

EQT Corporation (EQT)

\$15.69 (As of 08/03/20)

Price Target (6-12 Months): **\$17.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/08/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: B

Summary

EQT Corporation is a pure-play Appalachian explorer that produces the largest volume of natural gas in the United States. The company is well placed to capitalize on mounting clean energy demand in the domestic market. Notably, its core resources in the Appalachian Basin comprises a huge inventory of drilling locations that will enable the company to generate significant gas volumes over the years. Importantly, the company lowered the 2020 Capex guidance, without reducing production expectations, reflecting operational efficiency. However, the weak gas pricing scenario has been hurting EQT Corporation's bottom line. Notably, it reported weaker-than-expected second-quarter earnings on the back of lower natural gas production volumes. Moreover, the company's balance sheet weakness is concerning. As such, the stock warrants a cautious stance.

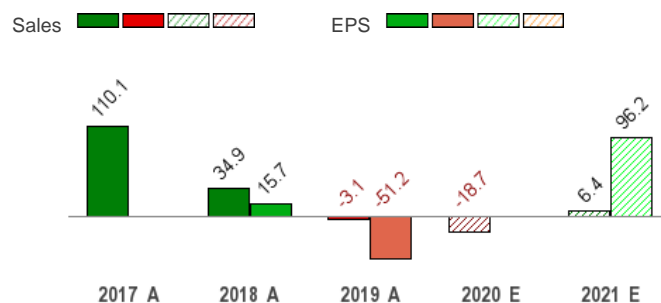
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$17.16 - \$4.21
20 Day Average Volume (sh)	4,710,475
Market Cap	\$4.0 B
YTD Price Change	43.9%
Beta	1.39
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Oil and Gas - Exploration and Production - United States
Zacks Industry Rank	Top 48% (123 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-20.0%
Last Sales Surprise	1.7%
EPS F1 Est- 4 week change	-43.4%
Expected Report Date	10/29/2020
Earnings ESP	-0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,013 E	900 E	922 E	984 E	3,820 E
2020	1,107 A	816 A	875 E	933 E	3,591 E
2019	1,143 A	1,310 A	952 A	1,011 A	4,416 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.25 E	-\$0.16 E	-\$0.14 E	\$0.04 E	-\$0.01 E
2020	\$0.14 A	-\$0.18 A	-\$0.19 E	-\$0.03 E	-\$0.26 E
2019	\$0.83 A	\$0.09 A	-\$0.06 A	-\$0.03 A	\$0.83 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 08/03/2020. The reports text is as of 08/04/2020.

Overview

Based in Pittsburgh, PA, EQT Corporation is primarily an explorer and producer of natural gas, with primary focus on the Appalachian Basin in Ohio, Pennsylvania and West Virginia. The basin has been a major contributor to natural gas production growth in the United States. Notably, in terms of average daily sales volumes, EQT Corp is the largest natural gas producer in the domestic market.

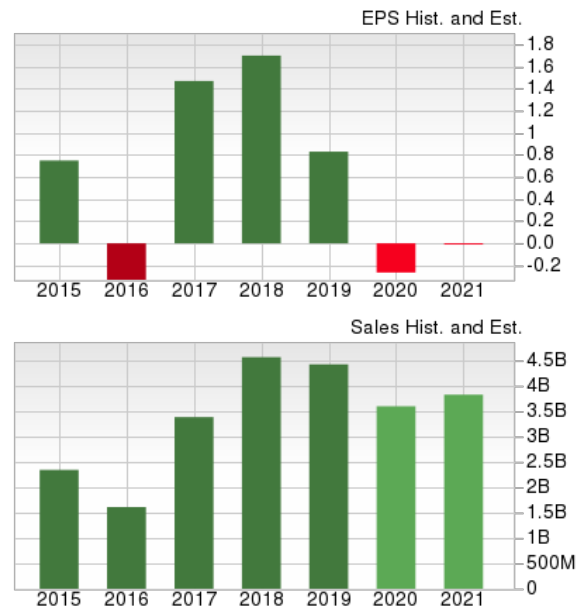
The upstream energy payer's operations in the basin spreads across 1.4 million gross acres, with proved oil and gas reserve potential of 21.8 trillion cubic feet equivalent (Tcfe). Importantly, the company's core resources in the Appalachian Basin comprises huge inventory of drilling locations that will fetch the company with oil and gas volumes over the next 15 to 20 years.

Investors should know that through 2019, the company has decided to spud 112 net wells. This comprises wells in the Marcellus shale play in Pennsylvania, West Virginia and Ohio that is likely to back the company's incremental production volumes in the years to come.

EQT Corp has set its strategic priorities to lower operating costs while maximizing production volumes. The company's priorities also involve maximizing returns from capital investments and increasing shareholders' returns while maintaining a strong balance sheet. It is to be noted that EQT Corp is the only company in the Appalachian Basin that is considered investment grade.

EQT Corp is also committed toward divesting non-core acres that don't complement the company's business. In 2018, the company divested non-core properties in the Permian Basin for a consideration of \$56.9 million. EQT Corp also divested 2.5 million of net acres in the Huron play as the company considered those assets as non-core.

At the end of 2019, the company had proved developed reserves of 12.4 trillion cubic feet equivalent, 7.7% higher than the 2018 level. Of the total, 84.5% was located in the Marcellus region. Through 2019, the company produced 1,507,896 million cubic feet equivalent of natural gas. Of the total volumes, natural gas comprises more than 95%.



Reasons To Buy:

- ▲ EQT Corporation is a pure-play Appalachian explorer which is one of the largest natural gas producers in the United States. For operating in the prolific gas basin, the company employs advanced technologies like horizontal drilling. With huge production volumes of natural gas, the company is well placed to capitalize on the mounting demand for clean energy in the United States.
- ▲ The company has a huge inventory of drilling locations in the core Appalachian Basin that could provide significant production volumes. Importantly, in the core Marcellus resource, the company has 1,565 net undeveloped locations. The company also has 120 net undeveloped locations in the core Utica shale play. These undeveloped sites have brightened up the prospects of EQT Corporation's future natural gas production.
- ▲ The leading upstream energy player expects to keep its 2020 production guidance of 1,450–1,500 Bcfe intact despite considerably lowering capital budgets. It expects capital expenditure in the band of \$1.075-1.175 billion for the year, implying a decrease from \$1.77 billion in 2019. Keeping production guidance intact while the capital budget is set to decrease reflects rising capital efficiency in the company's operations. Notably, EQT Corporation anticipates total sales volume in the 360-380 Bcfe range for third-quarter 2020.

The company is expected to gain from its premium asset base in core Marcellus resources.

Reasons To Sell:

- ▼ The pricing scenario of natural gas has declined significantly over the past year. Being a leading natural gas producer, the weak commodity price is hurting the company's business. Given the current market uncertainty, things are not expected to improve anytime soon.
- ▼ As of Jun 30, 2020, the company had only \$3 million in cash and cash equivalents, down from the first-quarter level of \$18.7 million. Total debt was recorded much high at \$4,620.3 million. Also, the company's ability to pay off a portion of total long-term debt is in question since there has been a prolonged weakness in global energy demand without possibilities of recovery anytime soon.
- ▼ The company's lack of geographic diversification is concerning, since its entire asset base is located in the Appalachian Basin. As such, it is more vulnerable to basin-specific delays and interruptions in production from wells, which can potentially hamper growth. Also, the company anticipates adjusted operating cash flow in the range of \$1.35-\$1.45 billion for 2020, suggesting a fall from \$1.83 billion in 2019.

Weak gas pricing scenario has been hurting the company's bottom line.

Last Earnings Report

EQT Corp. Misses Q2 Earnings on Lower Natural Gas Prices

EQT Corporation reported second-quarter 2020 adjusted loss from continuing operations of 18 cents per share, wider than the Zacks Consensus Estimate of a loss of 15 cents. In the year-ago period, the company reported adjusted profit of 9 cents per share.

Adjusted operating revenues declined to \$816.2 million from \$958.4 million in the prior-year quarter. However, the top line beat the Zacks Consensus Estimate of \$810 million.

The weaker-than-expected earnings were due to a year-over-year decrease in natural gas equivalent production volumes and lower commodity price realizations, partially offset by low per unit operating expenses.

Operations:

Total Production Decreases

Sales volume decreased to 345.6 billion cubic feet equivalent (Bcfe) of natural gas from the year-ago figure of 370.1 Bcfe. Natural gas sales volume was 325.2 Bcf for the second quarter, down from 351.2 Bcf a year ago. Total liquids sales volume for the quarter was recorded at 1,762 thousand barrels (MBbls), lower than the year-ago period's 1,867 MBbls.

Price Realization Decreases

Average realized price was \$2.36 per thousand cubic feet of natural gas equivalent (Mcf), down from \$2.59 in the year-ago quarter. Natural gas price was recorded at \$1.80 per Mcf, lower than the year-ago level of \$2.76. Oil price was recorded at \$10.17 per barrel, significantly down from \$48.78 in second-quarter 2019. Moreover, ethane sales price was recorded at \$3.38 per barrel for the second quarter, lower than the year-ago level of \$6.54.

Expenses

Total operating expenses were \$1.42 per Mcfe for second-quarter 2020, down from \$1.52 in the prior-year quarter.

Processing expenses were 10 cents per Mcfe, up by a penny from the year-ago period. Gathering expenses rose to 73 cents per Mcfe from 69 cents in second-quarter 2019. Lease operating expenses were 7 cents for the quarter, up from 5 cents in the year-ago period. However, transmission costs decreased to 35 cents per Mcfe from the year-ago level of 40 cents.

Overall, total operating expenses amounted to \$914 million, down from \$1,014.2 million in second-quarter 2019 due to lower SG&A, as well as transportation and processing costs.

Wells Drilled

The company spud 26 net wells in the second quarter. Of the total, 21 wells were drilled in PA Marcellus, with the average lateral length being 12,980 feet; three in WV Marcellus, with average lateral length of 13,360 feet; and two in OH Utica, with average lateral length of 12,150 feet.

Cash Flows

EQT Corp.'s adjusted operating cash flow was \$220.7 million for the quarter, down from \$385.7 million a year ago.

Capex & Balance Sheet

Total capital expenditure amounted to \$302.7 million for the second quarter, down from \$466.4 million in the year-ago period.

As of Jun 30, 2020, the company had \$3 million in cash and cash equivalents, down from the first-quarter level of \$18.7 million. Total debt of \$4,620.3 million declined from the first-quarter level of \$5,036.9 million.

Guidance

In 2020, EQT Corp. expects to drill net 69 wells in the PA Marcellus, 24 in WV Marcellus and three in OH Utica. The company anticipates total sales volume in the 360-380 Bcfe range for third-quarter 2020. For full-year 2020, it expects total sales volume within 1,450-1,500 Bcfe, indicating a decline from the 2019 level of 1,507 Bcfe. The company curtailed production in the second quarter in response to demand destruction caused by coronavirus-induced lockdowns. It is expected to restore production in the third quarter.

Total unit costs for 2020 are expected in the range of \$1.32-\$1.44 per Mcfe. The metric was recorded at \$1.44 per Mcfe in 2019.

The company anticipates adjusted operating cash flow in the range of \$1.35-\$1.45 billion for 2020, suggesting fall from \$1.83 billion in 2019. It expects capital expenditure in the band of \$1.075-1.175 billion for the year, implying a decrease from \$1.77 billion in 2019. As such, free cash flow will likely be recorded within \$250-\$350 million this year.

Quarter Ending 06/2020

Report Date	Jul 27, 2020
Sales Surprise	1.68%
EPS Surprise	-20.00%
Quarterly EPS	-0.18
Annual EPS (TTM)	-0.13

Valuation

EQT Corporation shares are up 43.9% in the year-to-date period and 20.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oils-Energy sector are down 42% and 37.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 37.3% and 34%, respectively.

The S&P 500 index is up 2.3% in the year-to-date period, and 16.2% in the past year.

The stock is currently trading at 1.08X forward 12-month sales, which compares to 1.46X for the Zacks sub-industry, 0.69X for the Zacks sector and 3.60X for the S&P 500 index.

Over the past five years, the stock has traded as high as 6.42X and as low as 0.34X, with a 5-year median of 2.60X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$17 price target reflects 1.17X F12M sales.

The table below shows summary valuation data for EQT.

Valuation Multiples - EQT					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	1.08	1.46	0.69	3.6
	5-Year High	6.42	3.86	1.46	3.6
	5-Year Low	0.34	0.84	0.59	2.53
	5-Year Median	2.6	2.49	0.99	3.04
EV/EBITDA TTM	Current	5.53	4.56	3.96	12.76
	5-Year High	83.32	15.97	10.42	12.85
	5-Year Low	3.05	3	3.04	8.24
	5-Year Median	11.7	6.51	6.46	10.89
P/B TTM	Current	0.42	0.96	0.88	4.5
	5-Year High	1.57	2.78	1.54	4.56
	5-Year Low	0.13	0.4	0.52	2.83
	5-Year Median	0.87	1.77	1.31	3.72

As of 08/03/2020

Industry Analysis Zacks Industry Rank: Top 48% (123 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
California Resources Corporation (CRC)	Outperform	NA
Concho Resources Inc. (CXO)	Outperform	1
Noble Energy Inc. (NBL)	Outperform	2
Antero Resources Corporation (AR)	Neutral	3
Continental Resources, Inc. (CLR)	Neutral	3
Murphy Oil Corporation (MUR)	Neutral	3
Range Resources Corporation (RRC)	Neutral	3
Southwestern Energy Company (SWN)	Neutral	3

Industry Comparison Industry: Oil And Gas - Exploration And Production - United States

Industry Peers

	EQT	X Industry	S&P 500	AR	CLR	CXO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	4	-	-	3	3	1
VGM Score	B	-	-	B	C	A
Market Cap	4.01 B	70.39 M	22.67 B	913.07 M	6.44 B	9.98 B
# of Analysts	11	5	13.5	5	10	10
Dividend Yield	0.00%	0.00%	1.77%	0.00%	0.00%	1.58%
Value Score	A	-	-	A	B	B
Cash/Price	0.00	0.09	0.07	0.00	0.08	0.03
EV/EBITDA	42.98	3.47	13.08	8.68	3.63	8.66
PEG Ratio	NA	1.68	2.94	NA	NA	1.15
Price/Book (P/B)	0.42	0.75	3.10	0.14	0.96	1.26
Price/Cash Flow (P/CF)	2.22	1.21	12.34	1.18	2.29	3.57
P/E (F1)	NA	7.97	21.71	NA	NA	13.66
Price/Sales (P/S)	1.11	0.62	2.46	0.24	1.92	2.66
Earnings Yield	-1.66%	-0.37%	4.38%	-9.12%	-7.20%	7.31%
Debt/Equity	0.49	0.53	0.75	0.91	0.88	0.50
Cash Flow (\$/share)	7.08	1.99	6.94	2.87	7.70	14.21
Growth Score	D	-	-	D	D	B
Hist. EPS Growth (3-5 yrs)	8.55%	25.75%	10.46%	6.52%	26.23%	49.74%
Proj. EPS Growth (F1/F0)	-131.87%	-81.99%	-7.08%	-244.44%	-156.22%	21.74%
Curr. Cash Flow Growth	-18.41%	-7.83%	5.47%	-28.33%	-2.29%	25.86%
Hist. Cash Flow Growth (3-5 yrs)	8.61%	3.16%	8.55%	4.79%	1.61%	14.95%
Current Ratio	0.99	0.99	1.32	0.97	1.20	1.80
Debt/Capital	32.79%	41.57%	44.21%	47.64%	46.76%	33.32%
Net Margin	-54.71%	-24.97%	10.25%	-55.84%	-2.17%	-256.19%
Return on Equity	-0.31%	2.75%	14.72%	-4.51%	1.72%	5.27%
Sales/Assets	0.19	0.29	0.52	0.26	0.21	0.19
Proj. Sales Growth (F1/F0)	-18.68%	-12.48%	-1.79%	-11.47%	-50.26%	-20.62%
Momentum Score	B	-	-	D	A	A
Daily Price Chg	8.06%	0.00%	0.27%	14.86%	2.02%	-3.43%
1 Week Price Chg	2.47%	-2.96%	0.14%	2.07%	0.41%	-1.72%
4 Week Price Chg	15.37%	-1.50%	2.96%	14.86%	2.80%	-2.05%
12 Week Price Chg	19.13%	5.13%	10.90%	7.94%	26.00%	-10.07%
52 Week Price Chg	20.05%	-44.34%	2.35%	-22.55%	-44.07%	-27.75%
20 Day Average Volume	4,710,475	327,823	2,043,624	8,765,298	3,656,537	1,949,968
(F1) EPS Est 1 week change	19.17%	0.00%	0.00%	0.00%	0.00%	63.21%
(F1) EPS Est 4 week change	-43.43%	4.89%	0.82%	-33.33%	10.79%	48.06%
(F1) EPS Est 12 week change	47.35%	24.59%	0.59%	21.76%	3.70%	105.26%
(Q1) EPS Est Mthly Chg	-28.25%	16.64%	0.25%	-51.11%	22.49%	75.41%

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	D
Momentum Score	B
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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