

John Stancavage: Stock analysts scrutinize Energy Transfer-Williams offer

BY JOHN STANCAVAGE World Business Columnist | Posted: Wednesday, June 24, 2015 12:00 am

Stock investors are wondering if Energy Transfer Equity's \$53 billion bid for Tulsa-based Williams Cos. will push the stock of the hometown pipeline business much higher or fizzle out.

Because Williams is "in play" now, in Wall Street lingo, other — and better — offers could be forthcoming.

"You can bet there are other companies, hedge funds and investors who are studying Williams right now to see if they think its assets are worth more than \$64 per share," said local money manager Fred Russell.

Williams, which employs more than 1,000 people in Tulsa, so far has given Energy Transfer the cold shoulder.

The next step could be that Dallas-based Energy Transfer will up its bid, maybe in just a week or two.

"This is a strategy right out of the standard acquisition playbook," said Keith Goddard, an investment analyst with Capital Advisors Inc. "You don't start with your best offer."

Coming back with a higher offer tightens the screws on the sought-after company's CEO to either take the money or prove to shareholders he can better the payout through significant growth.

If Energy Transfer ups its bid, then it would only lead to more scrutiny of the Tulsa company as a potential takeover target.

“Then, you’d really have a lot of investors in New York, Boston, Chicago and even Tulsa poring over Williams’ numbers to see if a separate counteroffer is warranted or if Energy Transfer is just smoking dope,” Russell said.

Williams stock shot up \$12.52 a share Monday to \$60.86, following the announcement of Energy Transfer’s bid late Sunday.

On Tuesday, Williams fell \$1.93 to \$58.93. Most analysts said the price drop was typical profit-taking, probably by investors who bought the shares \$20 cheaper.

Still, the fact that Williams is trading so high means Wall Street considers the Energy Transfer bid as one that stands a chance of being successful.

Russell, owner of Fredric E. Russell Investment Management, said hostile takeovers also sometimes evolve into battles that become more about ego than math.

“You might have one CEO who wants to top the other CEO, or boards that don’t like each other. We don’t know yet if one of those situations is the case with Williams and Energy Transfer, but it will be interesting to watch this deal play out.”

Russell said he is not recommending the stock of either Williams or Energy Transfer to clients right now.

Goddard said he favors holding Williams if an investor already owns it, but does not advise new purchases.

“The upside of buying it now probably doesn’t warrant the risk of the deal falling apart and the stock falling,” the Capital Advisors professional said.

Nationally, the offer caught the attention of Jim Cramer, the hyperactive host of CNBC’s “Mad Money” show and TheStreet.com analyst.

“This deal would create a pipeline colossus,” Cramer said. His Action Alerts Plus charitable trust portfolio owns Energy Transfer shares.

“The trust ... would be a huge winner if this deal gets done because it could have pricing power that it does not have now,” he said.

Separately, TheStreet’s ratings team rates Williams’ stock as a “buy,” and offered the following logic:

“This (deal) is driven by several positive factors, which we believe should have a greater impact than any weaknesses, and should give investors a better performance opportunity than most stocks we cover,” TheStreet’s researchers said.

“(Williams’) strengths can be seen in multiple areas, such as its good cash flow from operations, expanding profit margins and notable return on equity. We feel its strengths outweigh the fact that the company has had sub-par growth in net income.”

Russell said that if a bidding war breaks out, or if the boards of Energy Transfer and Williams get locked into a protracted battle of wills, the offer price easily could go to \$75 a share.

Putting aside the financial realities of the bid, both Russell and Goddard said they’d hate to see Williams lose its Tulsa headquarters.

“Williams has been a remarkable company and fine corporate citizen,” Goddard said. “Because of that, I hope it can find a way to continue here.”