



Williams Companies (WMB)

Updated February 19th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	8.4%	Market Cap:	\$41.7 B
Fair Value Price:	\$33	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	3/7/2024
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.6%	Dividend Payment Date:	3/25/2024
Dividend Yield:	5.6%	5 Year Price Target	\$40	Years Of Dividend Growth:	7
Dividend Risk Score:	D	Retirement Suitability Score:	B	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 \$41.7 billion.

In mid-February, Williams reported (2/14/24) financial results for the fourth quarter of fiscal 2023. In the year, the company posted strong gathering volumes, partly thanks to the contribution from its MountainWest Pipeline transmission and storage assets. As a result, distributable cash flow (DCF) per share grew 6%. The company posted a strong dividend coverage ratio of 2.39 and maintained a decent leverage ratio (net debt to EBITDA) of 3.58. Thanks to its sustained business momentum, Williams raised its dividend by 6%.

The price of natural gas rallied in 2022 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 (vs. 2022), mostly due to warmer-than-average weather in the U.S. and Europe. However, Williams has limited exposure to the price of natural gas. The company provided guidance for 0%-4.5% growth of adjusted EBITDA this year thanks to the contribution of recent projects.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
CFS	\$2.35	\$2.86	\$2.95	\$2.73	\$2.37	\$2.72	\$2.76	\$3.34	\$4.02	\$4.27	\$4.40	\$5.35
DPS	\$1.96	\$2.45	\$1.68	\$1.20	\$1.36	\$1.52	\$1.60	\$1.64	\$1.70	\$1.79	\$1.90	\$2.31
Shares¹	747	749	750	826	1,210	1,214	1,215	1,218	1,223	1,222	1,222	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 6.9% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/CF	20.8	16.0	7.9	10.8	11.6	9.4	7.1	7.6	8.2	7.6	7.7	7.5
Avg. Yld.	4.0%	5.4%	7.2%	4.1%	5.0%	5.9%	8.1%	6.5%	5.1%	5.5%	5.6%	5.8%

If we exclude the years 2014-2015, 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 8.8 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 7.7. If it trades at our assumed fair valuation level in five years, it will incur a -0.6% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

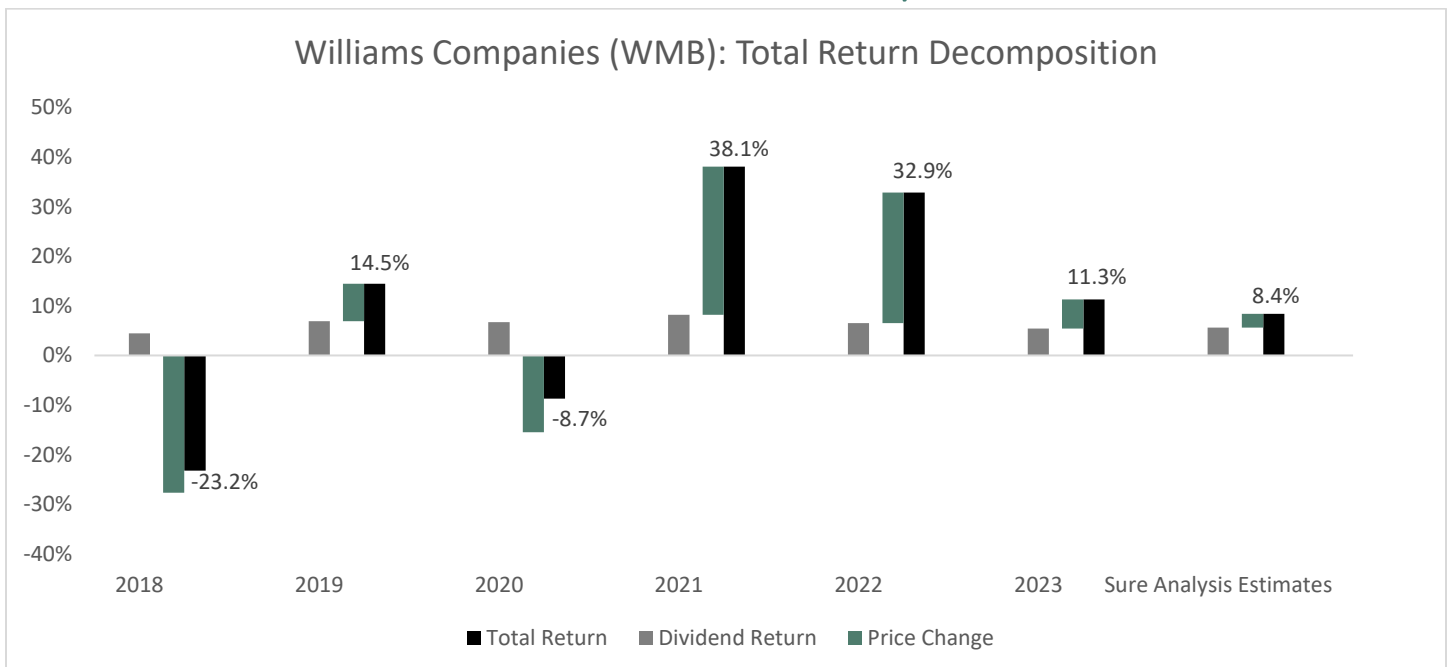
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	83.4%	85.7%	57.0%	44.0%	57.4%	55.9%	57.9%	49.1%	42.3%	41.9%	43.2%	43.2%

Williams just raised its dividend by 6% and it is now offering an attractive 5.6% 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 in 2014-2016. It cut its dividend in 2016. Furthermore, its current assets (\$4.5 billion) are lower than its current debt (\$5.8 billion), its interest expense consumes 27% of its operating income and its net debt of \$34.0 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 an 8.4% average annual return over the next five years thanks to 4.0% growth and its 5.6% dividend, partly offset by a -0.6% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	7,637	7,360	7,499	8,031	8,686	8,201	7,719	10,627	10,965	10,907
Gross Profit	1,953	2,188	2,419	2,419	2,610	2,953	3,059	3,205	5,499	6,801
Gross Margin	25.6%	29.7%	32.3%	30.1%	30.0%	36.0%	39.6%	30.2%	50.2%	62.4%
SG&A Exp.	661	741	722	594	569	558	466	558	636	665
Operating Profit	1,176	1,738	1,763	1,736	1,725	1,714	1,721	1,842	3,018	4,182
Op. Margin	1,389	1,407	1,562	1,754	1,991	2,385	2,571	2,633	27.5%	38.3%
Net Profit	18.2%	19.1%	20.8%	21.8%	22.9%	29.1%	33.3%	24.8%	2,049	3,179
Net Margin	2,114	(571)	(424)	2,174	(155)	850	211	1,517	18.7%	29.1%
Free Cash Flow	27.7%	-7.8%	-5.7%	27.1%	-1.8%	10.4%	2.7%	14.3%	2,606	3,371
Income Tax	(1,916)	(459)	2,104	649	30	1,544	2,221	2,698	425	1,005

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	50,455	49,020	46,835	46,352	45,302	46,040	44,165	47,612	48,433	52,627
Cash & Equivalents	240	100	170	899	168	289	142	1,680	152	2,150
Acc. Receivable	972	1,041	938	958	858	890	999	1,978	2,723	1,655
Inventories	231	127	138	113	130	125	136	379	320	274
Goodwill & Int.	11,573	10,017	9,663	8,791	7,767	7,959	7,444	7,402	7,363	7,593
Total Liabilities	30,283	32,795	32,789	30,177	29,305	29,676	29,582	33,511	34,388	37,736
Accounts Payable	865	744	623	978	662	552	482	1,746	2,327	1,379
Long-Term Debt	21,582	24,487	23,502	20,935	22,414	22,288	22,344	23,675	22,904	26,438
Total Equity	8,777	6,148	4,643	9,656	14,625	13,328	11,734	11,388	11,450	12,367
LTD/E Ratio	2.46	3.98	5.06	2.17	1.53	1.67	1.90	2.07	2.00	2.13

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.4%	-1.1%	-0.9%	4.7%	-0.3%	1.9%	0.5%	3.3%	4.3%	6.3%
Return on Equity	31.0%	-7.7%	-7.9%	30.4%	-1.3%	6.1%	1.7%	13.1%	17.9%	22.0%
ROIC	6.8%	-1.4%	-1.1%	5.8%	-0.4%	2.2%	0.6%	4.1%	5.5%	8.1%
Shares Out.	747	749	750	826	1,210	1,214	1,215	1,218	1,223	1,223
Revenue/Share	10.55	9.82	9.99	9.69	8.92	6.76	6.35	8.72	8.97	8.92
FCF/Share	-2.65	-0.61	2.80	0.78	0.03	1.27	1.83	2.21	2.13	2.76

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

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