

Chesapeake Energy(CHK)

\$14.98 (As of 05/01/20)

Price Target (6-12 Months): **\$16.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 01/17/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: B

Summary

Chesapeake's operations are expanded across leading oil and gas resources in the United States that comprise Powder River Basin, Mid-Continent areas, and shale plays like Eagle Ford, Marcellus and Haynesville. Moreover, the firm's plan to increase the proportion of oil in the production mix is likely to lower its exposure to commodity price volatility. Also, drilling and completion cost per lateral foot in Eagle Ford is the lowest for the company among most of its peers. However, as the company's majority of output consists of natural gas, low gas prices are affecting its results. The coronavirus pandemic has affected energy demand, which will hurt Chesapeake's profits. Notably, the company's balance sheet is significantly more levered than the industry it belongs to. As such, the stock warrants a cautious stance.

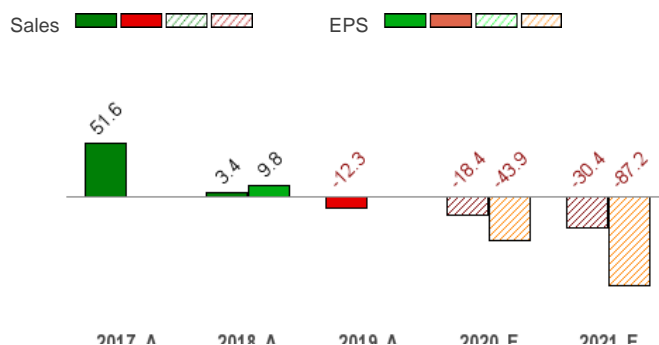
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$588.00 - \$12.30
20 Day Average Volume (sh)	2,883,613
Market Cap	\$146.4 M
YTD Price Change	-90.9%
Beta	1.90
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Oil and Gas - Exploration and Production - United States
Zacks Industry Rank	Top 47% (119 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	33.3%
Last Sales Surprise	-20.1%
EPS F1 Est- 4 week change	6.9%
Expected Report Date	05/13/2020
Earnings ESP	-10.8%

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	725 E	626 E	612 E	606 E	2,569 E
2020	1,060 E	914 E	836 E	883 E	3,691 E
2019	929 A	1,454 A	1,170 A	969 A	4,522 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$35.47 E	-\$42.04 E	-\$41.46 E	-\$37.83 E	-\$145.50 E
2020	-\$16.37 E	-\$21.64 E	-\$26.90 E	-\$21.57 E	-\$77.71 E
2019	\$28.00 A	-\$20.00 A	-\$22.00 A	-\$8.00 A	-\$54.00 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/01/2020. The reports text is as of 05/04/2020.

Overview

Headquartered in Oklahoma City, OK, Chesapeake Energy Corporation is primarily an oil, natural gas and NGL exploration and production company. The company conducts its upstream operations across diverse unconventional oil and gas producing assets in the United States. In these resources, Chesapeake Energy operates 13,900 wells, which contribute to oil and natural gas production volumes.

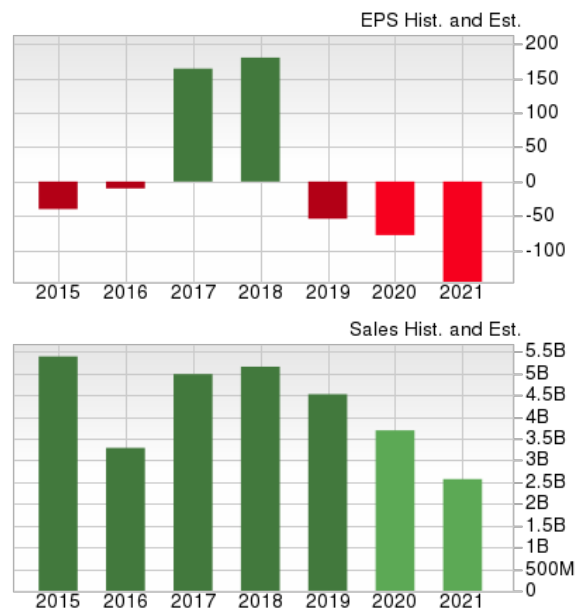
Specifically, the upstream energy firm — founded in 1989 — has a strong foothold in the liquid-rich Eagle Ford Shale. Chesapeake Energy also has significant access to the stacked pay in northwestern Oklahoma's Anadarko Basin and Wyoming's Powder River Basin. The company also has a strong foothold in shale plays like Marcellus in the northern Appalachian Basin and Haynesville in northwestern Louisiana, both rich in natural gas.

To focus on core resources, Chesapeake Energy is divesting resources that do not complement the company's business. Notable among the resources sold is the \$1.9-billion divestment of Utica Shale resources in Ohio during late-2018.

Through 2019, the company completed 370 wells in all key shale plays in the United States, helping the upstream firm produce 176.6 million oil equivalent volumes — comprising more than 70% natural gas. Notably, in the Eagle Ford alone, Chesapeake Energy drilled 162 gross wells. As of Dec 31, 2019, the company's proved reserves were reported at 1,572 MMBofE, up from 1,448 MMBofE as of Dec 31, 2018.

Overall, the company's business strategy is to create long-term value for shareholders from its huge inventory of drilling locations in key resources plays across the United States. To maximize returns from capital investments, the company has employed well-completion techniques along with drilling longer horizontal laterals. The company also conducted advanced well spacing analysis. Notably, the company is strongly focused on allocating capital to those projects that generate the healthiest returns.

Chesapeake Energy is also focused on maintaining a strong financial discipline by consistently putting efforts on reducing debt burden.



Reasons To Buy:

- ▲ Chesapeake's operations expand across leading oil and gas resources in the United States that comprise Powder River Basin, Mid-Continent areas along with shale plays like Eagle Ford, Marcellus and Haynesville. In the Eagle Ford, the company has successfully managed to place 141 wells on production through 2019.
- ▲ As compared to most of its peers, Chesapeake Energy has the longest laterals in the Eagle Ford. Also, drilling and completion cost per lateral foot in Eagle Ford is the lowest for Chesapeake Energy among most other players operating in the prolific play.
- ▲ The company has successfully managed to grow year-over-year oil production by 30% in 2019. Notably, the upstream firm has also recorded its highest adjusted EBITDAX per BoE since 2014 in 2019.

Chesapeake's operations expand across leading oil and gas resources in the United States

Reasons To Sell:

- ▼ The company's balance sheet is significantly more leveraged than most of the companies belonging to the industry. Notably, the firm's debt-to-capitalization stands at 67.3%, significantly higher than the industry's 34.6%. This also restricts its ability to gain capital from markets and reduces its credibility for shareholders.
 - ▼ The coronavirus pandemic has hurt the global energy demand. This led commodity price to continue to remain in the bearish territory, thereby hurting the company's upstream business.
 - ▼ The company is planning for 30% reduction in capital budget in 2020 since the business scenario is unfavourable. This is likely to hurt the company's production volumes.
-

The company's balance sheet is significantly more leveraged than most of the companies belonging to the industry.

Last Earnings Report

Chesapeake Q4 Earnings Beat Estimates, Revenues Miss

Chesapeake Energy Corporation reported fourth-quarter 2019 loss per share (excluding special items) of 4 cents, narrower than the Zacks Consensus Estimate of a loss of 6 cents. However, in the year-ago quarter, the company had reported a profit of 3 cents.

Operating revenues amounted to \$969 million, down from \$1,731 million in the year-ago quarter. Moreover, the top-line missed the Zacks Consensus Estimate of \$1,212 million.

The narrower-than-expected loss was a result of higher oil equivalent production. Lower price realizations of commodities partially offset the positive.

Operational Performance

Total Production Increases

Chesapeake's production in the reported quarter was approximately 44 million barrels of oil equivalent (MMBoe), up from 43 MMBoe a year ago. The total production comprised 12 million barrels (MMbbls) of oil (up 50% year over year), 178 billion cubic feet of natural gas (down 4%) and 3 MMbbls of natural gas liquids or NGLs (down 25%).

Price Realizations Plunge

Oil equivalent realized price — exclusive of gains (losses) on derivatives — was \$25.17 per barrel, down from \$29.64 a year ago. Oil price was \$57.48 per barrel, down from \$62.98 in the year-ago quarter. Moreover, natural gas prices declined to \$2.24 per thousand cubic feet from the year-ago level of \$3.59. Average sales price of NGLs was recorded at \$16.05 per barrel in the quarter compared with \$25.11 a year ago.

Operating Expenses

Total operating costs in the fourth quarter declined to \$2,099 million from \$2,375 million in the prior-year quarter. However, quarterly production expenses per Boe increased to \$2.86 from \$2.48 in the year-ago period.

Capital Expenditure

Total capital expenditure increased to \$487 million in the fourth quarter from \$476 million in the year-ago quarter, primarily due to a rise in drilling and completion capital spending.

Balance Sheet

At the end of the quarter under review, Chesapeake had a cash balance of \$6 million. Net long-term debt was \$9,073 million, leading to a debt-to-capitalization of 67.3%.

Guidance

Chesapeake expects oil equivalent production for 2020 in the range of 161 to 173 MMBoE. Notably, in 2020, the company is planning to invest capital in the range of \$1,325 to \$1,625 million.

Quarter Ending **12/2019**

Report Date	Feb 26, 2020
Sales Surprise	-20.08%
EPS Surprise	33.33%
Quarterly EPS	-8.00
Annual EPS (TTM)	-22.00

Recent News

Chesapeake Sees Biggest Selloff Following Reverse Stock Split – Apr 13, 2020

Chesapeake Energy Corporation performed a reverse stock split to boost share price but failed to arrest the decline in the stock.

Let's delve deeper to analyze this move, and get an unbiased view of the company's weaknesses as well as strengths.

Reverse Stock Split

The stock traded on NYSE below the \$1 per share level for a significant period time, which prompted the board of directors to approve a 1-for-200 reverse stock split. The move was expected to boost share price and comply with NYSE listing requirements, along with reduce the number of outstanding shares from 1.957 billion in Apr 10 to 9.784 million. While 200 pre-split shares were converted into one share, the fractional shares of investors were paid in cash. Following the reverse split action, the stock price multiplied 200 times and was adjusted to a closing price of \$26.00 on Apr 14, 2020.

Stock Plunges

The reverse stock split only validated investors' concerns and they continued abandoning the stock, resulting in nearly 38% decline of the share price to \$16.38 on Apr 15, 2020. This is the biggest one-day selloff witnessed by Chesapeake since February 1993, when it went public. The company is grappling with high debt burden and unfavorable business scenario.

Balance Sheet Weakness

The company's balance sheet is significantly more leveraged than most of the companies belonging to the industry. Notably, the firm's debt-to-capitalization stands at 67.3%, much higher than the industry's 34.6%. As of Dec 31, 2019, Chesapeake had a cash balance of only \$6 million and net long-term debt was \$9,073 million. This restricts its ability to gain capital from markets and reduces its credibility among shareholders.

Moreover, the company has more than \$300 million of debt maturing this year. Even though it had planned to divest \$300-\$500 million non-core assets to pay off the debt, the current weak oil and gas environment has slashed the asset values. This has made it tough for the company to reach the divestment target.

Unfavorable Business Scenario

The current market uncertainty, fuelled by low commodity prices and a massive supply glut, is affecting energy companies, especially those with huge upstream activities. Through 2019, Chesapeake produced 176.6 million oil equivalent volumes — comprising more than 70% natural gas. As oil and gas prices are expected to be in the bearish territory for now, owing to the coronavirus pandemic that has destroyed significant energy demand, Chesapeake's business will remain in the tight corner.

Despite these difficulties, the company's strengths should be taken into account by investors.

Chesapeake's operations are spread across leading oil and gas resources in the United States that comprise Powder River Basin, Mid-Continent areas, along with shale plays like Eagle Ford, Marcellus and Haynesville. Compared with most of its peers, Chesapeake has the longest laterals in the Eagle Ford. Also, drilling and completion cost per lateral foot in the Eagle Ford is the lowest for the company among most other players operating in the prolific play. As such, once the lockdowns are withdrawn and the economy comes back on track, the company's operations are likely to boost profit levels.

Valuation

Shares of Chesapeake Energy are down 90.5% and 97.2% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub industry and Zacks Oil-Energy sector are down 44.8% and 37.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 54.6% and 41.3%, respectively.

The S&P 500 index is down 9.6% in the year-to-date period and 0.4% in the past year.

The stock is currently trading at 0.05X forward 12-month sales, which compares to 1.35X for the Zacks sub-industry, 0.71X for the Zacks sector and 3.28X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.57X and as low as 0.04X, with a 5-year median of 0.82X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$16.00 price target reflects 0.05X F12M sales.

The table below shows summary valuation data for CHK.

Industry Analysis Zacks Industry Rank: Top 47% (119 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Antero Resources Corporation (AR)	Neutral	3
CNX Resources Corporation. (CNX)	Neutral	2
Cabot Oil & Gas Corporation (COG)	Neutral	3
EQT Corporation (EQT)	Neutral	3
Gulfport Energy Corporation (GPOR)	Neutral	3
QEP Resources, Inc. (QEP)	Neutral	3
Range Resources Corporation (RRC)	Neutral	3
Southwestern Energy Company (SWN)	Neutral	2

Industry Comparison Industry: Oil And Gas - Exploration And Production - United States				Industry Peers		
	CHK	X Industry	S&P 500	AR	COG	EQT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	D	D	D
Market Cap	146.44 M	70.14 M	20.61 B	751.49 M	8.06 B	3.67 B
# of Analysts	7	5	14	5	8	11
Dividend Yield	0.00%	0.00%	2.11%	0.00%	1.98%	0.84%
Value Score	A	-	-	A	D	C
Cash/Price	0.02	0.09	0.06	0.00	0.03	0.00
EV/EBITDA	4.78	3.51	11.87	9.16	6.99	44.92
PEG Ratio	NA	1.76	2.47	NA	NA	NA
Price/Book (P/B)	0.05	0.46	2.67	0.12	3.83	0.37
Price/Cash Flow (P/CF)	0.09	1.14	10.66	1.04	8.13	2.06
P/E (F1)	NA	10.15	19.01	NA	35.87	NA
Price/Sales (P/S)	0.02	0.61	2.10	0.16	4.45	0.83
Earnings Yield	-518.76%	-4.39%	5.05%	-13.21%	2.77%	-4.31%
Debt/Equity	3.28	0.57	0.72	0.91	0.53	0.54
Cash Flow (\$/share)	185.25	1.85	7.01	2.87	2.66	7.08
Growth Score	B	-	-	F	D	D
Hist. EPS Growth (3-5 yrs)	11.07%	11.07%	10.88%	-3.04%	48.22%	5.07%
Proj. EPS Growth (F1/F0)	-43.91%	-86.99%	-7.32%	-306.67%	-66.44%	-175.14%
Curr. Cash Flow Growth	-31.72%	-4.21%	5.92%	-28.33%	16.93%	-18.41%
Hist. Cash Flow Growth (3-5 yrs)	-14.96%	4.98%	8.55%	4.79%	1.06%	8.61%
Current Ratio	0.52	0.72	1.23	0.89	1.73	1.30
Debt/Capital	67.34%	39.65%	43.84%	47.64%	34.50%	34.99%
Net Margin	-3.61%	-3.91%	11.08%	-35.36%	26.07%	-27.66%
Return on Equity	-6.94%	2.11%	16.44%	-3.64%	18.56%	1.97%
Sales/Assets	0.52	0.27	0.54	0.29	0.40	0.22
Proj. Sales Growth (F1/F0)	-18.37%	-13.72%	-1.42%	-12.36%	-25.27%	-19.20%
Momentum Score	B	-	-	F	B	D
Daily Price Chg	-34.82%	0.00%	-2.39%	21.14%	4.09%	3.55%
1 Week Price Chg	176.40%	8.18%	-1.74%	63.04%	-2.48%	0.15%
4 Week Price Chg	-47.95%	30.43%	17.07%	322.28%	29.46%	84.92%
12 Week Price Chg	-83.89%	-37.38%	-18.53%	62.84%	46.38%	168.20%
52 Week Price Chg	-96.80%	-58.73%	-9.82%	-58.73%	-13.90%	-26.01%
20 Day Average Volume	2,883,613	313,704	2,641,413	14,702,445	7,070,796	10,194,819
(F1) EPS Est 1 week change	0.00%	-3.54%	0.00%	-54.08%	0.00%	-1.00%
(F1) EPS Est 4 week change	6.94%	-15.76%	-6.62%	-109.72%	1.15%	-2.28%
(F1) EPS Est 12 week change	-31.81%	-87.72%	-13.28%	-62.37%	-31.39%	-336.19%
(Q1) EPS Est Mthly Chg	-1.58%	-31.65%	-11.97%	-115.87%	89.09%	-19.72%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	B
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.