



Williams Companies (WMB)

Updated August 23rd, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	6.7%	Market Cap:	\$42.3 B
Fair Value Price:	\$32	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	9/8/2023
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.1%	Dividend Payment Date:	9/25/2023
Dividend Yield:	5.1%	5 Year Price Target	\$38	Years Of Dividend Growth:	6
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 33,000 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 \$42.3 billion.

In early August, Williams reported (8/2/23) financial results for the second quarter of fiscal 2023. The company posted record gathering volumes of 18.03 Bcf per day and benefited from the first full quarter of contributions from its MountainWest Pipeline transmission and storage assets. As a result, it grew its distributable cash flow (DCF) per share 8% over the prior year's quarter, posted a strong dividend coverage ratio of 2.23 and maintained a decent leverage ratio (net debt to EBITDA) of 3.5. Thanks to its sustained business momentum, Williams has raised its dividend by 5% this year.

The price of natural gas rallied last year due to the sanctions of Europe on Russia, which resulted in a deficient European gas market and hence the U.S. exported numerous LNG cargos to Europe. These exports greatly tightened the U.S. natural gas market. The price of natural gas has plunged this year, mostly due to warmer-than-average weather in the U.S. and Europe. However, Williams has limited exposure to the price of natural gas. Given also the recent completion of growth projects, we still expect Williams to grow its cash flow per share by almost 5% this year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
CFS	\$2.01	\$2.35	\$2.86	\$2.95	\$2.73	\$2.37	\$2.72	\$2.76	\$3.34	\$4.02	\$4.20	\$5.11
DPS	\$1.44	\$1.96	\$2.45	\$1.68	\$1.20	\$1.36	\$1.52	\$1.60	\$1.64	\$1.70	\$1.79	\$2.18
Shares¹	683	747	749	750	826	1,210	1,214	1,215	1,218	1,223	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 an 8.0% average annual rate over the last decade. In addition, it benefits from the contributions of recently completed 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 enjoys a tailwind from the ongoing war in Ukraine, which has rendered the U.S. a critical producer for the global gas market. Nevertheless, investors should always be aware of the dramatic cycles of the price of natural gas. Given all the above factors, 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/CF	17.7	20.8	16.0	7.9	10.8	11.6	9.4	7.1	7.6	8.2	8.3	7.5
Avg. Yld.	4.0%	4.0%	5.4%	7.2%	4.1%	5.0%	5.9%	8.1%	6.5%	5.1%	5.1%	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 8.9 over the last decade. Due to its cyclicity, we assume a fair multiple of 7.5 for this stock. Williams is currently trading at a price-to-cash flow ratio of 8.3. 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

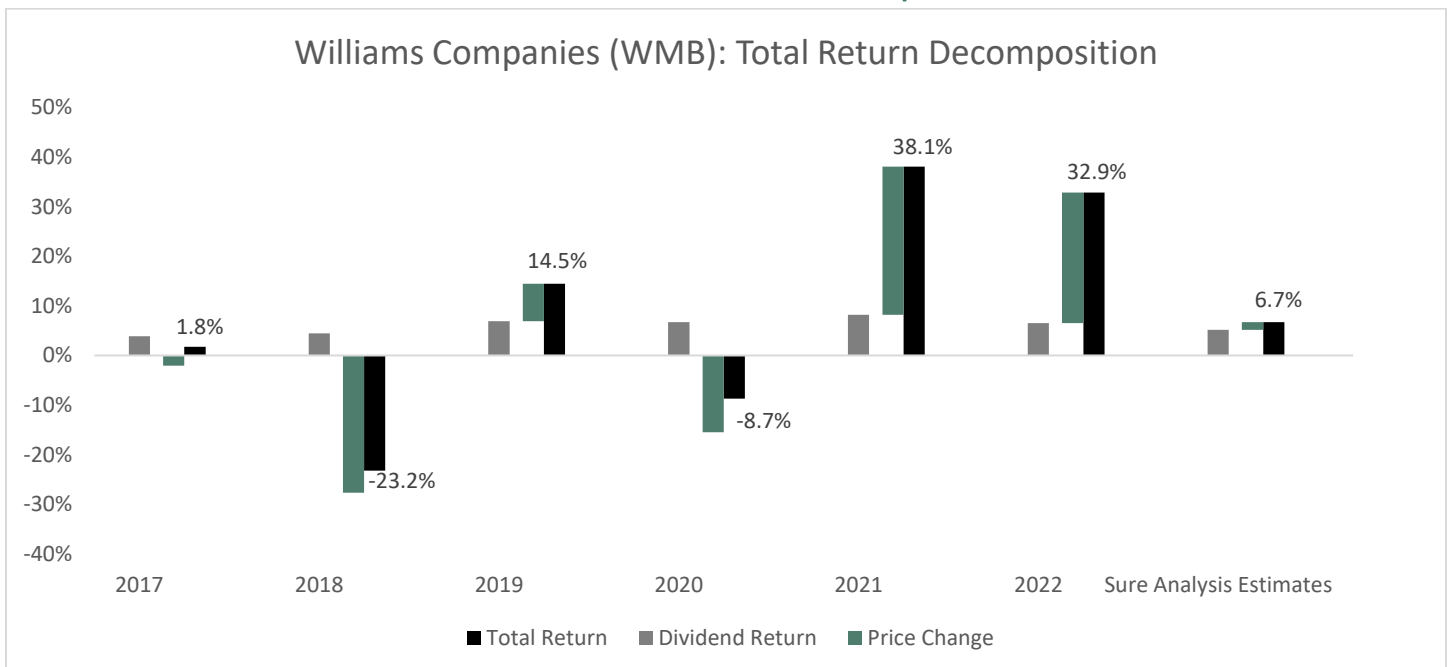
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	71.6%	83.4%	85.7%	57.0%	44.0%	57.4%	55.9%	57.9%	49.1%	42.3%	42.6%	42.6%

Williams raised its dividend by 5% this year and it is now offering an attractive 5.1% 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 (\$2.6 billion) are lower than its current debt (\$5.4 billion), its interest expense consumes 28% of its operating income and its net debt of \$33.1 billion is nearly 7 times its annual distributable cash flows. If Williams faces a major downturn, it may cut its dividend.

Final Thoughts & Recommendation

Thanks to its focus on natural gas, Williams is fairly resilient to the secular transition from fossil fuels to clean energy sources. We expect the stock to offer a 6.7% average annual return over the next five years thanks to 4.0% growth and its 5.1% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	6,860	7,637	7,360	7,499	8,031	8,686	8,201	7,719	10,627	10,965
Gross Profit	1,921	1,953	2,188	2,419	2,419	2,610	2,953	3,059	3,205	3,682
Gross Margin	28.0%	25.6%	29.7%	32.3%	30.1%	30.0%	36.0%	39.6%	30.2%	33.6%
SG&A Exp.	512	661	741	722	594	569	558	466	558	636
Operating Profit	815	1,176	1,738	1,763	1,736	1,725	1,714	1,721	1,842	3,018
Op. Margin	1,335	1,389	1,407	1,562	1,754	1,991	2,385	2,571	2,633	27.5%
Net Profit	19.5%	18.2%	19.1%	20.8%	21.8%	22.9%	29.1%	33.3%	24.8%	2,049
Net Margin	430	2,114	(571)	(424)	2,174	(155)	850	211	1,517	18.7%
Free Cash Flow	6.3%	27.7%	-7.8%	-5.7%	27.1%	-1.8%	10.4%	2.7%	14.3%	2,606
Income Tax	(1,355)	(1,916)	(459)	2,104	649	30	1,544	2,221	2,698	425

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	27,142	50,455	49,020	46,835	46,352	45,302	46,040	44,165	47,612	48,433
Cash & Equivalents	681	240	100	170	899	168	289	142	1,680	152
Acc. Receivable	600	972	1,041	938	958	858	890	999	1,978	2,723
Inventories	194	231	127	138	113	130	125	136	379	320
Goodwill & Int.	2,290	11,573	10,017	9,663	8,791	7,767	7,959	7,444	7,402	7,363
Total Liabilities	18,221	30,283	32,795	32,789	30,177	29,305	29,676	29,582	33,511	34,388
Accounts Payable	960	865	744	623	978	662	552	482	1,746	2,327
Long-Term Debt	11,579	21,582	24,487	23,502	20,935	22,414	22,288	22,344	23,675	22,904
Total Equity	4,864	8,777	6,148	4,643	9,656	14,625	13,328	11,734	11,388	11,450
LTD/E Ratio	2.38	2.46	3.98	5.06	2.17	1.53	1.67	1.90	2.07	2.0

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.7%	5.4%	-1.1%	-0.9%	4.7%	-0.3%	1.9%	0.5%	3.3%	4.3%
Return on Equity	8.9%	31.0%	-7.7%	-7.9%	30.4%	-1.3%	6.1%	1.7%	13.1%	17.9%
ROIC	2.2%	6.8%	-1.4%	-1.1%	5.8%	-0.4%	2.2%	0.6%	4.1%	5.5%
Shares Out.	683	747	749	750	826	1,210	1,214	1,215	1,218	1,223
Revenue/Share	9.98	10.55	9.82	9.99	9.69	8.92	6.76	6.35	8.72	8.97
FCF/Share	-1.97	-2.65	-0.61	2.80	0.78	0.03	1.27	1.83	2.21	2.13

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

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