



# Williams Companies (WMB)

Updated November 4<sup>th</sup>, 2021 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$28	<b>5 Year CAGR Estimate:</b>	8.1%	<b>Market Cap:</b>	\$34.7 B
<b>Fair Value Price:</b>	\$25	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	12/9/2021
<b>% Fair Value:</b>	112%	<b>5 Year Valuation Multiple Estimate:</b>	-2.1%	<b>Dividend Payment Date:</b>	12/27/2021
<b>Dividend Yield:</b>	5.9%	<b>5 Year Price Target</b>	\$32	<b>Years Of Dividend Growth:</b>	4
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	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 \$34.7 billion.

In early November, Williams reported (11/1/21) financial results for the third quarter of fiscal 2021. 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 third quarter, Williams achieved record gathering volumes of 14 Bcf per day, record contracted transmission capacity of 23.8 Bcf per day and grew its distributable cash flow (DCF) 25% over last year's quarter. As a result, it posted a strong dividend coverage ratio of 2.2 and reduced its leverage ratio (net debt to EBITDA) to 4.0, which is below the target of 4.2 of management. Thanks to strong business momentum, we have raised our forecast for annual DCF per share from \$3.15 to \$3.35.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$1.55	\$1.11	\$0.81	\$0.80	\$0.54	\$0.60	\$0.63	\$0.79	\$0.99	\$1.10	<b>\$1.20</b>	<b>\$1.35</b>
<b>CFS</b>	\$4.30	\$2.13	\$2.01	\$2.35	\$2.86	\$2.95	\$2.73	\$2.37	\$2.72	\$2.76	<b>\$3.35</b>	<b>\$4.28</b>
<b>DPS</b>	\$0.78	\$1.20	\$1.44	\$1.96	\$2.45	\$1.68	\$1.20	\$1.36	\$1.52	\$1.60	<b>\$1.64</b>	<b>\$2.00</b>
<b>Shares<sup>1</sup></b>	591	681	683	747	749	750	826	1,210	1,214	1,215	<b>1,218</b>	<b>1,300</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 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 the 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 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.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
<b>Avg. P/CF</b>	6.8	14.8	17.7	20.8	16.0	7.9	10.8	11.6	9.4	7.1	<b>8.4</b>	<b>7.5</b>
<b>Avg. Yld.</b>	2.7%	3.8%	4.0%	4.0%	5.4%	7.2%	4.1%	5.0%	5.9%	8.1%	<b>5.9%</b>	<b>6.2%</b>

<sup>1</sup> In millions.

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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 9.8 during the last decade. Due to its material debt load, we assume a fair multiple of 7.5 for this stock. Williams is currently trading at a price-to-cash flow ratio of 8.4. If it trades at our assumed fair valuation level in five years, it will incur a -2.1% annualized drag in its returns.

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

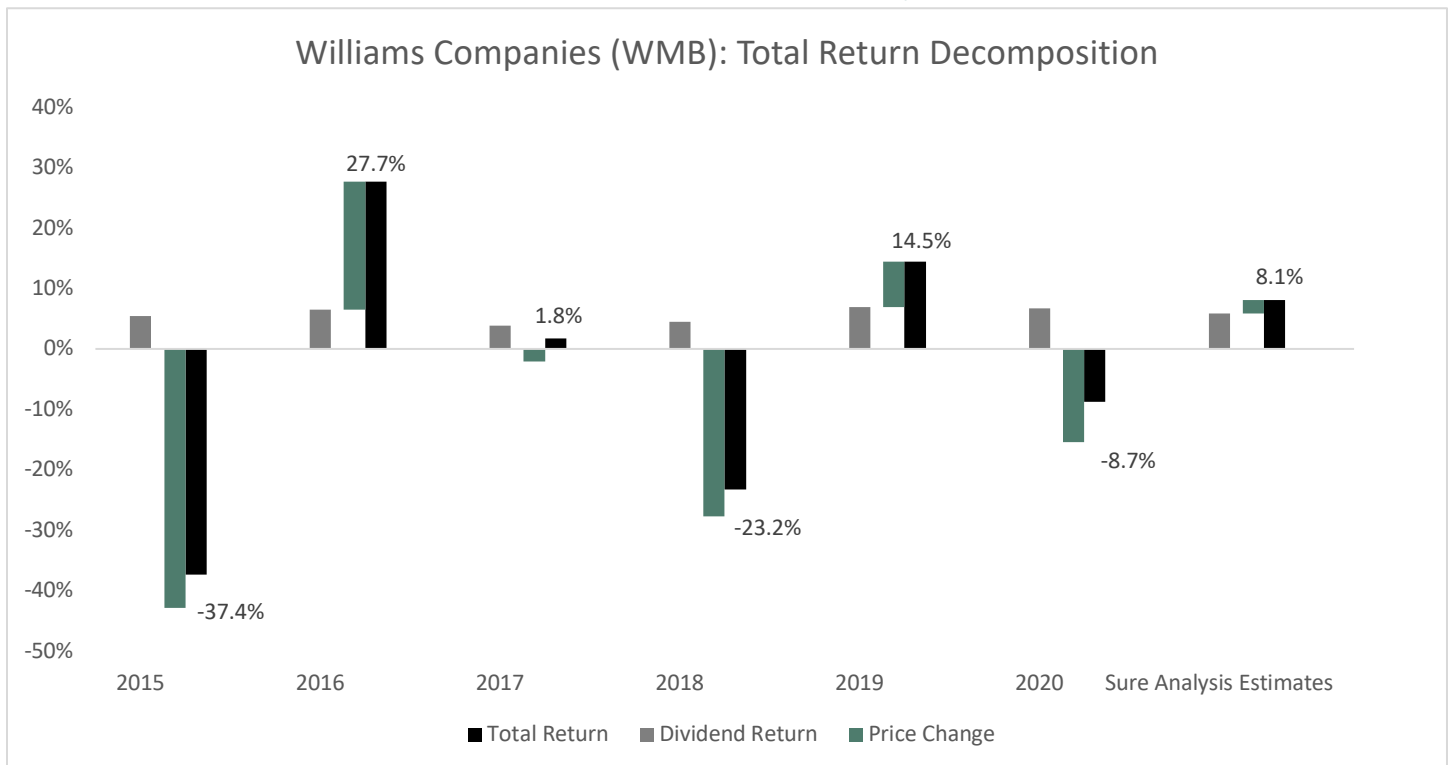
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	18.1%	56.3%	71.6%	83.4%	85.7%	57.0%	44.0%	57.4%	55.9%	57.9%	<b>49.0%</b>	<b>46.7%</b>

Williams raised its dividend by 2.5% this year and it is now offering an attractive 5.9% dividend yield while it has a payout ratio of only 49%. 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 (\$2.9 billion) are lower than its current debt (\$4.9 billion), its interest expense consumes 49% of its operating income and its net debt of \$29.9 billion is about 8 times its annual distributable cash flows. If the pandemic takes a turn for the worse, 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 last year but remains attractive. If the pandemic continues to have a muted effect on the business of Williams, the stock could offer an 8.1% average annual return over the next five years, primarily thanks to its 5.9% dividend. It thus earns a hold rating, though investors should be aware of its volatile performance record, its material debt load 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
<b>Revenue</b>	7930	7486	6860	7637	7360	7499	8031	8686	8201	7719
<b>Gross Profit</b>	3335	3234	3018	3445	3843	4011	3995	4117	4421	4385
<b>Gross Margin</b>	42.1%	43.2%	44.0%	45.1%	52.2%	53.5%	49.7%	47.4%	53.9%	56.8%
<b>SG&amp;A Exp.</b>	477	571	512	661	741	722	594	569	558	466
<b>Operating Profit</b>	1867	1612	1375	1621	1533	1562	1754	1974	2387	2571
<b>Op. Margin</b>	23.5%	21.5%	20.0%	21.2%	20.8%	20.8%	21.8%	22.7%	29.1%	33.3%
<b>Net Profit</b>	376	859	430	2114	-571	-424	2174	-155	850	211
<b>Net Margin</b>	4.7%	11.5%	6.3%	27.7%	-7.8%	-5.7%	27.1%	-1.8%	10.4%	2.7%
<b>Free Cash Flow</b>	643	-694	-1355	-1916	-459	2104	649	30	1544	2221
<b>Income Tax</b>	124	360	401	1249	-399	-25	-1974	138	335	79

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	16502	24327	27142	50455	49020	46835	46352	45302	46040	44,165
<b>Cash &amp; Equivalents</b>	889	839	681	240	100	170	899	168	289	142
<b>Acc. Receivable</b>	637	620	600	972	1041	938	958	858	890	892
<b>Inventories</b>	169	175	194	231	127	138	113	130	125	136
<b>Goodwill &amp; Int.</b>	44	2353	2290	11573	10017	9663	8791	7767	7959	7,444
<b>Total Liabilities</b>	13916	16900	18221	30283	32795	32789	30177	29305	29676	29,582
<b>Accounts Payable</b>	691	920	960	865	744	623	978	662	552	482
<b>Long-Term Debt</b>	8722	10736	11579	21582	24487	23502	20935	22414	22288	22,344
<b>Total Equity</b>	1296	4752	4864	8777	6148	4643	9656	14625	13328	11,734
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	1.8%	4.2%	1.7%	5.4%	-1.1%	-0.9%	4.7%	-0.3%	1.9%	0.5%
<b>Return on Equity</b>	8.8%	28.4%	8.9%	31.0%	-7.7%	-7.9%	30.4%	-1.3%	6.1%	1.7%
<b>ROIC</b>	2.6%	5.8%	2.2%	6.8%	-1.4%	-1.1%	5.8%	-0.4%	2.2%	0.6%
<b>Shares Out.</b>	591	681	683	747	749	750	826	1,210	1,214	1,215
<b>Revenue/Share</b>	13.26	11.97	9.98	10.55	9.82	9.99	9.69	8.92	6.76	6.35
<b>FCF/Share</b>	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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