalents	1867	758	889	839	681	240	100	170	899	168
Acc. Receivable	816	497	637	620	600	972	1041	938	958	858
Inventories	222	225	169	175	194	231	127	138	113	130
Goodwill & Int.	1011		44	2353	2290	11573	10017	9663	8791	7767
Total Liabilities	16261	16353	13916	16900	18221	30283	32795	32789	30177	29305
Accounts Payable	934	432	691	920	960	865	744	623	978	662
Long-Term Debt	8276	9108	8722	10736	11579	21582	24487	23502	20935	22414
Total Equity	8447	7288	1296	4752	4864	8777	6148	4643	9656	14625
D/E Ratio	0.98	1.25	6.73	2.26	2.38	2.46	3.98	5.06	2.17	1.53

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	1.1%	-4.4%	1.8%	4.2%	1.7%	5.4%	-1.1%	-0.9%	4.7%	-0.3%
Return on Equity	3.4%	-13.9%	8.8%	28.4%	8.9%	31.0%	-7.7%	-7.9%	30.4%	-1.3%
ROIC	1.7%	-6.3%	2.6%	5.8%	2.2%	6.8%	-1.4%	-1.1%	5.8%	-0.4%
Shares Out.	583	585	591	681	683	747	749	750	826	1213
Revenue/Share	9.01	11.24	13.26	11.97	9.98	10.55	9.82	9.99	9.69	8.92
FCF/Share	0.32	-0.23	1.07	-1.11	-1.97	-2.65	-0.61	2.80	0.78	0.03

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

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