



Williams Companies (WMB)

Updated March 1st, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$23	5 Year CAGR Estimate:	9.7%	Market Cap:	\$27.7 B
Fair Value Price:	\$21	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	3/11/2021
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.5%	Dividend Payment Date:	3/29/2021
Dividend Yield:	7.1%	5 Year Price Target	\$27	Years Of Dividend Growth:	4
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	2.5%

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 \$27.7 billion.

In late February, Williams reported (2/22/21) financial results for the fourth quarter of fiscal 2020. The pandemic has affected the natural gas market much less than the oil market. Williams also benefits from its resilient business model, which has limited exposure to commodity prices. In the fourth quarter, Williams achieved record gathering and processing volumes in the Northeast and its distributable cash flow (DCF) grew 12% over the prior year's quarter. As a result, the dividend coverage ratio remained strong, at 1.91. Notably Williams slightly exceeded the mid-point of its pre-COVID guidance in annual DCF. Management reiterated that the company is essentially immune to the pandemic and raised the dividend by 2.5%. It also reaffirmed that the cash flows in 2021 will be sufficient to fund the dividend and capital expenses.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.55	\$1.11	\$0.81	\$0.80	\$0.54	\$0.60	\$0.63	\$0.79	\$0.99	\$1.10	\$1.20	\$1.35
CFS	\$4.30	\$2.13	\$2.01	\$2.35	\$2.86	\$2.95	\$2.73	\$2.37	\$2.72	\$2.76	\$2.85	\$3.64
DPS	\$0.78	\$1.20	\$1.44	\$1.96	\$2.45	\$1.68	\$1.20	\$1.36	\$1.52	\$1.60	\$1.64	\$2.00
Shares¹	591	681	683	747	749	750	826	1,210	1,214	1,215	1,216	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 3.3% average annual rate over the last eight years. In addition, it benefits from the contributions of new construction projects. Thanks to ongoing expansion projects, Williams has enhanced Transco's capacity from 17.2 million dekatherms to more than 18.0 million dekatherms per day in this 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 this 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/CF	6.8	14.8	17.7	20.8	16.0	7.9	10.8	11.6	9.4	7.1	8.1	7.5
Avg. Yld.	2.7%	3.8%	4.0%	4.0%	5.4%	7.2%	4.1%	5.0%	5.9%	8.1%	7.1%	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 9.8 during the last decade. Due to its high leverage, we assume a fair multiple of 7.5 for this stock. Williams is currently trading at a price-to-cash flow ratio of 8.1. If it trades at our assumed fair valuation level in five years, it will incur a -1.5% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

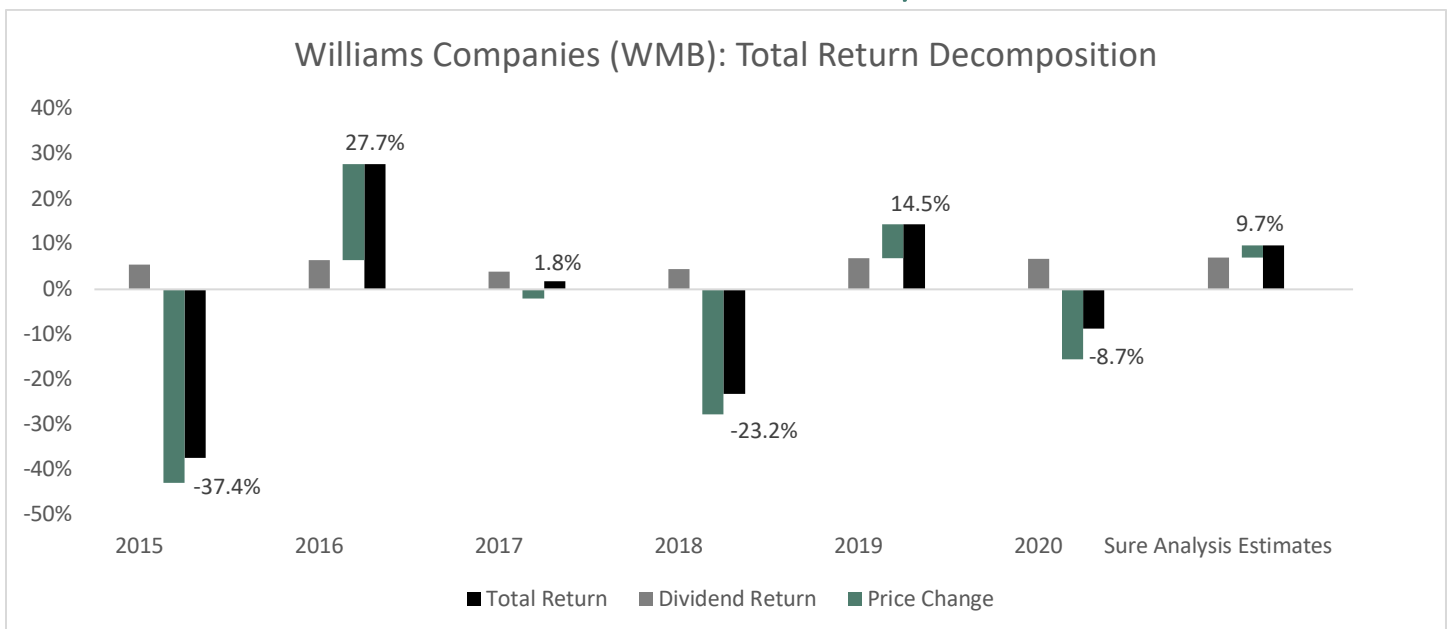
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	18.1%	56.3%	71.6%	83.4%	85.7%	57.0%	44.0%	57.4%	55.9%	57.9%	57.5%	54.9%

Williams raised its dividend by 2.5% this year and it is now offering an attractive 7.1% dividend yield while it has a payout ratio of 58%. 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 lower than its current debt (\$2.3 billion), its interest expense consumes 45% of its operating income and its net debt of \$28.4 billion is about 9 times its annual distributable cash flows. If the pandemic extends beyond this year, Williams may cut its dividend. On the bright side, the pandemic has affected the natural gas market much less than the oil market.

Final Thoughts & Recommendation

Williams has more than doubled off its bottom in March but remains attractive. If the pandemic continues to have a muted effect on the business of Williams, the stock could offer a 9.7% average annual return over the next five years, primarily thanks to its 7.1% dividend. Williams is on the verge of earning a buy rating, but it receives a hold rating due to its volatile performance record, its high leverage and its vulnerability to economic downturns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	7930	7486	6860	7637	7360	7499	8031	8686	8201	7719
Gross Profit	3335	3234	3018	3445	3843	4011	3995	4117	4421	4385
Gross Margin	42.1%	43.2%	44.0%	45.1%	52.2%	53.5%	49.7%	47.4%	53.9%	56.8%
SG&A Exp.	477	571	512	661	741	722	594	569	558	466
Operating Profit	1867	1612	1375	1621	1533	1562	1754	1974	2387	2571
Op. Margin	23.5%	21.5%	20.0%	21.2%	20.8%	20.8%	21.8%	22.7%	29.1%	33.3%
Net Profit	376	859	430	2114	-571	-424	2174	-155	850	211
Net Margin	4.7%	11.5%	6.3%	27.7%	-7.8%	-5.7%	27.1%	-1.8%	10.4%	2.7%
Free Cash Flow	643	-694	-1355	-1916	-459	2104	649	30	1544	2221
Income Tax	124	360	401	1249	-399	-25	-1974	138	335	79

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	16502	24327	27142	50455	49020	46835	46352	45302	46040	44,165
Cash & Equivalents	889	839	681	240	100	170	899	168	289	142
Acc. Receivable	637	620	600	972	1041	938	958	858	890	892
Inventories	169	175	194	231	127	138	113	130	125	136
Goodwill & Int.	44	2353	2290	11573	10017	9663	8791	7767	7959	7,444
Total Liabilities	13916	16900	18221	30283	32795	32789	30177	29305	29676	29,582
Accounts Payable	691	920	960	865	744	623	978	662	552	482
Long-Term Debt	8722	10736	11579	21582	24487	23502	20935	22414	22288	22,344
Total Equity	1296	4752	4864	8777	6148	4643	9656	14625	13328	11,734
D/E Ratio	6.73	2.26	2.38	2.46	3.98	5.06	2.17	1.53	1.67	1.90

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.8%	4.2%	1.7%	5.4%	-1.1%	-0.9%	4.7%	-0.3%	1.9%	0.5%
Return on Equity	8.8%	28.4%	8.9%	31.0%	-7.7%	-7.9%	30.4%	-1.3%	6.1%	1.7%
ROIC	2.6%	5.8%	2.2%	6.8%	-1.4%	-1.1%	5.8%	-0.4%	2.2%	0.6%
Shares Out.	591	681	683	747	749	750	826	1,210	1,214	1,215
Revenue/Share	13.26	11.97	9.98	10.55	9.82	9.99	9.69	8.92	6.76	6.35
FCF/Share	1.07	-1.11	-1.97	-2.65	-0.61	2.80	0.78	0.03	1.27	1.83

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

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