

Chesapeake Energy(CHK)

\$0.45 (As of 02/17/20)

Price Target (6-12 Months): **\$0.75**

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: C

Momentum: B

Summary

Chesapeake has operations 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. Impressively, it had managed to bring 13 wells online in the first three quarters of 2019, with peak daily production rate of 1000 barrels. Moreover, the company's plan of increasing the proportion of oil in the production mix is likely to lower its exposure to volatility in commodity prices. However, the company's balance sheet is significantly more leveraged than most of the companies in the industry. This restricts the company's ability to gain capital from markets. Moreover, rising production costs are hurting the upstream energy player. As such, the stock warrants a cautious stance.

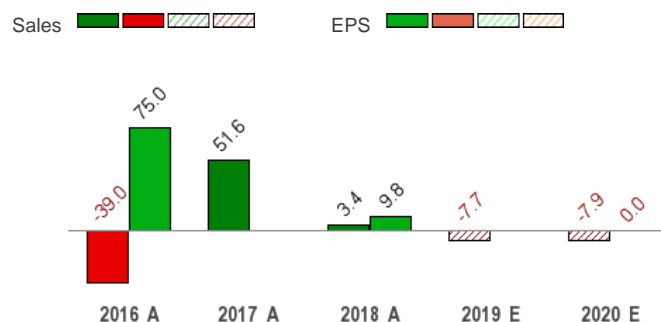
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$3.57 - \$0.45
20 Day Average Volume (sh)	63,526,264
Market Cap	\$879.4 M
YTD Price Change	-45.5%
Beta	2.47
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Oil and Gas - Exploration and Production - United States
Zacks Industry Rank	Bottom 39% (155 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-10.0%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	-8.9%
Expected Report Date	02/26/2020
Earnings ESP	-2.1%
P/E TTM	3.2
P/E F1	NA
PEG F1	NA
P/S TTM	0.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,183 E	1,089 E	1,061 E	1,051 E	4,384 E
2019	929 A	1,454 A	1,170 A	1,212 E	4,759 E
2018	1,243 A	982 A	1,199 A	1,731 A	5,155 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	-\$0.04 E	-\$0.06 E	-\$0.06 E	-\$0.05 E	-\$0.29 E
2019	\$0.14 A	-\$0.10 A	-\$0.11 A	-\$0.06 E	-\$0.29 E
2018	\$0.34 A	\$0.15 A	\$0.19 A	\$0.21 A	\$0.90 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 02/17/2020. The reports text is as of 02/18/2020.

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.

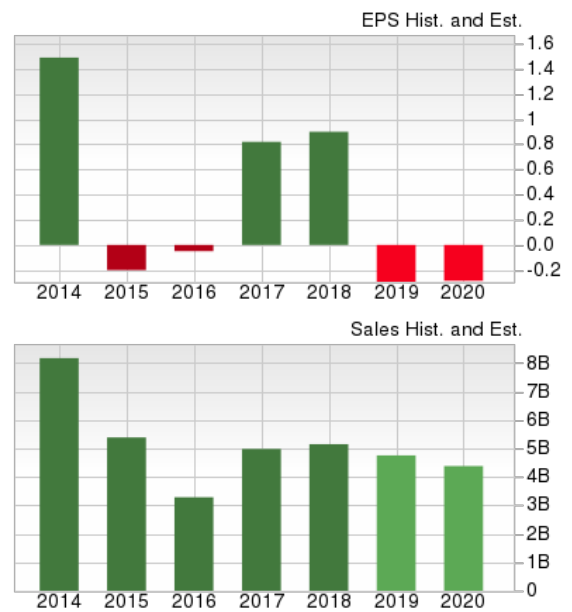
Specifically, the upstream energy firm — founded in 1989 — has a strong foothold in the liquid-rich Eagle Ford Shale. Chesapeake Energy also has significant access to the stacked pay in northwestern Oklahoma's Anadarko Basin and Wyoming's Powder River Basin. The company also has a strong foothold in 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 2018, the company drilled 377 gross wells in all key shale plays in the United States, helping the upstream firm produce 190 million oil equivalent volumes — comprising 72.6% natural gas. Notably, in the Eagle Ford alone, Chesapeake Energy drilled 162 gross wells. As of Dec 31, 2018, the company's proved reserves were reported at 1,448 MMBoE, down from 1,912 MMBoE as of Dec 31, 2017.

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. Notably, the company generated \$1.2 billion in revenues in 2018.

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. From all those resources, the company has successfully managed to bring 13 wells online in the first three quarters of 2019, with peak daily production rates of more than 1000 barrels. In 2018, only three wells of the company could achieve such a peak rate.
- ▲ The company has increased the proportion of oil in total production from 17% in third-quarter 2018 to 24% in third-quarter 2019. Moreover, it foresees the same to rise to 26% in the fourth quarter. This is expected to reduce commodity price risk and stabilize Chesapeake's earnings and cashflow. Notably, the company has projected a margin increase of 24% in 2019 as compared with 17% in 2018.
- ▲ 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 brought 13 wells online in the first three quarters of 2019, with a peak daily production rate of more than 1000 barrels per day.

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 ratio stands at 65.9%, significantly higher than the industry's 40.3%. This also restricts its ability to gain capital from markets and reduces its credibility for shareholders.
 - ▼ Through 2018, Chesapeake completed 351 gross wells compared to 401 in 2017. The company is not expecting the count of well completion in 2019 to reach the 2017 level. This might hurt its production growth potential. Moreover, the pricing scenario of both natural gas and oil is weak, which might hurt the company's bottom line. If the situation persists, it will have a baneful impact on the firm's business.
 - ▼ Production expenses per Boe surged to \$3.54 in third-quarter 2019 from \$2.68 in the year-ago period. Moreover, it expects production expense for 2019 in the range of \$3.20-\$3.40 per Boe, higher than the 2018 level of \$2.84. The rising costs are expected to hurt the company's profits in the coming quarters.
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Rising production expenses are hurting the firm's bottom line.

Last Earnings Report

Chesapeake's Q3 Earnings Miss Estimates, Decline Y/Y

Chesapeake reported third-quarter 2019 loss per share (excluding special items) of 11 cents, wider than the Zacks Consensus Estimate of a loss of 10 cents. The bottom line was also wider than the year-ago loss of a penny per share.

Operating revenues amounted to \$1,170 million, down from \$1,199 million in the year-ago quarter. However, the top line beat the Zacks Consensus Estimate of \$1,162 million.

The weak earnings stemmed from lower natural gas production volumes, decline in realized commodity prices and higher average production expenses. The negatives were partially offset by higher quarterly oil volumes and lower gathering, processing, and transportation expenses.

Operational Performance

Total Production Declines

Chesapeake's production in the reported quarter was approximately 44 million barrels of oil equivalent (MMBoe), down from 49.4 MMBoe a year ago. The total production comprised 10 million barrels (MMbbls) of oil (up 11.1% year over year), 183 billion cubic feet of natural gas (down 14.9%) and 3 MMbbls of natural gas liquids or NGLs (down 40%).

Importantly, daily oil production of 115 MBbl during the September quarter was higher than the year-ago level of 89 MBbl, supported by rising output from the Brazos Valley.

Price Realizations Plunge

Oil equivalent realized price — exclusive of gains (losses) on derivatives — was \$22.79 per barrel, decreasing from \$26.92 in the year-ago quarter. Oil price was \$58.18 per barrel, decreasing from \$72.39 in the year-ago quarter. Moreover, natural gas prices declined to \$1.93 per thousand cubic feet from the year-ago level of \$2.69. Average sales price of NGLs was recorded at \$12.44 per barrel in the quarter compared with \$29.09 a year ago.

Operating Expenses

Total operating costs in the third quarter declined to \$2,041 million from \$2,342 million in the prior-year period. However, quarterly production expenses per Boe increased to \$3.54 from \$2.68 in the year-ago period.

Capital Expenditure

Total capital expenditure increased to \$640 million in the third quarter from \$551 million in the year-ago period, primarily due to a rise in initial drilling and completion capital spending.

Balance Sheet

At the end of the quarter under review, Chesapeake had a cash balance of \$14 million. Net long-term debt was \$9,133 million, leading to a debt-to-capitalization ratio of 65.9%.

Guidance

The company reiterated its production guidance for 2019 in the range of 484,000-505,000 Boe per day. It expects production expense for 2019 in the range of \$3.20-\$3.40 per Boe.

Notably, the company maintained its total capital budget for 2019 at \$2,105-\$2,305 million.

For 2020, the company expects oil production to remain flat with 2019. It also plans to slash 2020 capital expenditure by 30%.

Quarter Ending **09/2019**

Report Date	Nov 05, 2019
Sales Surprise	0.06%
EPS Surprise	-10.00%
Quarterly EPS	-0.11
Annual EPS (TTM)	0.14

Recent News

Chesapeake Energy Announces Preliminary 4Q 2019 Updates – Jan 29, 2020

Chesapeake Energy estimates its fourth quarter production to be in the range of 476,000-478,000 barrels of oil equivalent per day. Crude oil output in the quarter is expected to be in the range of 125,000-126,000 barrels per day. Notably, the company's fourth quarter capital expenditures is expected within the range of \$480-\$490 million.

Chesapeake Jumps 16% on \$1.5B Term-Loan Facility Securement – Dec 4, 2019

Chesapeake Energy surged more than 16% on Dec 4, after the struggling upstream energy player announced the securement of debt financing to boost its financial flexibility.

Last month, the company warned investors in its 10-Q statement that it doubts its ability to continue as a going concern. Chesapeake added in the statement that it could be difficult to conform to the leverage ratio covenant in the coming 12 months if the pricing scenario of crude oil and natural gas continues to be unfavorable.

Investors cheered Chesapeake's recent debt financing initiatives owing to which the stock jumped roughly 32% from the 25-year low closing price of 56 cents on Nov 19.

Chesapeake announced the engagement of several banks, including JPMorgan Chase & Co, for arranging a \$1.5-billion term loan facility. Notably, the term of the secured first lien loan is 4.5 years. With the net proceeds, the company will be funding its tender offer for unsecured notes that was issued by its affiliates — Brazos Valley Longhorn LLC ("Brazos Valley") and Brazos Valley Longhorn Finance Corp. The proceeds will also be allocated for retiring the existing secured revolving credit facility of Brazos Valley.

With the transactions, Chesapeake believes it has strengthened its balance sheet considerably. Investors should also know that the rally in the natural gas explorer's stock price is likely to continue on rising gas demand for room heating purposes in the winter season.

Valuation

Shares of Chesapeake Energy are down 82.8% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are down 39.1% and 17.9%, respectively.

The S&P 500 index is up 21% in the past year.

The stock is currently trading at 0.20X forward 12-month sales, which compares to 2.22X for the Zacks sub-industry, 0.81X for the Zacks sector and 3.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.59X and as low as 0.20X, with a 5-year median of 0.85X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$0.75 price target reflects 0.33X F12M sales.

The table below shows summary valuation data for CHK.

Valuation Multiples - CHK					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.2	2.22	0.81	3.58
	5-Year High	2.59	3.8	1.45	3.58
	5-Year Low	0.2	1.84	0.67	2.54
	5-Year Median	0.85	2.74	0.99	3
EV/EBITDA TTM	Current	6.24	7.47	4.72	12.31
	5-Year High	70.86	17.26	10.26	12.85
	5-Year Low	NA	4.96	4.59	8.47
	5-Year Median	6.76	8.51	6.54	10.7
P/B TTM	Current	0.28	1.65	1.12	4.68
	5-Year High	4.19	3.45	1.6	4.68
	5-Year Low	NA	1.22	1.03	2.85
	5-Year Median	NA	2.18	1.31	3.62

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Bottom 39% (155 out of 255)



Top Peers

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

Industry Comparison Industry: Oil And Gas - Exploration And Production - United States				Industry Peers		
	CHK Neutral	X Industry	S&P 500	AR Neutral	COG Underperform	EQT Neutral
VGM Score	A	-	-	B	C	D
Market Cap	879.37 M	117.81 M	24.61 B	473.02 M	6.04 B	1.35 B
# of Analysts	9	4	13	6	9	9
Dividend Yield	0.00%	0.00%	1.78%	0.00%	2.70%	2.27%
Value Score	A	-	-	A	D	C
Cash/Price	0.01	0.06	0.04	0.00	0.01	0.01
EV/EBITDA	4.65	3.11	14.06	6.44	5.94	-6.35
PEG Ratio	NA	0.66	2.09	NA	NA	NA
Price/Book (P/B)	0.28	0.60	3.29	0.07	2.73	0.12
Price/Cash Flow (P/CF)	0.20	1.81	13.65	0.43	6.88	0.59
P/E (F1)	NA	8.64	19.21	NA	17.48	NA
Price/Sales (P/S)	0.09	0.79	2.70	0.11	2.60	0.29
Earnings Yield	-64.44%	6.81%	5.19%	-10.30%	5.74%	-3.40%
Debt/Equity	2.94	0.48	0.71	0.88	0.51	0.47
Cash Flow (\$/share)	2.26	1.85	6.92	3.85	2.15	8.92
Growth Score	C	-	-	F	B	D
Hist. EPS Growth (3-5 yrs)	0.42%	0.42%	10.85%	-6.43%	30.92%	1.38%
Proj. EPS Growth (F1/F0)	2.65%	11.41%	7.17%	-83.33%	-49.43%	-118.77%
Curr. Cash Flow Growth	10.52%	28.03%	8.56%	41.39%	16.48%	66.32%
Hist. Cash Flow Growth (3-5 yrs)	-12.65%	5.30%	8.36%	96.98%	0.12%	17.14%
Current Ratio	0.60	0.75	1.23	0.62	1.43	1.03
Debt/Capital	65.86%	36.94%	42.91%	46.71%	33.85%	32.11%
Net Margin	5.46%	12.41%	11.81%	-29.58%	34.86%	-14.66%
Return on Equity	9.01%	2.70%	16.86%	-1.42%	34.92%	3.81%
Sales/Assets	0.64	0.28	0.54	0.26	0.52	0.23
Proj. Sales Growth (F1/F0)	-7.88%	7.50%	3.85%	-5.26%	-21.05%	-11.87%
Momentum Score	B	-	-	A	D	F
Daily Price Chg	-8.22%	-0.16%	0.06%	-6.25%	-1.79%	-2.22%
1 Week Price Chg	0.06%	0.00%	2.47%	-5.41%	3.90%	-12.40%
4 Week Price Chg	-34.77%	-16.19%	0.59%	-34.26%	-14.80%	-38.13%
12 Week Price Chg	-22.16%	-6.08%	6.98%	-19.12%	-7.79%	-38.99%
52 Week Price Chg	-82.07%	-41.62%	16.62%	-81.81%	-40.13%	-70.93%
20 Day Average Volume	63,526,264	210,320	2,020,569	11,046,906	7,732,965	8,516,959
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	3.23%	1.08%	0.42%
(F1) EPS Est 4 week change	-8.90%	-8.17%	-0.05%	30.64%	-33.71%	-877.52%
(F1) EPS Est 12 week change	-9.83%	-2.75%	-0.17%	40.00%	-37.08%	-364.06%
(Q1) EPS Est Mthly Chg	-5.26%	-12.31%	-0.24%	28.57%	-51.35%	-52.09%

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	C
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.

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