

John Stancavage: Williams-ETE deal puzzles stockholders

By JOHN STANCAVAGE World Business Columnist | Posted: Wednesday, September 30, 2015 12:00 am

Thirty-six hours after Tulsa-based Williams Cos. announced plans for a \$37.7 billion merger with Energy Transfer Equity, the proposed deal seemed to disappoint some investors and puzzle many others.

The chilly reaction to the combination — Williams stock was down more than \$6.50 a share in two trading sessions — seems to center as much on the price of the deal as on its possible impact on Tulsa.

“I’ve never seen such a bad deal in my life,” said one investor who called the Tulsa World on Tuesday. “Back in June, ETE offered \$64 a share and Williams turned it down, saying it undervalued the company. So why now is it accepting an offer of half that?”

The initial offer was all stock. The new offer is for \$43.50 per share, with a one-time dividend of 10 cents per share paid just before the closure, which is expected midway through 2016.

Over the past few months, Williams tried — and apparently failed — to attract another suitor who would pay more.

Still, for a while, it appeared Williams management was striving to keep the company independent and headquartered in Tulsa, where it employs about 1,000 people and is one of the community’s strongest supporters.

Williams had made a plan to recombine with Williams Partners, but called that deal off and even agreed to pay WPZ a whopping \$428 million breakup fee with the ETE buyout.

These seemingly contradictory actions had numerous investors and even veteran financial professionals scratching their heads.

“It’s all very strange,” said Jake Dollarhide, CEO of Longbow Asset Management. “Typically, when you get a buyout, the firm being acquired quickly begins trading at almost exactly the deal price.

“But in this case, you have Williams trading at about a 20 percent discount. It’s hard to know exactly what to make of that.”

There could be several reasons for the stock to slump, he said.

One would be general burnout on energy stocks. With the outlook for oil prices lukewarm for a while, investors may feel there’s little reason to have their money in the industry.

A second reason could be that some investors are betting a better offer will emerge, either from ETE or someone else.

“I think there’s a chance ETE will have to come back and pay more, eventually,” Dollarhide said. “It’s also possible that someone like Kinder Morgan could come along with a superior deal — especially one that offered more cash.”

Fred Russell, head of Fredric E. Russell Investment Management, also said he thinks the deal could fall apart.

“ETE could rethink this offer and decide it’s not in its best interest,” Russell said. “Or they may take another look at the market and say it’s too volatile.”

The two Tulsa analysts joined some national financial observers who were similarly left searching for answers.

“Energy Transfer Equity won Williams, but shareholders lost,” Stone Fox Capital said in a note in the Seeking Alpha online newsletter.

Jay Hatfield, portfolio manager of the InfraCap MLP exchange-traded fund, also quoted in Seeking Alpha, called the deal “disappointing,” but said he’s not against it.

Analysts at Tudor Pickering Holt were among those declining to criticize the plan.

“We liked the deal as proposed three months ago, and still do,” they said in the Wall Street Journal.

Williams was pursued aggressively by Energy Transfer CEO Kelcy Warren, who founded the company in 1995. Warren, one analyst said, usually “gets what he wants.”

In this case, Warren took extraordinary steps to increase his chances of success with Williams.

One example is that ETE hired 10 banks to advise on its acquisition, mainly to corner the market on such expertise and keep others from using the institutions, according to an unnamed source cited by the Wall Street Journal.

The banks were Goldman Sachs Group Inc., Citigroup Inc., Bank of America Corp., Deutsche Bank AG, UBS Group AG, Credit Suisse Group AG, Morgan Stanley, JPMorgan Chase & Co., RBC Capital Markets LLC and Intrepid Partners.

The questions now include: Will the deal fall apart? Will shareholders reject it? Will another bidder swoop in?

“I’m not sure what will happen, but if I was an average investor, I’d be buying — not selling — Williams right now,” Russell said.

Dollarhide agreed. “It’s a dream price,” he said.



Williams

Williams Cos. stock price has dropped since the announcement that it was being bought by Energy Transfer Equity. Tulsa World file