

Chesapeake Energy(CHK)

\$14.16 (As of 05/25/20)

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: F

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, its plan to increase the oil proportion in the production mix is likely to lower 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. Moreover, the firm beat earnings estimates in the first quarter. However, the bottom-line declined from a year-ago quarter profit of \$28 per share, owing to low oil and gas prices. Notably, as the company's majority of output consists of natural gas, low gas prices are affecting results. Also, the company's balance sheet weakness is concerning.

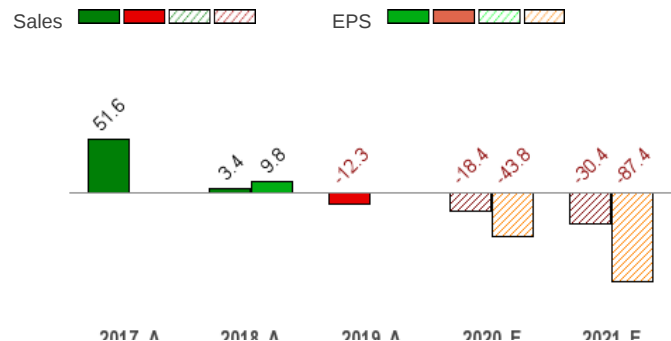
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$432.00 - \$7.77
20 Day Average Volume (sh)	2,903,203
Market Cap	\$134.1 M
YTD Price Change	-91.7%
Beta	1.89
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Oil and Gas - Exploration and Production - United States
Zacks Industry Rank	Top 16% (40 out of 248)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	190.5%
Last Sales Surprise	70.0%
EPS F1 Est- 4 week change	-3.2%
Expected Report Date	NA
Earnings ESP	-11.8%
P/E TTM	0.9
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	1,801 A	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	-\$36.59 E	-\$43.81 E	-\$43.25 E	-\$39.69 E	-\$145.50 E
2020	\$14.87 A	-\$23.62 E	-\$28.55 E	-\$23.09 E	-\$77.66 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 05/25/2020. The reports text is as of 05/26/2020.

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.

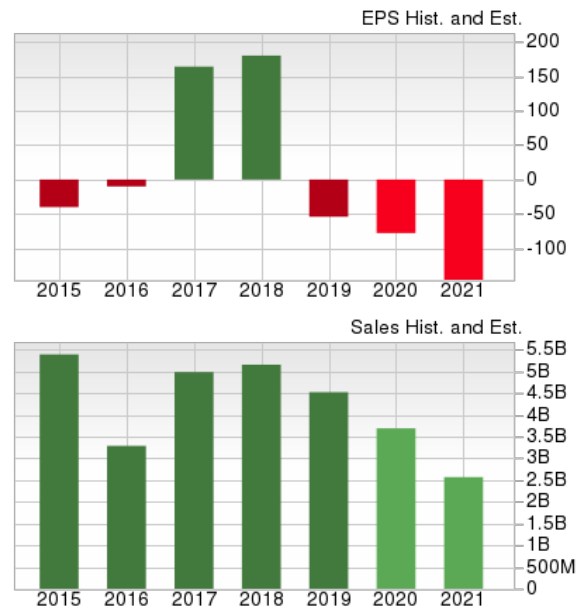
Specifically, the upstream energy firm — founded in 1989 — has a strong foothold in the liquid-rich Eagle Ford Shale. Chesapeake Energy also has significant access to the stacked pay in northwestern Oklahoma's Anadarko Basin and Wyoming's Powder River Basin. The company also has a strong foothold in 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 MMBöE, up from 1,448 MMBöE 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:

- ▼ At the end of the quarter under review, Chesapeake had a cash balance of \$82 million. Net long-term debt was \$9,163 million. Net current maturities of long-term debt were \$420 million, much higher than its cash balance. Notably, \$250 million of senior notes are due in 2020 and \$294 million in 2021. Moreover, the company's ability to clear debt is questionable since the upstream energy player's times interest earned ratio of 0.02 is significantly lower than the industry's 0.8.
- ▼ 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 decreased 2020 capital expenditure expectation to the band of \$1-\$1.2 billion, which indicates a decrease from the 2019 level of \$2.2 billion. This is likely to hurt the company's production volumes. Notably, the capital spending will be primarily focused on the company's gas assets. This might raise questions on its Eagle Ford oil asset acquisition from WildHorse.

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

Last Earnings Report

Chesapeake Q1 Earnings & Revenues Beat Estimates

Chesapeake Energy reported first-quarter 2020 earnings of \$14.87 per share, against the Zacks Consensus Estimate of loss of \$16.43. However, the bottom-line declined from a year-ago quarter profit of \$28 per share, owing to low oil and gas prices.

Total revenues amounted to \$1,801 million, up from \$929 million in the year-ago quarter. The top line also beat the Zacks Consensus Estimate of \$1,060 million.

The company is not being able to access financing. It is currently considering a bankruptcy court restructuring of its massive \$9,163-million debt, if crude prices don't improve significantly and stay in the bearish territory. Coronavirus-induced lockdowns that destroyed energy demand is responsible for the current crude pricing scenario. The stock declined 12.2% yesterday, following the news. Its balance sheet details are discussed below.

Quarter Ending **03/2020**

Report Date	May 11, 2020
Sales Surprise	69.97%
EPS Surprise	190.51%
Quarterly EPS	14.87
Annual EPS (TTM)	-35.13

Operational Performance

Total Production Decreases

Chesapeake's production in the reported quarter was approximately 479 thousand barrels of oil equivalent per day (MBoe/d), down from 484 MBoe/d a year ago, primarily due to lower production from Haynesville assets.

Total production comprised 126 thousand barrels of oil per day (Mbbls/d), up from the year-ago level of 109 Mbbls/d on the back of Brazos Valley output. Total natural gas production in the quarter was 1,898 million cubic feet per day (MMcf/d), lower than 2,023 MMcf/d in the year-ago period. Natural gas liquids (NGLs) production came in at 37 Mbbls/d in the first quarter, declining from 39 Mbbls/d in the year-ago period.

Price Realizations Plunge

Oil equivalent average sales price was \$20.53 per barrel, down from \$28.22 a year ago.

Oil price was \$46.93 per barrel, down from \$57.80 in the year-ago quarter. Moreover, natural gas prices declined to \$1.86 per thousand cubic feet from the year-ago level of \$3.27. Average sales price of NGLs was recorded at \$10.71 per barrel in the quarter compared with \$20.03 a year ago.

Marketing Operations

On the marketing front, the company recorded revenues of \$724 million, lower than the year-ago figure of \$1,233 million. Marketing expenses in the first quarter were \$746 million, lower than the year-ago level of \$1,230 million. The year-over-year decline stemmed from lower oil, natural gas and NGL prices from marketing operations.

Operating Expenses

Total operating costs in the first quarter surged to \$10,768 million from \$2,378 million in the prior-year period, primarily due to higher impairment charges. Rising exploration costs also resulted in higher expenses.

Cash Flow

Net cash provided by operating activities in the first quarter was recorded at \$397 million, down from the year-ago level of \$456 million.

Balance Sheet

At the end of the quarter under review, Chesapeake had a cash balance of \$82 million. Net long-term debt was \$9,163 million. Net current maturities of long-term debt were \$420 million, much higher than its cash balance. Notably, \$250 million of senior notes are due in 2020 and \$294 million in 2021. Moreover, the company's ability to clear debt is questionable since the upstream energy player's times interest earned ratio of 0.02 is significantly lower than the industry's 0.8.

Importantly, it had \$1.9 billion outstanding borrowings under the \$3-billion credit revolving facility at quarter-end.

Guidance

The company decreased 2020 capital expenditure expectation to the band of \$1-\$1.2 billion, which indicates a decrease from the 2019 level of \$2.2 billion. For the remainder of the year, its capital expenditures will likely be in the range of \$500-\$700 million. This will be primarily focused on the company's gas assets.

Due to current market uncertainty, it has withdrawn financial outlook, which was provided last February.

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.

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 91.7% and 96.6% 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 45.3% and 38.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 51.7% and 39.6%, respectively.

The S&P 500 index is down 8.1% in the year-to-date period, but up 4.5% in the past year.

The stock is currently trading at 0.04X forward 12-month sales, which compares to 1.45X for the Zacks sub-industry, 0.72X for the Zacks sector and 3.33X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.31X and as low as 0.03X, with a 5-year median of 0.81X. 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.

Valuation Multiples - CHK					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.04	1.45	0.72	3.33
	5-Year High	2.31	3.85	1.46	3.44
	5-Year Low	0.03	0.8	0.58	2.53
	5-Year Median	0.81	2.56	0.99	3.01
EV/EBITDA TTM	Current	4.25	4.46	3.94	10.93
	5-Year High	70.86	15.92	10.43	12.86
	5-Year Low	NA	3.02	3.02	8.26
	5-Year Median	6.22	6.53	6.5	10.79
P/B TTM	Current	NA	0.85	0.85	4.04
	5-Year High	6.42	2.8	1.54	4.56
	5-Year Low	NA	0.39	0.51	2.83
	5-Year Median	NA	1.77	1.32	3.65

As of 05/22/2020

Industry Analysis Zacks Industry Rank: Top 16% (40 out of 248)



Top Peers

Company (Ticker)	Rec	Rank
Cabot OilGas Corporation (COG)	Outperform	2
Antero Resources Corporation (AR)	Neutral	3
CNX Resources Corporation. (CNX)	Neutral	2
EQT Corporation (EQT)	Neutral	2
Gulfport Energy Corporation (GPOR)	Neutral	2
QEP Resources, Inc. (QEP)	Neutral	3
Range Resources Corporation (RRC)	Neutral	2
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	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	2
VGM Score	A	-	-	C	C	B
Market Cap	134.13 M	58.11 M	20.16 B	864.22 M	7.53 B	3.51 B
# of Analysts	7	5	14	6	7	9
Dividend Yield	0.00%	0.00%	2.11%	0.00%	2.12%	0.87%
Value Score	A	-	-	A	B	A
Cash/Price	0.78	0.11	0.07	0.00	0.03	0.01
EV/EBITDA	4.77	3.58	12.07	9.10	6.13	42.49
PEG Ratio	NA	1.59	2.72	NA	NA	NA
Price/Book (P/B)	NA	0.71	2.77	0.13	3.47	0.36
Price/Cash Flow (P/CF)	0.07	1.30	10.95	1.12	7.11	1.94
P/E (F1)	NA	8.66	20.22	NA	26.20	NA
Price/Sales (P/S)	0.02	0.60	2.12	0.18	4.16	0.80
Earnings Yield	-566.45%	-3.20%	4.71%	-17.70%	3.81%	-3.20%
Debt/Equity	-1.65	0.53	0.76	0.94	0.48	0.52
Cash Flow (\$/share)	185.25	2.06	6.96	2.87	2.66	7.08
Growth Score	B	-	-	D	D	D
Hist. EPS Growth (3-5 yrs)	25.75%	25.71%	10.87%	1.43%	63.83%	-0.98%
Proj. EPS Growth (F1/F0)	-43.81%	-85.29%	-10.31%	-537.03%	-57.06%	-152.61%
Curr. Cash Flow Growth	-31.72%	-3.29%	5.46%	-28.33%	16.93%	-18.41%
Hist. Cash Flow Growth (3-5 yrs)	-14.96%	4.14%	8.55%	4.79%	1.06%	8.61%
Current Ratio	0.80	1.06	1.29	1.15	1.40	1.32
Debt/Capital	67.34%	40.46%	44.54%	48.58%	32.53%	34.26%
Net Margin	-96.80%	-13.45%	10.54%	-35.36%	26.07%	-36.06%
Return on Equity	-30.44%	3.13%	16.27%	-3.77%	18.70%	0.35%
Sales/Assets	0.62	0.29	0.54	0.30	0.40	0.22
Proj. Sales Growth (F1/F0)	-18.37%	-11.89%	-2.49%	-10.18%	-25.23%	-18.67%
Momentum Score	F	-	-	F	A	A
Daily Price Chg	-3.18%	0.00%	0.12%	3.54%	1.45%	4.33%
1 Week Price Chg	-26.60%	-7.66%	-4.56%	-20.13%	-11.02%	-8.93%
4 Week Price Chg	-50.13%	3.78%	5.28%	47.71%	-5.69%	9.92%
12 Week Price Chg	-73.65%	-23.38%	-8.60%	135.04%	39.90%	155.39%
52 Week Price Chg	-96.67%	-56.95%	-6.15%	-53.27%	-26.20%	-29.79%
20 Day Average Volume	2,903,203	278,334	2,645,192	12,318,746	5,914,371	7,831,412
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	7.09%
(F1) EPS Est 4 week change	-3.16%	-0.87%	-3.80%	-120.41%	30.23%	23.93%
(F1) EPS Est 12 week change	-35.97%	-87.60%	-16.57%	-1,450.00%	-5.73%	-140.54%
(Q1) EPS Est Mthly Chg	-16.27%	-1.64%	-7.64%	-30.00%	42.31%	9.68%

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	F
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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