



Williams Companies (WMB)

Updated May 9th, 2022 by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|------|--------------------------------------------|-------|----------------------------------|-----------|
| Current Price: | \$37 | 5 Year CAGR Estimate: | 4.3% | Market Cap: | \$44.7 B |
| Fair Value Price: | \$30 | 5 Year Growth Estimate: | 4.0% | Ex-Dividend Date: | 6/9/2022 |
| % Fair Value: | 125% | 5 Year Valuation Multiple Estimate: | -4.3% | Dividend Payment Date: | 6/27/2022 |
| Dividend Yield: | 4.6% | 5 Year Price Target | \$36 | Years Of Dividend Growth: | 5 |
| Dividend Risk Score: | D | Retirement Suitability Score: | C | Rating: | Hold |

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 30,000 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 \$44.7 billion.

In early May, Williams reported (5/2/22) financial results for the first quarter of fiscal 2022. The company achieved record contracted transmission capacity of 24.4 Bcf per day, up 3% sequentially, and grew its distributable cash flow (DCF) 16% over the prior year's quarter. As a result, it posted a strong dividend coverage ratio of 2.3 and reduced its leverage ratio (net debt to EBITDA) from 4.2 to 3.8, which is below management's target of 4.2. Williams benefited from the contribution of recently completed growth projects and the rally of the price of natural gas.

The price of natural gas has rallied to a 13-year high this year, as the sanctions of Europe on Russia have resulted in numerous LNG exports from the U.S. to Europe. These exports have greatly tightened the U.S. natural gas market. However, Williams has limited exposure to commodity prices. This feature is great during downturns but limits earnings growth in the current environment. Nevertheless, given the improved business momentum, we have raised our forecast for the cash flow per share of Williams this year from \$3.70 to \$3.95.

Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$1.11 | \$0.81 | \$0.80 | \$0.54 | \$0.60 | \$0.63 | \$0.79 | \$0.99 | \$1.10 | \$1.36 | \$1.45 | \$1.75 |
| CFS | \$2.13 | \$2.01 | \$2.35 | \$2.86 | \$2.95 | \$2.73 | \$2.37 | \$2.72 | \$2.76 | \$3.34 | \$3.95 | \$4.81 |
| DPS | \$1.20 | \$1.44 | \$1.96 | \$2.45 | \$1.68 | \$1.20 | \$1.36 | \$1.52 | \$1.60 | \$1.64 | \$1.70 | \$2.07 |
| Shares¹ | 681 | 683 | 747 | 749 | 750 | 826 | 1,210 | 1,214 | 1,215 | 1,218 | 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. Nevertheless, Williams has grown its cash flow per share at a 5.1% average annual rate over the last decade. In addition, it benefits from the contributions of new construction projects. Thanks to recent 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. Furthermore, Williams currently thrives thanks to the aforementioned rally of the price of natural gas to a 13-year high but investors should always be aware of the dramatic cycles of the price of natural gas. Overall, thanks to a series of expansion projects, we expect Williams to grow its cash flow per share by about 4% 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 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/CF | 14.8 | 17.7 | 20.8 | 16.0 | 7.9 | 10.8 | 11.6 | 9.4 | 7.1 | 7.6 | 9.4 | 7.5 |
| Avg. Yld. | 3.8% | 4.0% | 4.0% | 5.4% | 7.2% | 4.1% | 5.0% | 5.9% | 8.1% | 6.5% | 4.6% | 5.7% |

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 9.9 during the last decade. Due to its cyclical nature and its debt load, we assume a fair multiple of 7.5 for this stock. Williams is currently trading at a forward price-to-cash flow ratio of 9.4. If it trades at our assumed fair valuation level in five years, it will incur a -4.3% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

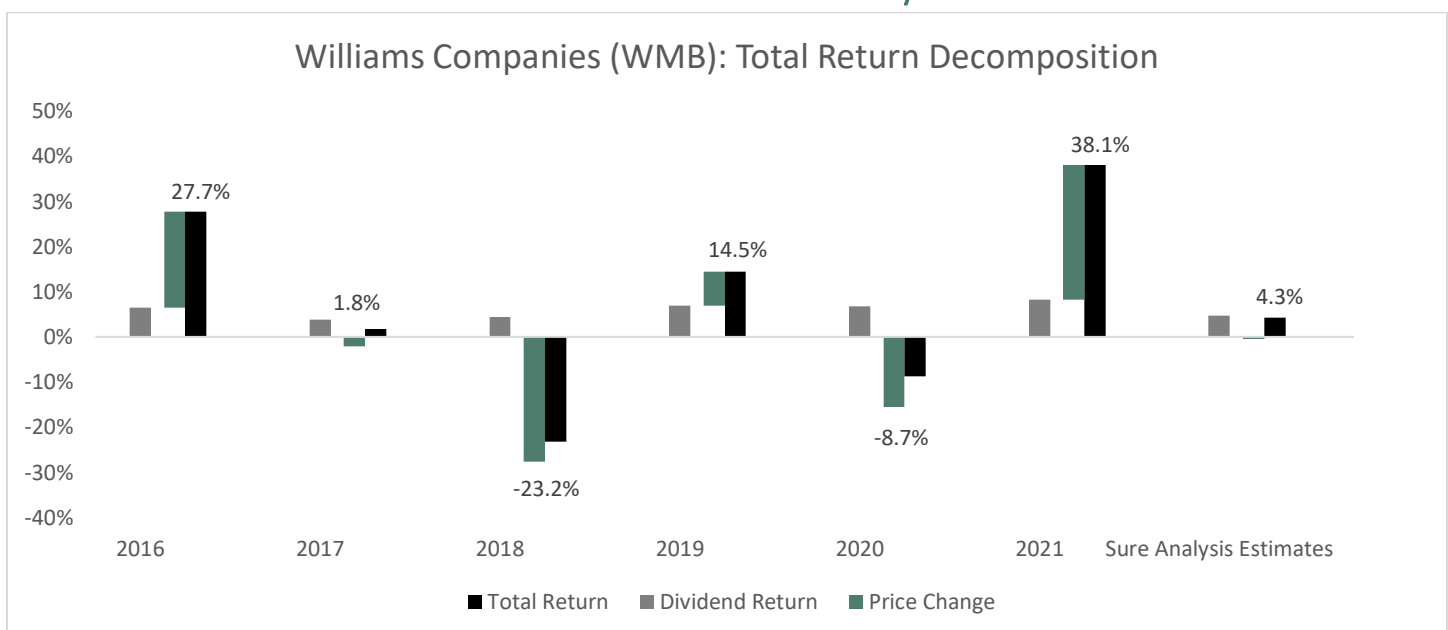
| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Payout | 56.3% | 71.6% | 83.4% | 85.7% | 57.0% | 44.0% | 57.4% | 55.9% | 57.9% | 49.1% | 43.0% | 43.0% |

Williams raised its dividend by 3.7% this year and it is now offering an attractive 4.6% dividend yield while it has a payout ratio of only 43%. 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 (\$3.2 billion) are lower than its current debt (\$4.3 billion), its interest expense consumes 46% of its operating income and its net debt of \$29.5 billion is nearly 8 times its annual distributable cash flows. If Williams faces a major downturn, it 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 rallied 23% since our last research report, in February, and hence it has become much less attractive. We expect the stock to offer a 4.3% average annual return over the next five years, primarily thanks to its 4.6% dividend. We thus rate the stock as a hold, 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 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|-------|---------|---------|-------|-------|-------|-------|-------|-------|--------|
| Revenue | 7,486 | 6,860 | 7,637 | 7,360 | 7,499 | 8,031 | 8,686 | 8,201 | 7,719 | 10,627 |
| Gross Profit | 2,207 | 1,921 | 1,953 | 2,188 | 2,419 | 2,419 | 2,610 | 2,953 | 3,059 | 3,205 |
| Gross Margin | 29.5% | 28.0% | 25.6% | 29.7% | 32.3% | 30.1% | 30.0% | 36.0% | 39.6% | 30.2% |
| SG&A Exp. | 571 | 512 | 661 | 741 | 722 | 594 | 569 | 558 | 466 | 558 |
| Operating Profit | 756 | 815 | 1,176 | 1,738 | 1,763 | 1,736 | 1,725 | 1,714 | 1,721 | 1,842 |
| Op. Margin | 1,612 | 1,335 | 1,389 | 1,407 | 1,562 | 1,754 | 1,991 | 2,385 | 2,571 | 2,633 |
| Net Profit | 21.5% | 19.5% | 18.2% | 19.1% | 20.8% | 21.8% | 22.9% | 29.1% | 33.3% | 24.8% |
| Net Margin | 859 | 430 | 2,114 | (571) | (424) | 2,174 | (155) | 850 | 211 | 1,517 |
| Free Cash Flow | 11.5% | 6.3% | 27.7% | -7.8% | -5.7% | 27.1% | -1.8% | 10.4% | 2.7% | 14.3% |
| Income Tax | (694) | (1,355) | (1,916) | (459) | 2,104 | 649 | 30 | 1,544 | 2,221 | 2,698 |

Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets | 24,327 | 27,142 | 50,455 | 49,020 | 46,835 | 46,352 | 45,302 | 46,040 | 44,165 | 47,612 |
| Cash & Equivalents | 839 | 681 | 240 | 100 | 170 | 899 | 168 | 289 | 142 | 1,680 |
| Acc. Receivable | 620 | 600 | 972 | 1,041 | 938 | 958 | 858 | 890 | 999 | 1,978 |
| Inventories | 175 | 194 | 231 | 127 | 138 | 113 | 130 | 125 | 136 | 379 |
| Goodwill & Int. | 2,353 | 2,290 | 11,573 | 10,017 | 9,663 | 8,791 | 7,767 | 7,959 | 7,444 | 7,402 |
| Total Liabilities | 16,900 | 18,221 | 30,283 | 32,795 | 32,789 | 30,177 | 29,305 | 29,676 | 29,582 | 33,511 |
| Accounts Payable | 920 | 960 | 865 | 744 | 623 | 978 | 662 | 552 | 482 | 1,746 |
| Long-Term Debt | 10,736 | 11,579 | 21,582 | 24,487 | 23,502 | 20,935 | 22,414 | 22,288 | 22,344 | 23,675 |
| Total Equity | 4,752 | 4,864 | 8,777 | 6,148 | 4,643 | 9,656 | 14,625 | 13,328 | 11,734 | 11,388 |
| LTD/E Ratio | 2.26 | 2.38 | 2.46 | 3.98 | 5.06 | 2.17 | 1.53 | 1.67 | 1.90 | 2.07 |

Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 4.2% | 1.7% | 5.4% | -1.1% | -0.9% | 4.7% | -0.3% | 1.9% | 0.5% | 3.3% |
| Return on Equity | 28.4% | 8.9% | 31.0% | -7.7% | -7.9% | 30.4% | -1.3% | 6.1% | 1.7% | 13.1% |
| ROIC | 5.8% | 2.2% | 6.8% | -1.4% | -1.1% | 5.8% | -0.4% | 2.2% | 0.6% | 4.1% |
| Shares Out. | 681 | 683 | 747 | 749 | 750 | 826 | 1,210 | 1,214 | 1,215 | 1,218 |
| Revenue/Share | 11.97 | 9.98 | 10.55 | 9.82 | 9.99 | 9.69 | 8.92 | 6.76 | 6.35 | 8.72 |
| FCF/Share | -1.11 | -1.97 | -2.65 | -0.61 | 2.80 | 0.78 | 0.03 | 1.27 | 1.83 | 2.21 |

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

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