



Williams Companies (WMB)

Updated February 21st, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$20	5 Year CAGR Estimate:	12.7%	Market Cap:	\$24.3 B
Fair Value Price:	\$21	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	3/12/2020
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.3%	Dividend Payment Date:	3/20/2020
Dividend Yield:	8.0%	5 Year Price Target	\$27	Years Of Dividend Growth:	3
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	5.3%

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 \$24.3 billion.

In mid-February, Williams reported (2/19/20) financial results for the fourth quarter of fiscal 2019. Just like in the previous quarters, the company posted strong results thanks to its Atlantic-Gulf and Northeast gathering & processing segments, with 11% growth in distributable cash flow over prior year's quarter. In the year, Williams grew its adjusted earnings-per-share by 25%, from \$0.79 to \$0.99, and its distributable cash flow by 15%, from \$2.875 billion to \$3.3 billion; achieving a dividend coverage ratio of 1.80.

Management expects approximately flat results this year. It expects distributable cash flow per share of \$2.50-\$2.83 and a dividend coverage ratio of 1.56-1.77.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.30	\$1.55	\$1.11	\$0.81	\$0.80	\$0.54	\$0.60	\$0.63	\$0.79	\$0.99	\$1.10	\$1.20
CFS¹	\$3.88	\$4.30	\$2.13	\$2.01	\$2.35	\$2.86	\$2.95	\$2.73	\$2.37	\$2.72	\$2.67	\$3.35
DPS	\$0.49	\$0.78	\$1.20	\$1.44	\$1.96	\$2.45	\$1.68	\$1.20	\$1.36	\$1.52	\$1.60	\$1.80
Shares¹	585	591	681	683	747	749	750	826	1,210	1,214	1,220	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 cash flow per share over the last decade. Nevertheless, Williams has grown its cash flow per share at a 3.7% 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 the end of next year and a series of expansion projects, we expect Williams to grow its cash flow per share by about 5% 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/CF	5.5	6.8	14.8	17.7	20.8	16.0	7.9	10.8	11.6	9.4	7.5	8.0
Avg. Yld.	2.3%	2.7%	3.8%	4.0%	4.0%	5.4%	7.2%	4.1%	5.0%	5.9%	8.0%	7.3%

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 9.5 during the last decade. Due to its high leverage, we assume a fair multiple of 8.0 for this stock. Williams is currently trading at a price-to-cash flow ratio of 7.5. If the security were to revert to our assumed fair valuation level over the next five years, the stock could enjoy a 1.3% annualized gain thanks to the expansion of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	12.6%	18.1%	56.3%	71.6%	83.4%	85.7%	57.0%	44.0%	57.4%	55.9%	59.9%	58.8%

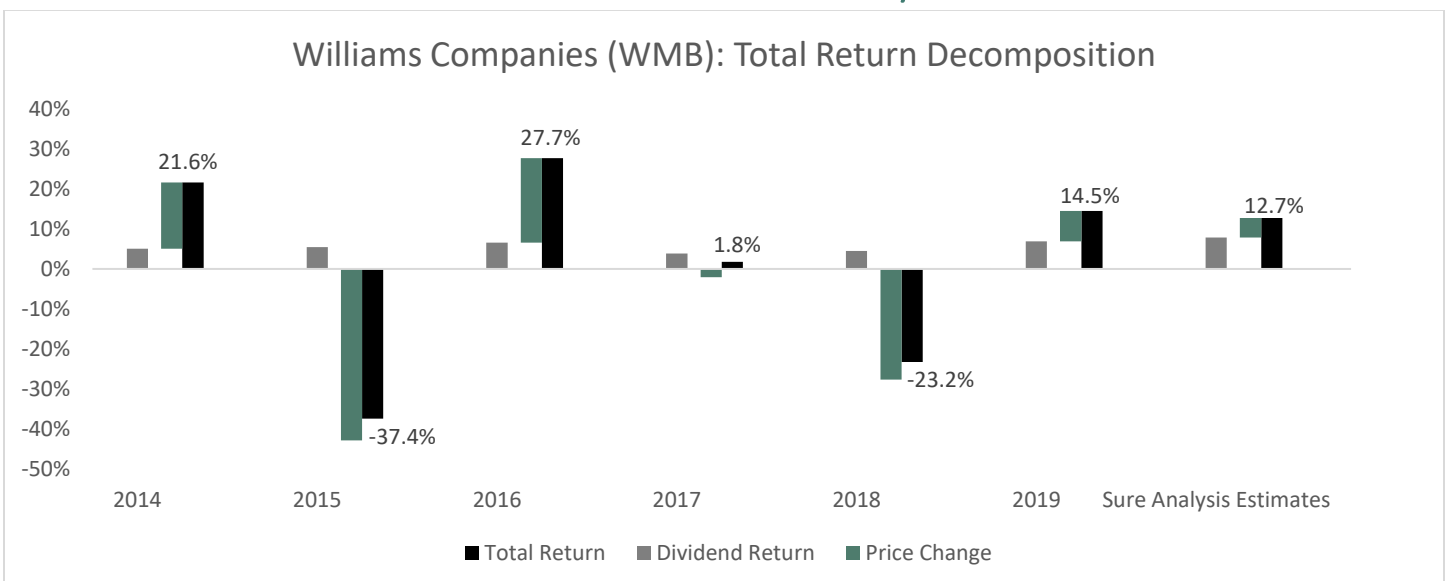
Williams raised its dividend by 5% this year and it is now offering an attractive 8.0% dividend yield while it has a payout ratio of 56%. As the company seems to be in a sustained recovery phase, its dividend can be considered safe for the foreseeable future.

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 (\$1.6 billion) are much lower than its current debt (\$4.0 billion), its interest expense consumes 50% of its operating income and its net debt of \$28.4 billion is about 9 times its annual distributable cash flows. The company will thus be vulnerable whenever it faces the next downturn.

Final Thoughts & Recommendation

Williams has shed -30% off its peak last summer and hence it has become somewhat attractive, particularly given its business momentum. In the absence of a downturn, the stock could offer a 12.7% average annual return over the next five years, primarily thanks to its 8.0% 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	6638	7930	7486	6860	7637	7360	7499	8031	8686	8201
Gross Profit	2766	3335	3234	3018	3445	3843	4011	3995	4117	4421
Gross Margin	41.7%	42.1%	43.2%	44.0%	45.1%	52.2%	53.5%	49.7%	47.4%	53.9%
SG&A Exp.	504	477	571	512	661	741	722	594	569	558
Operating Profit	1407	1867	1612	1375	1621	1533	1562	1754	1974	2387
Op. Margin	21.2%	23.5%	21.5%	20.0%	21.2%	20.8%	20.8%	21.8%	22.7%	29.1%
Net Profit	-1097	376	859	430	2114	-571	-424	2174	-155	850
Net Margin	-16.5%	4.7%	11.5%	6.3%	27.7%	-7.8%	-5.7%	27.1%	-1.8%	10.4%
Free Cash Flow	-137	643	-694	-1355	-1916	-459	2104	649	30	1544
Income Tax	114	124	360	401	1249	-399	-25	-1974	138	335

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	24972	16502	24327	27142	50455	49020	46835	46352	45302	46040
Cash & Equivalents	758	889	839	681	240	100	170	899	168	289
Acc. Receivable	497	637	620	600	972	1041	938	958	858	890
Inventories	225	169	175	194	231	127	138	113	130	125
Goodwill & Int.		44	2353	2290	11573	10017	9663	8791	7767	7959
Total Liabilities	16353	13916	16900	18221	30283	32795	32789	30177	29305	29676
Accounts Payable	432	691	920	960	865	744	623	978	662	552
Long-Term Debt	9108	8722	10736	11579	21582	24487	23502	20935	22414	22288
Total Equity	7288	1296	4752	4864	8777	6148	4643	9656	14625	13328
D/E Ratio	1.25	6.73	2.26	2.38	2.46	3.98	5.06	2.17	1.53	1.67

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	-4.4%	1.8%	4.2%	1.7%	5.4%	-1.1%	-0.9%	4.7%	-0.3%	1.9%
Return on Equity	-13.9%	8.8%	28.4%	8.9%	31.0%	-7.7%	-7.9%	30.4%	-1.3%	6.1%
ROIC	-6.3%	2.6%	5.8%	2.2%	6.8%	-1.4%	-1.1%	5.8%	-0.4%	2.2%
Shares Out.	585	591	681	683	747	749	750	826	1213	1214
Revenue/Share	11.24	13.26	11.97	9.98	10.55	9.82	9.99	9.69	8.92	6.76
FCF/Share	-0.23	1.07	-1.11	-1.97	-2.65	-0.61	2.80	0.78	0.03	1.27

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

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