Williams (WPZ/WMB)

Forward Distribution and Dividend Policy

Equities

Americas
Energy

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4Q15 Earnings CC –Discussion on Ratings and Distribution Policy

Ever since WPZ was put on negative watch/outlook by the agencies, investors have been laser focused on whether WPZ will fall into HY. The 4Q conference call was no different with management highlighting a commitment to IG credit rating and pointed to asset sales as part of the strategy. However, management did acknowledge the distribution represents a sizable outflow of capital and supports our prior view that the WPZ distribution could very much be at risk. We would also not be surprised if the WMB payout could be curtailed as well.

It's about CHK – So Ring Fence CHK = 10% WPZ Dist. Cut

In our prior note "Increased Turbulence in the ETE, ETP, SXL and Sun Complex"(please click here) we discussed the elevated risks of distribution cuts at WPZ and ETE (ETE has a merger agreement to acquire WPZ's GP WMB), we posited the view that WPZ would need to cut enough to ring fence the CHK exposure. Our est. is \$2-\$300mm of exposure; however, the agencies may be looking for more cushion and/or have a different view; hence, in the analysis in this note we elected to run a \$400mm scenario and concluded WPZ would need to cut its distribution by 10%. A distribution cut would also help WPZ towards its goal of lowering leverage as we see 5 quarters into mid '17 where WPZ will be modestly above >5.0x, they could entertain a higher cut of 15%/20% to get leverage within compliance faster; however, management talked of steep cost cutting efforts and asset sales as steps toward deleveraging.

What's the impact on WMB? 10% WPZ Cut May Result in 16.5% Dividend Cut

The flow through of a 10% distribution cut to the LP units owned by WMB combined with the reduced IDR's would likely result in a 16.5% cut to WMB's dividend (WMB has not formally declared a dividend yet but earnings slides imply a flat dividend when calculating the coverage ratio).

Adjusting Standalone Price Targets

Given the increasing likelihood of a need to ring fence CHK exposure, we think there is rising probability that these cuts may be needed and thus we're flowing them through our models. Given the pending merger this may be moot for WMB longer term; however, for WPZ this is a real potential outcome. As a result our WPZ PT falls to \$29 from \$31 and WMB to \$20 from \$26 (please see page 3 for full details).

Isn't it Priced In? Mostly

We don't think investors would be shocked given where the stocks are trading at combined with the recent rating agency commentaries and KMI's decision to cut; however, in our experience often it's not completely priced in. There is an outside chance the market is expecting an even deeper cut and this could be viewed favourably.

Figure 1: Changes to Ratings, Price Targets and Estimates

		Price	Rating		Price target		2016E EPS		2017E EPS		2018E EPS	
Company	RIC	18-Feb-16	New	Old	New	Old	New	Old	New	Old	New	Old
Williams Partners LP	WPZ.N	18.61	Buy	Buy	29.00	31.00	0.76	0.40	1.75	1.36	2.04	1.62
Williams Cos Inc.	WMB.N	15.92	Buy	Buy	20.00	26.00	0.88	0.88	1.49	1.47	1.74	1.70

Source: UBSe

How Chesapeake's financial difficulties could impact distribution at WPZ/WMB?

Ring Fencing CHK

Investors and credit ratings agencies alike have expressed concern over Williams' exposure to Chesapeake Energy (CHK). Concern on potential CHK insolvency has accelerated as commodity prices deteriorated. UBS Energy team estimates CHK's 2016e Net Debt/EBITDX of roughly 24x (based on NYMEX natural gas, WTI and Brent strip prices for 2016- as of February 1, 2016). With oil and gas prices at multi-year lows and the inflection point when those commodity prices improve seemingly being pushed out to 2017 from prior consensus of 2H16, concerns over CHK's liquidity and solvency have increased.

WPZ's EBITDA has roughly 20% exposure to CHK. CHK has been the primary customer of ACMP, which was acquired by WPZ in 2015. We estimate ACMP segment 2016 EBITDA of roughly $1.3B. WPZ remains committed to maintaining its IG credit rating. Recently, the partnership announced growth capex cut to roughly $2B (from ~$3B). To finance this investment spending Transco issued $1B in debt, while WPZ plans to sell some assets for roughly $1B.

Should the agencies force WPZ to accelerate the time table, in order to 'Ring Fence' the risks from CHK, WPZ could reduce its distributions by the exposed amount of cash flow. We estimate that WPZ could face up to $300mm of exposure in a scenario that CHK files for bankruptcy. However, the agencies may be looking for more cushion and/or have a different view; hence, in the analysis in this note we elected to run a $400mm scenario. This is driven by a reduction in certain G&P rates as well as a reduction in payments from associated with minimum volume commitments which are not being fully utilized. A $400MM cut in distributions would translate into a 10% DPU cut for WPZ. Please note this cut does not reflect the merger termination benefit to WPZ of $418MM. WMB paid this fee to WPZ after the merger between WPZ and WMB was terminated.

Impact on WMB? Possible 16.5% Cut to Dividend

If WPZ were to cut its distribution by 10% it would lower both the LP payout as well as the IDR payment to WMB; the corresponding impact at WMB would necessitate a 16.5% cut to the WMB dividend in order to offset the corresponding loss in cashflows.

Figure 2: Impact of 10% WPZ's Distribution Cut on WPZ and WMB

	Total LP units	IDRs	Total
WPZ			
Distribution Paid (Assuming DPU of $3.40)	$1,998	$907	$2,904
Distribution Paid (Assuming 10% DPU Cut to $3.06)	$1,798	$707	$2,505
Money saved as a result of the Distribution Cut	**$200**	**$200**	**$400**
WMB			
Cash Received from WPZ (assuming WPZ's DPU of $3.40)	$1,159	$907	$2,065
Cash Received from WPZ (assuming WPZ's 10% DPU Cut to $3.06)	1042.8	$707	$1,750
Decline in WPZ Distributions to WMB Due to WPZ's DPU Cut	**-$116**	**-$200**	**-$316**
Distribution Paid (Assuming no cut at WMB - DPS of $2.56)			$1,920
Distribution Paid (Assuming ~17% DPU Cut to $2.14)			$1,603
Dividend Cut As a Result of Lower Distributions from WPZ to WMB			**-$317**

Source: UBSe

Impacts on Valuation

We think there is an increasing likelihood that WPZ would be required to cut its distribution if it is not able to delever via asset sales. Therefore, in order to satisfy the rating agencies, we expect WPZ will likely cut its distribution by 10%. As a result, the DDM implied valuation would fall to $30 from $33; on a P/LP DCF basis the valuation increases to $45 as the lower IDR take improves LP-DCF. The improved coverage would lift EV/EBITDA. While WPZ trades at a steep discount to fair value, one could argue that a cut is priced in. However, its often not and there is risk that the agencies could require a steeper cut; hence, we lower our implied P/LP-DCF multiples and EV/EBITDA multiples by 15% to reflect the negative overhang often associated with a distribution cut and thus the P/LP DCF implied valuation would be $38 and the EV/EBITDA implied valuation would be $18 for a combined valuation of $29.

Figure 3: Changes to Price Targets

	DDM		P/LP'DCF (Utility Mult. Leverage Adjusted)			EV/EBITDA (Utility Mult. Leverage Adjusted)			Price Target	
	Old	New	Old	New		Old	New		Old	New
				Unchanged Multiple	15% Lower Muliple		Unchanged Multiple	15% Lower Muliple		
WPZ	$33	$30	$37	$45	$38	$24	$27	$18	$31	$29
WMB	$26	$20							$26	$20

Source: UBSe

Leverage at WPZ/WMB

The aforementioned distribution cut is intended to 'ring fence' the exposure to CHK and is not expected to fund capex. Should WPZ have issues selling assets or raising capital, further distribution cuts could be an alternative. Current WPZ leverage is roughly 4.65x, while consolidated WMB leverage is roughly 5.76x. We highlight that WMB leverage calculated as Net debt/Distributable Cash Flow is roughly 2.51x. If WPZ decides to lower its leverage, it can cut distribution by more than 10% as it sits 5.1x until mid-2017E absent a material improvement in costs which were highlighted as an avenue of the recent call.

Figure 4: Leverage at Williams

	Net Debt	2015 EBITDA	Net Debt/EBITDA	2015 DCF	Net Debt/DCF
WPZ	$19,034	$4,089	4.65x		
Consolidated WMB	$23,587	$4,096	5.76x		
Standalone WMB	$4,553			$1,811	2.51x

Source: Company data and UBSe

Recent Credit Rating Downgrades

In January 2016, Fitch and Moody's downgraded WMB to BB+ and Ba1 from Investment Grade credit rating citing the high leverage. We highlight that S&P downgraded WMB to BB+ from BBB- in June 2014 after it announced plans to become a "pure play" General Partner. Recently S&P cut it’s the rating on WMB to BB as it expects merger with ETE to close and expects GP to be two notches below MLP's credit rating of BBB-. If WPZ or ETP aren't upgraded or more strict financial policy is applied, S&P doesn't expect to upgrade WMB. If the merged entity leverage increases above 4.0x, the agency will consider to lower rating on WMB.

In early January, Moody's downgraded WPZ to Baa3 with the negative outlook. WPZ will need to lower debt/EBITDA below 5x and increase the coverage above 1x in order to change the outlook status to stable. On January 26th, S&P placed WPZ's BBB- credit rating on CreditWatch with the negative outlook. The agency said that roughly 20% of WPZ's EBITDA is exposed to Chesapeake Energy Corp (CHK), which remains a risk as CHK's credit rating is CCC. S&P noted it plans to resolve the Credit Watch in three weeks, which implies it's decision should be announced fairly soon. We see potential for two outcomes:

1) WPZ downgraded to BB+ from BBB- and as a result WMB downgraded to BB-. Consequently, ETE would likely be downgraded to BB-, which could lead to downgrade of ETP to BB-. S&P noted that it expects MLP's credit rating to be two notches above the General Partner. We don't know how lower rating at ETE would impact credit rating at SXL, but we see a risk that its rating could potentially be lowered to BBB-.

2) S&P maintains its BBB- credit rating at WPZ following the MLP's recent actions to cut capex by $1B and announcement of roughly $1B of asset sale in order to not access the debt market in 2016. Potential distribution may be needed to 'ring fence' the exposure to CHK and lower leverage.

Figure 5: WPZ Summary Model

Williams Partners (WPZ) Model Summary ($ in millions)	1Q15	2Q15	3Q15	4Q15e	**2015e**	**2016e**	**2017e**	**2018e**	**2019e**	**2020e**
Operating Data										
Interstate Transmission										
Throughput (Tbtu)	1,208	968	982	979	4,136	4,221	4,765	4,885	5,008	5,135
Gathering & Processing										
Gathering volumes (Tbtu)	935	940	920	921	3,716	3,610	3,668	3,821	4,004	4,222
Plant Inlet Natural Gas Volumes (Tbtu)	364	364	367	357	1,452	1,418	1,443	1,432	1,422	1,414
NGL Equity Sales (Million gallons)	183	173	192	208	756	761	786	792	794	800
NGL Production (Million gallons)	517	567	608	570	2,262	2,257	2,284	2,300	2,303	2,318
Petrochemical Services										
Geismar Ethylene Sales Volumes (Million lbs)	2	213	404	447	1,066	1,788	1,788	1,788	1,788	1,788
Geismar Ethylene Margin ($/lb)	$0.28	$0.28	$0.17	$0.11	$0.21	$0.16	$0.30	$0.27	$0.27	$0.27
Canadian Propylene Sales Volumes (million lbs)	39	38	44	40	161	166	166	166	166	166
Canadian Alky Feedstock Sales Volumes (Million Gallons	7	6	6	7	26	28	28	28	28	28
Income Statement										
Revenue										
Total Revenue	$1,711.0	$1,830.0	$1,792.0	$1,998.0	$7,331.0	$7,532.1	$8,175.4	$8,526.2	$8,749.8	$9,300.0
Total Revenue	$1,711.0	$1,830.0	$1,792.0	$1,998.0	$7,331.0	$7,532.1	$8,175.4	$8,526.2	$8,749.8	$9,300.0
Operating Expenses										
Operating Expenses	($843.0)	($925.0)	($820.0)	($816.0)	($3,404.0)	($3,592.8)	($3,568.9)	($3,685.6)	($3,893.4)	($4,151.9)
D&A	(419.0)	(419.0)	(423.0)	(441.0)	(1,702.0)	(1,734.7)	(1,751.1)	(1,793.0)	(1,824.1)	(1,851.8)
G&A	(193.0)	(164.0)	(156.0)	(171.0)	(684.0)	(567.7)	(571.1)	(590.6)	(620.6)	(660.3)
Other	(17.0)	88.0	(7.0)	(1,222.0)	(1,158.0)	-	-	-	-	-
Total Operating Expenses	($1,472.0)	($1,420.0)	($1,406.0)	($2,650.0)	($6,948.0)	($5,895.3)	($5,891.1)	($6,069.2)	($6,338.1)	($6,663.9)
Operating Income	**$239.0**	**$410.0**	**$386.0**	**-$652.0**	**$383.0**	**$1,636.8**	**$2,284.3**	**$2,457.0**	**$2,411.7**	**$2,636.1**
Adj. EBITDA Per Segment										
Access Midstream	$314.0	$345.0	$351.0	$351.0	$1,361.0	$1,269.1	$1,337.4	$1,432.1	$1,262.6	$1,351.8
Northeast G&P	$100.0	$92.0	$87.0	$77.0	$356.0	$321.6	$365.6	$412.2	$463.7	$521.1
Atlantic-Gulf	$335.0	$389.0	$415.0	$385.0	$1,524.0	$1,588.9	$1,845.4	$1,932.2	$2,015.9	$2,064.1
West	$162.0	$150.0	$161.0	$175.0	$648.0	$704.3	$761.1	$804.6	$812.2	$801.2
NGL&Petchem Services	$7.0	$33.0	$85.0	$72.0	$197.0	$317.7	$609.8	$608.3	$624.4	$639.4
Adj. EBITDA	**917.0**	**1,008.0**	**1,100.0**	**1,064.0**	**4,089.0**	**4,201.5**	**4,907.8**	**5,189.4**	**5,241.3**	**5,565.1**
D&A from unconsolidated affiliates	$85.0	$90.0	$93.0	$96.0	$364.0	$320.0	$320.0	$320.0	$320.0	$320.0
Income from unconsolidated affiliates	51.0	93.0	92.0	99.0	335.0	510.1	552.4	619.4	685.6	757.3
Net interest expense	(192.0)	(203.0)	(205.0)	(211.0)	(811.0)	(907.9)	(985.4)	(1,022.6)	(1,023.9)	(1,024.3)
GP Take	(261.0)	(217.0)	4.0	65.0	(409.0)	(706.9)	(706.9)	(736.2)	(783.2)	(830.3)
Net Income Available to LP	**-$172.0**	**$83.0**	**-$190.0**	**-$1,540.0**	**-$1,819.0**	**$444.0**	**$1,029.0**	**$1,200.4**	**$1,173.3**	**$1,419.8**
EPU	**-$0.34**	**$0.14**	**-$0.32**	**-$2.62**	**-$3.21**	**$0.76**	**$1.75**	**$2.04**	**$2.00**	**$2.42**
Common Units (mm)	507.0	587.1	586.7	587.6	567.1	587.6	587.6	587.6	587.6	587.6
Balance Sheet Summary										
Assets										
Cash and equivalents	$277.0	$186.0	$110.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0
Property and equipment	27,714.0	28,187.0	28,516.0	28,728.0	28,728.0	29,272.5	29,091.6	28,689.9	28,248.2	27,802.2
Total Assets	**$49,284.0**	**$50,040.0**	**$49,639.0**	**$49,891.9**	**$49,891.9**	**$50,478.6**	**$50,388.8**	**$50,030.3**	**$49,548.6**	**$49,161.4**
Liabilities and Partners Equity										
Long Term Debt	$17,123.0	$16,743.0	$17,237.0	$17,847.4	$17,847.4	$19,576.7	$20,192.9	$20,308.6	$20,292.1	$20,159.6
Partners Equity	28,027.0	27,666.0	26,727.0	26,349.9	26,349.9	25,067.7	24,391.3	23,856.9	23,248.5	22,839.5
Liabilities and Partners Equity	**$49,284.0**	**$50,040.0**	**$49,639.0**	**$49,891.9**	**$49,891.9**	**$50,478.6**	**$50,388.8**	**$50,030.3**	**$49,548.6**	**$49,161.4**
Cash Flow Statement Summary										
Net cash provided by operating activities	$697.0	$796.0	$605.0	$729.7	$2,827.7	$3,054.8	$3,458.8	$3,839.3	$4,056.5	$4,289.9
Net cash provided by investing activities	(667.0)	(1,155.0)	(627.0)	(719.0)	(3,168.0)	(2,279.2)	(1,570.2)	(1,391.3)	(1,382.4)	(1,405.7)
Net cash provided by financing activities	76.0	268.0	(54.0)	(115.7)	174.3	(775.6)	(1,888.6)	(2,447.9)	(2,674.1)	(2,884.2)
Net chage in cash	**$106.0**	**($91.0)**	**($76.0)**	**($105.0)**	**($166.0)**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Distributable Cash Flow										
Net Income before GP interests	$89.0	$300.0	-$194.0	-$1,605.0	-$1,410.0	$1,150.9	$1,735.8	$1,936.6	$1,956.5	$2,250.1
Depreciation	419.0	419.0	423.0	441.0	1,702.0	1,734.7	1,751.1	1,793.0	1,824.1	1,851.8
Other	192.0	62.0	639.0	1,996.0	2,889.0	320.0	320.0	320.0	320.0	320.0
Adjustment for maintenance capex	(54.0)	(80.0)	(114.0)	(114.0)	(362.0)	(379.2)	(370.2)	(391.3)	(382.4)	(405.7)
Distributable Cash Flow	$646.0	$701.0	$754.0	$718.0	$2,819.0	$2,826.4	$3,436.7	$3,658.2	$3,718.2	$4,016.1
Distributions Paid	$725.0	$725.5	$725.0	$726.1	$2,901.7	$2,504.9	$2,504.9	$2,563.6	$2,657.6	$2,751.6
Distribution/Unit	$0.850	$0.850	$0.850	$0.850	$3.400	$3.060	$3.060	$3.110	$3.190	$3.270
Distribution growth YoY	47.8%	42.9%	38.2%	33.9%	40.50%	-10.00%	0.00%	1.63%	2.57%	2.51%
Coverage	**0.89x**	**0.97x**	**1.05x**	**0.99x**	**0.98x**	**1.14x**	**1.38x**	**1.43x**	**1.40x**	**1.46x**

Source: Company data and UBSe

Figure 6: WMB Summary Model

WMB Model Summary ($ in millions)	1Q15	2Q15	3Q15	4Q15e	**2015e**	**2016e**	**2017e**	**2018e**	**2019e**	**2020e**
Operational Data										
Interstate Transmission										
Throughput (Tbtu)	1,208	968	982	979	4,136	4,221	4,765	4,885	5,008	5,135
Gathering & Processing										
Gathering volumes (Tbtu)	935	940	920	921	3,716	3,610	3,668	3,821	4,004	4,222
Plant Inlet Natural Gas Volumes (Tbtu)	364	364	367	357	1,452	1,418	1,443	1,432	1,422	1,414
NGL Equity Sales (Million gallons)	183	173	192	208	756	761	786	792	794	800
NGL Production (Million gallons)	517	567	608	570	2,262	2,257	2,284	2,300	2,303	2,318
Petrochemical Services										
Geismar Ethylene Sales Volumes (Million lbs)	2	213	404	447	1,066	1,788	1,788	1,788	1,788	1,788
Geismar Ethylene Margin ($/lb)	$0.28	$0.28	$0.17	$0.11	$0.21	$0.16	$0.30	$0.27	$0.27	$0.27
Canadian Propylene Sales Volumes (million lbs)	39	38	44	40	161	166	166	166	166	166
Canadian Alky Feedstock Sales Volumes (Million Gallo	7	6	6	7	26	28	28	28	28	28
Income Statement										
Revenue	**$1,716**	**$1,839**	**$1,799**	**$2,006**	**$7,360**	**$7,592**	**$8,346**	**$8,800**	**$9,056**	**$9,567**
Total Operating Expenses	1,489	1,447	1,443	2,755	7,134	6,030	6,059	6,259	6,538	6,869
Segment Profit	**$227.0**	**$392.0**	**$356.0**	**-$749.0**	**$226.0**	**$1,561.4**	**$2,286.8**	**$2,541.6**	**$2,517.4**	**$2,698.8**
Depreciation	427.0	428.0	432.0	451.0	1,738.0	1,834.7	1,861.1	1,903.0	1,934.1	1,961.8
Adj EBITDA	**$918.0**	**$1,010.0**	**$1,103.0**	**$1,065.0**	**$4,096.0**	**$4,226.2**	**$5,020.3**	**$5,384.0**	**$5,457.0**	**$5,737.8**
Equity Earnings	51.0	93.0	92.0	99.0	335.0	510.1	552.4	619.4	685.6	757.3
Interest Expense, net of amounts capitalized	(251.0)	(262.0)	(263.0)	(268.0)	(1,044.0)	(1,037.2)	(1,132.0)	(1,189.0)	(1,216.9)	(1,249.5)
Other	16.0	43.0	(423.0)	(827.0)	(1,191.0)	-	-	-	-	-
Provision for Income Taxes	(30.0)	(83.0)	65.0	438.0	390.0	(299.9)	(495.1)	(571.9)	(575.9)	(639.9)
Minority Interest	57.0	(69.0)	133.0	606.0	727.0	(71.7)	(92.6)	(92.6)	(92.6)	(92.6)
Adjusted Net Income from Continuing Ops	**$70.0**	**$114.0**	**-$40.0**	**-$701.0**	**-$557.0**	**$662.6**	**$1,119.5**	**$1,307.5**	**$1,317.4**	**$1,474.0**
EPS	**$0.09**	**$0.15**	**-$0.05**	**-$0.93**	**-$0.74**	**$0.88**	**$1.49**	**$1.74**	**$1.76**	**$1.97**
Shares Outstanding (mm)	752.0	752.8	749.8	749.9	751.1	749.9	749.9	749.9	749.9	749.9
Balance Sheet										
Assets										
Cash and cash equivalents	$341.0	$204.0	$125.0	$297.1	$297.1	$266.8	$286.4	$298.0	$293.6	$307.5
Property and Equipment	28,536.0	29,089.0	29,476.0	29,768.0	29,768.0	30,592.5	30,641.6	30,469.9	30,258.2	30,042.2
Total Assets	**$50,457.0**	**$51,163.0**	**$50,819.0**	**$51,695.4**	**$51,695.4**	**$52,338.3**	**$52,504.8**	**$52,402.9**	**$52,164.9**	**$52,032.1**
Liabilities and Partners' Capital										
Long Term Debt	$21,690.0	$21,285.0	$21,805.0	$22,708.3	$22,708.3	$24,996.9	$26,122.7	$26,775.4	$27,426.0	$28,087.2
Partners Capital	19,581.0	19,171.0	18,260.0	18,183.9	18,183.9	16,413.4	15,120.6	13,957.2	12,709.6	11,524.6
Liabilities and Partners' Capital	**$50,457.0**	**$51,163.0**	**$50,819.0**	**$51,695.4**	**$51,695.4**	**$52,338.3**	**$52,504.8**	**$52,402.9**	**$52,164.9**	**$52,032.1**
Cash Flow Statement										
Net cash from operating	$669.0	$814.0	$603.0	$588.9	$2,674.9	$2,845.2	$3,308.8	$3,653.9	$3,725.0	$3,850.1
Net cash from investing	(756.0)	(1,246.0)	(705.0)	(808.0)	(3,515.0)	(2,659.2)	(1,910.2)	(1,731.3)	(1,722.4)	(1,745.7)
Net cash from financing	188.0	295.0	23.0	391.2	897.2	(216.2)	(1,379.1)	(1,911.0)	(2,007.0)	(2,090.5)
Net change in cash	**$101.0**	**($137.0)**	**($79.0)**	**$172.1**	**$57.1**	**($30.3)**	**$19.6**	**$11.6**	**($4.4)**	**$13.9**
Distributable Cash Flow										
Distribution From WPZ	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Distribution From ACMP	515.0	513.0	513.0	513.0	2,054.0	1,828.6	1,749.7	1,777.6	1,851.8	1,926.1
Other	(20.0)	(72.0)	(74.0)	(77.0)	(243.0)	(274.7)	(265.0)	(252.1)	(276.8)	(355.0)
Distributable Cash Flow	**495.0**	**441.0**	**439.0**	**436.0**	**1811.0**	**1553.9**	**1484.7**	**1525.4**	**1575.0**	**1571.1**
Distributions Paid	$436.2	$444.1	$479.9	$479.9	$1,840.3	$1,603.0	$1,603.0	$1,603.0	$1,603.0	$1,603.0
Distribution/Unit	$0.580	$0.590	$0.640	$0.640	$2.450	$2.138	$2.138	$2.138	$2.138	$2.138
Distribution Growth YoY	44.1%	38.8%	14.3%	12.3%	25.2%	-12.8%	0.0%	0.0%	0.0%	0.0%
Coverage	**1.13x**	**0.99x**	**0.91x**	**0.91x**	**0.98x**	**0.97x**	**0.93x**	**0.95x**	**0.98x**	**0.98x**

Source: Company data and UBSe

Williams Cos Inc.

Forward Dividend Policy

Equities

Americas
Pipelines

12-month rating	Buy
12m price target	US$20.00
	Prior: US$26.00
Price	US$15.51

RIC: WMB.N BBG: WMB US

4Q15 Earnings CC – Discussion on Ratings and Distribution Policy

Ever since WPZ was put on negative watch/outlook by the agencies, investors have been laser focused on whether WPZ will fall into HY. The 4Q CC was no different with management highlighting a commitment to IG and pointed to asset sales as part of the strategy. However, management did acknowledge the distribution represents a sizable outflow of capital and supports our prior view that the WPZ distribution could very much be at risk. We would also not be surprised if the WMB payout could be curtailed as well.

It's about CHK – So Ring Fence CHK = 10% WPZ Dist. Cut

In our prior note "Increased Turbulence in the ETE, ETP, SXL and Sun Complex" we discussed the elevated risks of distribution cuts at WPZ and ETE (ETE has a merger agreement to acquire WPZ's GP WMB), we posited the view that WPZ would need to cut enough to ring fence the CHK exposure. Our est. is $2-$300mm of exposure; however, the agencies may be looking for more cushion and/or have a different view; hence, in the analysis in this note we elected to run a $400mm scenario and concluded WPZ would need to cut its distribution by 10%. A distribution cut would also help WPZ towards its goal of lowering leverage as we see 5 quarters into mid '17 where WPZ will be modestly above >5.0x.

What's the impact on WMB? 10% WPZ Cut May Result in 16.5% Dividend Cut

The flow through of a 10% distribution cut to the LP units owned by WMB combined with the reduced IDR's would likely result in a 16.5% cut to WMB's dividend (WMB has not formally declared a dividend yet but earnings slides imply a flat dividend when calcing the coverage ratio).

Valuation: Lowering PT

As a result of factoring in a 16.5% dividend cut at WMB we are lowering DDM-derived our price target to $20 from $26. We are maintaining our Buy rating.

Trading data and key metrics

52-wk range	US$60.86-11.16
Market cap.	US$11.6bn
Shares o/s	750m (COM)
Free float	99%
Avg. daily volume ('000)	4,238
Avg. daily value (m)	US$91.9
Common s/h equity (12/15E)	US$7.31bn
P/BV (12/15E)	1.6x
Net debt / EBITDA (12/15E)	6.0x

EPS (UBS, diluted) (US$)

	12/15E			
	From	To	% ch	Cons.
Q1	0.09	0.09	0	0.16
Q2	0.15	0.15	0	0.15
Q3	(0.05)	(0.05)	NM	0.22
Q4E	(0.93)	(0.93)	NM	0.01
12/15E	(0.74)	(0.74)	NM	0.54
12/16E	0.88	0.88	1	0.91
12/17E	1.47	1.49	2	1.48

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Highlights (US$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	7,486.00	6,860.00	7,637.00	7,360.00	7,591.58	8,345.62	8,800.21	9,055.80
EBIT (UBS)	1,997.00	1,573.00	1,842.00	2,358.00	2,391.46	3,159.23	3,481.02	3,522.91
Net earnings (UBS)	711.00	430.00	597.00	(557.00)	662.62	1,119.46	1,307.51	1,317.39
EPS (UBS, diluted) (US$)	1.14	0.63	0.82	(0.74)	0.88	1.49	1.74	1.76
DPS (US$)	1.20	1.44	1.96	2.45	2.14	2.14	2.14	2.14
Net (debt) / cash	(9,897.00)	(10,898.00)	(21,450.00)	(24,532.21)	(26,851.10)	(27,957.33)	(28,598.37)	(29,253.41)

Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
EBIT margin %	26.7	22.9	24.1	32.0	31.5	37.9	39.6	38.9
ROIC (EBIT) %	20.0	13.0	10.4	8.4	7.0	9.2	10.3	10.6
EV/EBITDA (core) x	8.0	11.6	10.5	6.3	6.7	6.0	5.8	5.7
P/E (UBS, diluted) x	27.6	56.6	59.4	(20.9)	17.6	10.4	8.9	8.8
Equity FCF (UBS) yield %	(5.5)	(6.7)	(10.6)	(14.8)	1.0	11.2	15.7	16.4
Net dividend yield %	3.8	4.1	4.0	15.8	13.8	13.8	13.8	13.8

Source: Company accounts, Thomson Reuters, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Valuations: based on an average share price that year, (E): based on a share price of US$15.51 on 19 Feb 2016 19:40 EST

Williams Partners LP
Forward Distribution Policy

Equities

Americas
Pipelines

12-month rating	**Buy**
12m price target	**US$29.00**
	Prior: US$31.00
Price	**US$18.07**

RIC: WPZ.N **BBG:** WPZ US

Trading data and key metrics

52-wk range	US$58.70-13.26
Market cap.	US$10.9bn
Shares o/s	601m (COM)
Free float	68%
Avg. daily volume ('000)	996
Avg. daily value (m)	US$20.7
Common s/h equity (12/15E)	US$26.3bn
P/BV (12/15E)	0.4x
Net debt / EBITDA (12/15E)	4.8x

EPS (UBS, diluted) (US$)

	12/15E			
	From	To	% ch	Cons.
Q1	(0.34)	(0.34)	NM	0.47
Q2	0.14	0.14	0	0.51
Q3	(0.32)	(0.32)	NM	0.52
Q4E	(2.62)	(2.62)	NM	0.58
12/15E	(3.21)	(3.21)	NM	2.06
12/16E	0.40	0.76	88	2.22
12/17E	1.36	1.75	28	2.55

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Adjusting Estimates

We are cutting our 2016E DPU by 10%. We are increasing our EPU estimates for 2016/2017/2018 to $0.76/$1.75/$2.04 from $0.40/$1.36/$1.62 due to lower interest expense and lower General Partner take due to distribution cut.

Valuation: Lowering PT

We think there is an increasing likelihood that WPZ would be required to cut its distribution if it is not able to delever via asset sales. Therefore, in order to satisfy the rating agencies, we expect WPZ will likely cut its distribution by 10%. As a result, the DDM implied valuation would fall to $30 from $33; on a P/LP DCF basis the valuation increases to $45 as the lower IDR take improves LP-DCF. The improved coverage would modestly lift EV/EBITDA. While WPZ trades at a steep discount to fair value, one could argue that a cut is priced in. However, its often not and there is risk that the agencies could require a steeper cut; hence, we lower our implied P/LP-DCF multiples and EV/EBITDA multiples by 15% to reflect the negative overhang often associated with a distribution cut and thus the P/LP DCF implied valuation would be $38 and the EV/EBITDA implied valuation would be $18 for a combined valuation of $29.

Highlights (US$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	608	1,073	1,379	7,331	7,532	8,175	8,526	8,750
EBIT (UBS)	246	462	846	2,387	2,467	3,157	3,396	3,417
Net earnings (UBS)	173	295	251	(1,819)	444	1,029	1,200	1,173
EPS (UBS, diluted) (US$)	1.16	1.49	1.21	(3.21)	0.76	1.75	2.04	2.00
DPS (US$)	1.71	2.04	2.42	3.40	3.06	3.06	3.11	3.19
Net (debt) / cash	(2,435)	(3,232)	(4,253)	(19,749)	(21,479)	(22,095)	(22,211)	(22,194)

Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
EBIT margin %	40.4	43.1	61.4	32.6	32.8	38.6	39.8	39.1
ROIC (EBIT) %	6.5	8.7	13.9	10.8	6.5	8.3	8.9	9.1
EV/EBITDA (core) x	13.5	12.1	11.7	3.6	5.5	5.0	4.8	4.7
P/E (UBS, diluted) x	25.8	30.2	49.5	(5.6)	23.9	10.3	8.8	9.0
Equity FCF (UBS) yield %	(0.7)	(6.0)	(2.2)	(17.7)	6.5	16.5	21.7	23.8
Net dividend yield %	5.7	4.5	4.0	18.8	16.9	16.9	17.2	17.7

Source: Company accounts, Thomson Reuters, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Valuations: based on an average share price that year, (E): based on a share price of US$18.07 on 19 Feb 2016 19:40 EST

Williams Cos Inc. Investment case

WMB is the General Partner and owner of 58% of WPZ. WPZ, a premier energy infrastructure player, is expanding its large-scale infrastructure business, which spans from the deepwater Gulf of Mexico to the Canadian oil sands. WPZ's operations include interstate gas pipelines and midstream services, deepwater production handling and oil transportation, NGL fractionation, storage and transportation, and olefin production in Canada and the US. We rate WMB Buy.

Williams Partners LP Investment case

With Geismar back online in 1H15, the Northeast G&P segment ramping up and new fee-based projects coming into service (e.g. Transco expansions), we believe WPZ is well positioned to grow distributions to unitholders long term. However, roughly 10% commodity exposure remains a risk, especially exposure to weak olefins prices. We like WPZ's diversified asset base and its valuation looks attractive when compared to peers. We rate it Buy.

Valuation Method and Risk Statement

Risks include, but are not limited to, the following: capital market's appetite for new debt and equity; dependence on a single key producer for the majority of its supply of natural gas; dependence on acquisitions for growth; third-party competition for organic growth projects or acquisitions; indirect commodity price exposure via lower natural gas and oil prices which could affect oil and natural gas exploration and production activity levels; unavailability of third-party pipelines and other facilities to transport natural gas; obtaining new supplies of natural gas; a decline in demand for natural gas; regulatory issues; increases in interest rates which could limit the ability to grow or cash available; and environmental or other operating risks.

Unitholders may be required to file taxes in states where the partnership conducts business and should consult a tax advisor for further counsel.

Our WMB price target is DDM-derived, while our WPZ price target is based on a mix of three valuations: a DDM, P/LP DCF multiple, and EV/EBITDA multiple.

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	48%	36%
Neutral	FSR is between -6% and 6% of the MRA.	39%	28%
Sell	FSR is > 6% below the MRA.	12%	22%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2015.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
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Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Williams Cos Inc.[3, 4, 5, 6, 16]	WMB.N	Buy	N/A	US$15.51	19 Feb 2016
Williams Partners LP[1, 5, 16]	WPZ.N	Buy	N/A	US$18.07	19 Feb 2016

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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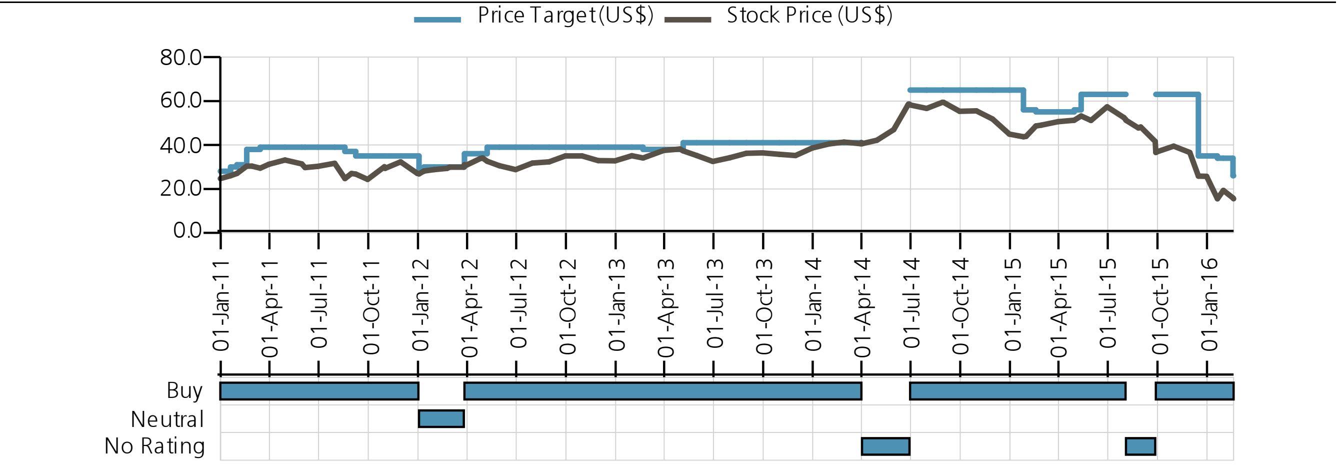
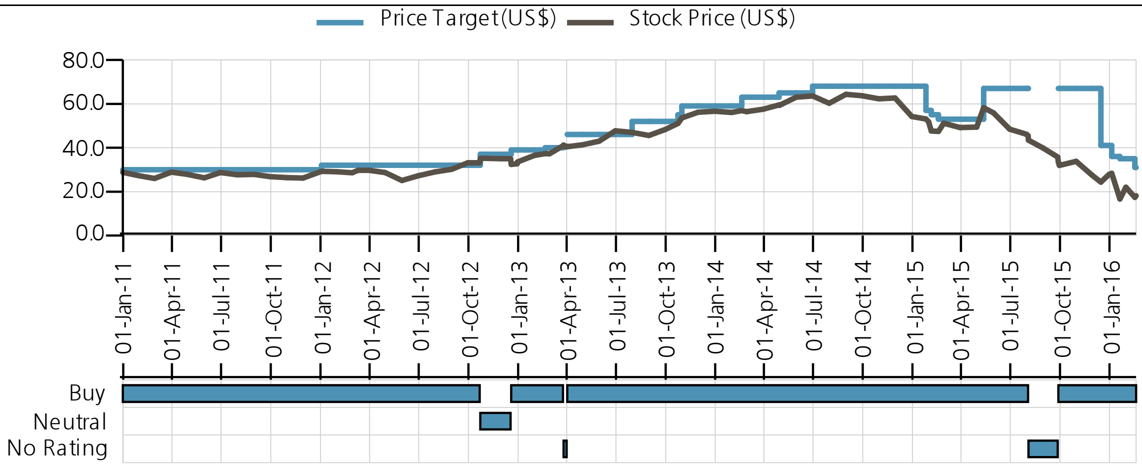
Williams Cos Inc. (US$)



Source: UBS; as of 19 Feb 2016

Williams Partners LP (US$)



Source: UBS; as of 19 Feb 2016

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