



Williams Companies (WMB)

Updated November 2nd, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$33	5 Year CAGR Estimate:	6.7%	Market Cap:	\$39.9 B
Fair Value Price:	\$30	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	12/8/2022
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-2.1%	Dividend Payment Date:	12/26/2022
Dividend Yield:	5.2%	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% of U.S. natural gas. The stock has a market cap of \$39.9 billion.

In late October, Williams reported (10/31/22) financial results for the third quarter of fiscal 2022. The company maintained almost record gathering volumes of 17.0 Bcf per day and strong transmission volumes. As a result, Williams grew its distributable cash flow (DCF) 15% over last year's quarter, posted a strong dividend coverage ratio of 2.4 and reduced its leverage ratio (net debt to EBITDA) to 3.7, which is below management's initial guidance of 3.8. 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 remained above-average this year, as the sanctions of Europe on Russia have resulted in a deficient European gas market and hence the U.S. exports numerous LNG cargos to Europe. These exports have greatly tightened the U.S. natural gas market. With that said, Williams has limited exposure to commodity prices. This feature is great during downturns but somewhat limits earnings growth in the current environment.

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	1,223	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 above-average price of natural gas amid the ongoing war in Ukraine, 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	8.4	7.5
Avg. Yld.	3.8%	4.0%	4.0%	5.4%	7.2%	4.1%	5.0%	5.9%	8.1%	6.5%	5.2%	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 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

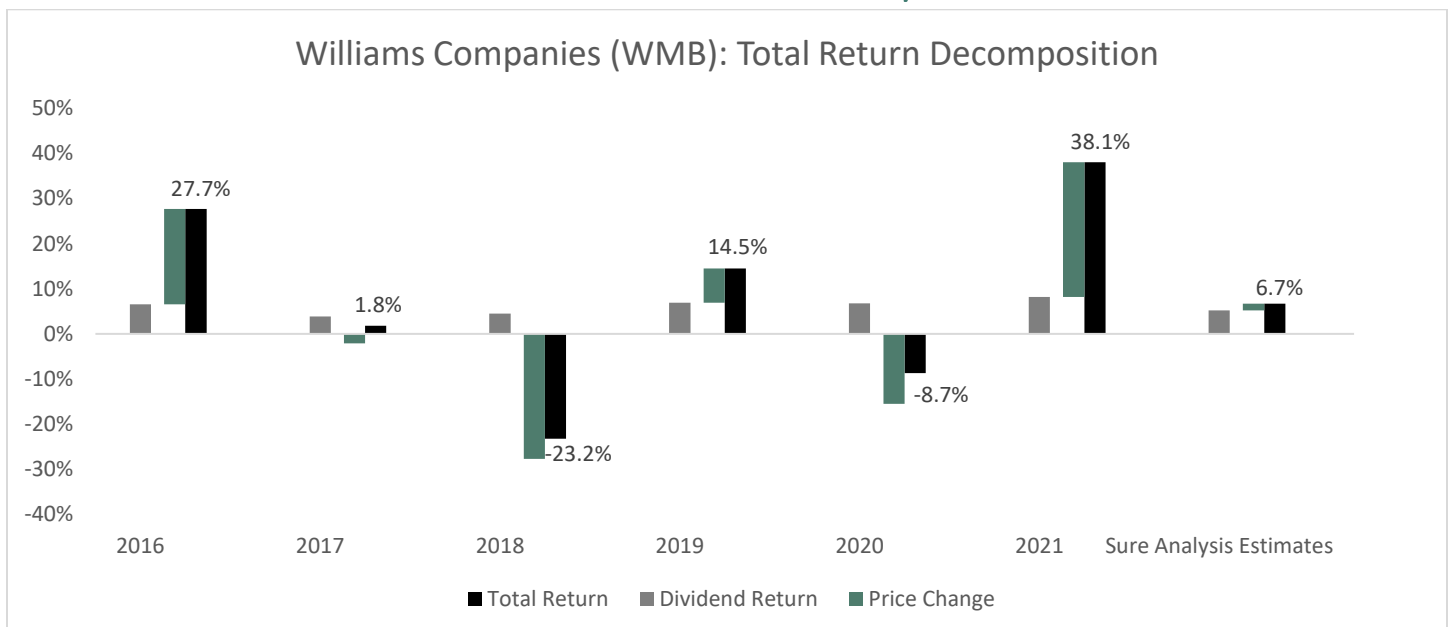
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	56.3%	71.6%	83.4%	85.7%	57.0%	44.0%	57.4%	55.9%	57.9%	49.1%	43.0%	43.0%

Williams raised its dividend by 3.7% this year and it is now offering an attractive 5.2% 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 (\$4.4 billion) are lower than its current debt (\$5.0 billion), its interest expense consumes 47% of its operating income and its net debt of \$31.1 billion is nearly 7 times its annual distributable cash flows. If Williams faces a major downturn, it may cut its dividend. On the bright side, the natural gas market is much less vulnerable to the pandemic than the oil market.

Final Thoughts & Recommendation

Williams has rallied 26% this year and hence it has become less attractive. We expect the stock to offer a 6.7% average annual return over the next five years thanks to 4.0% growth and its 5.2% dividend, partly offset by a -2.1% valuation headwind. 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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