

Chesapeake Energy(CHK)

\$0.19 (As of 03/20/20)

Price Target (6-12 Months): **\$0.25**

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:B

Value: A

Growth: B

Momentum: F

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. In the Eagle Ford, the company has successfully managed to place 141 wells on production through 2019. Moreover, the company expects to place an additional 110 to 120 wells on production in 2020 in the Eagle Ford shale play. Notably, the company recently reported narrower-than-expected loss in fourth-quarter 2019, thanks to higher oil equivalent production. Lower price realizations of commodities, however, partially offset the positive. Notably, weak crude pricing scenario, owing to coronavirus pandemic, will continue to hurt the company's upstream business. Moreover, the company's balance sheet is more levered than the industry.

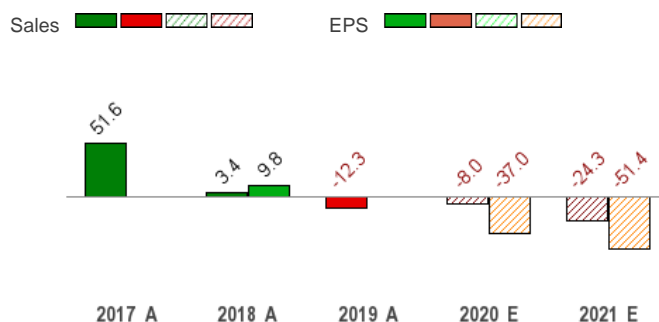
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$3.57 - \$0.12
20 Day Average Volume (sh)	157,339,536
Market Cap	\$371.0 M
YTD Price Change	-77.0%
Beta	2.85
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Oil and Gas - Exploration and Production - United States
Zacks Industry Rank	Bottom 33% (170 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	33.3%
Last Sales Surprise	-20.1%
EPS F1 Est- 4 week change	-29.6%
Expected Report Date	05/13/2020
Earnings ESP	-5.9%
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	838 E	761 E	768 E	781 E	3,148 E
2020	1,134 E	1,038 E	978 E	1,010 E	4,161 E
2019	929 A	1,454 A	1,170 A	969 A	4,522 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.14 E	-\$0.17 E	-\$0.16 E	-\$0.15 E	-\$0.56 E
2020	-\$0.08 E	-\$0.09 E	-\$0.11 E	-\$0.09 E	-\$0.37 E
2019	\$0.14 A	-\$0.10 A	-\$0.11 A	-\$0.04 A	-\$0.27 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 03/20/2020. The reports text is as of 03/23/2020.

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.

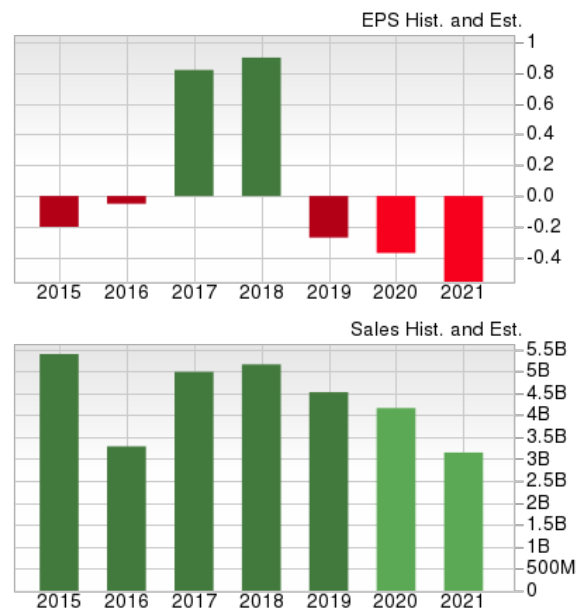
Specifically, the upstream energy firm — founded in 1989 — has a strong foothold in the liquid-rich Eagle Ford Shale. Chesapeake Energy also has significant access to the stacked pay in northwestern Oklahoma's Anadarko Basin and Wyoming's Powder River Basin. The company also has a strong foothold in 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. Moreover, the company expects to place an additional 110 to 120 wells on production in 2020 in the Eagle Ford shale play.
 - ▲ 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.
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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 ratio stands at 67.3%, significantly higher than the industry's 40.3%. 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 oil 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 favourable. This is likely to hurt the company's production volumes.
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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 ratio 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	-0.04
Annual EPS (TTM)	-0.11

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 \$0.25 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 03/20/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (170 out of 254)



Top Peers

Antero Resources Corporation (AR)	Outperform
CNX Resources Corporation. (CNX)	Neutral
Cabot Oil & Gas Corporation (COG)	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

Industry Comparison Industry: Oil And Gas - Exploration And Production - United States				Industry Peers		
	CHK Neutral	X Industry	S&P 500	AR Outperform	COG Neutral	EQT Neutral
VGM Score	B	-	-	D	F	F
Market Cap	370.98 M	46.98 M	15.82 B	271.80 M	5.95 B	1.90 B
# of Analysts	9	4.5	13	6	9	13
Dividend Yield	0.00%	0.00%	2.79%	0.00%	2.68%	1.61%
Value Score	A	-	-	A	D	C
Cash/Price	0.01	0.11	0.06	0.00	0.03	0.00
EV/EBITDA	4.86	2.79	9.77	8.49	5.03	35.82
PEG Ratio	NA	0.96	1.42	NA	NA	NA
Price/Book (P/B)	0.13	0.25	2.07	0.04	2.83	0.19
Price/Cash Flow (P/CF)	0.20	0.72	8.39	0.33	5.61	1.05
P/E (F1)	NA	4.70	12.42	NA	26.38	NA
Price/Sales (P/S)	0.04	0.32	1.68	0.06	2.88	0.43
Earnings Yield	-194.74%	3.45%	7.97%	-2.11%	3.82%	-4.97%
Debt/Equity	3.28	0.57	0.70	0.91	0.53	0.54
Cash Flow (\$/share)	0.93	1.73	7.01	2.87	2.66	7.08
Growth Score	B	-	-	F	C	D
Hist. EPS Growth (3-5 yrs)	11.07%	5.07%	10.85%	-3.04%	48.22%	5.07%
Proj. EPS Growth (F1/F0)	-37.04%	-36.44%	4.90%	83.33%	-66.34%	-144.39%
Curr. Cash Flow Growth	-31.72%	-0.17%	6.03%	-28.33%	16.93%	-18.41%
Hist. Cash Flow Growth (3-5 yrs)	-14.96%	5.10%	8.55%	4.79%	1.06%	8.61%
Current Ratio	0.52	0.73	1.23	0.89	1.73	1.30
Debt/Capital	67.34%	40.44%	42.57%	47.64%	34.50%	34.99%
Net Margin	-3.61%	-2.99%	11.57%	-29.58%	32.96%	-27.66%
Return on Equity	-6.94%	1.93%	16.74%	-1.47%	29.82%	1.97%
Sales/Assets	0.52	0.27	0.54	0.27	0.46	0.22
Proj. Sales Growth (F1/F0)	-7.99%	-3.57%	3.13%	-9.22%	-25.35%	-15.45%
Momentum Score	F	-	-	F	D	F
Daily Price Chg	-0.11%	0.00%	-4.39%	3.73%	-11.77%	-7.80%
1 Week Price Chg	38.19%	-21.29%	-11.01%	-8.70%	12.22%	49.14%
4 Week Price Chg	-60.34%	-46.01%	-36.57%	-48.47%	-2.80%	23.96%
12 Week Price Chg	-79.91%	-53.36%	-34.28%	-67.19%	-14.15%	-30.31%
52 Week Price Chg	-94.16%	-74.55%	-27.95%	-89.15%	-43.89%	-63.23%
20 Day Average Volume	157,339,536	337,161	3,981,936	18,658,180	16,972,072	15,086,930
(F1) EPS Est 1 week change	-8.82%	-9.79%	-0.01%	-12.68%	9.22%	-11.66%
(F1) EPS Est 4 week change	-29.57%	-33.91%	-0.85%	-86.05%	-33.91%	-102.97%
(F1) EPS Est 12 week change	-37.04%	-40.95%	-1.70%	53.76%	-57.63%	-673.16%
(Q1) EPS Est Mthly Chg	-92.86%	-39.34%	-0.88%	400.00%	-45.83%	-82.54%

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	F
VGM Score	B

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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