

EQT Corporation (EQT)

\$8.84 (As of 01/10/20)

Price Target (6-12 Months): **\$12.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/08/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: D

Summary

EQT Corporation is a pure-play Appalachian explorer that produces the largest volume of natural gas in the United States. Given its capacity to produce huge volumes of natural gas, it is well placed to capitalize on mounting clean energy demand in the domestic market. Notably, its core resources in the Appalachian Basin comprises huge inventory of drilling locations that will enable the company to generate significant gas volumes over the years. However, weak gas pricing scenario has been hurting the company's bottom line. EQT Corporation has also been paying lower dividend than the oil-energy sector over the past few years. Notably, the stock plunged 57.2% in the past year, underperforming the Zacks U.S. Exploration and Production industry's decline of 25.2%. As such, the stock warrants a cautious stance.

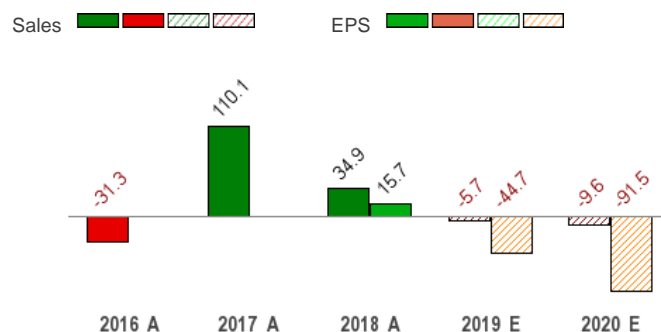
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$21.86 - \$8.34
20 Day Average Volume (sh)	5,813,499
Market Cap	\$2.3 B
YTD Price Change	-18.9%
Beta	0.62
Dividend / Div Yld	\$0.12 / 1.4%
Industry	Oil and Gas - Exploration and Production - United States
Zacks Industry Rank	Top 36% (91 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	64.7%
Last Sales Surprise	7.6%
EPS F1 Est- 4 week change	-34.7%
Expected Report Date	02/13/2020
Earnings ESP	0.0%
P/E TTM	5.4
P/E F1	110.5
PEG F1	11.1
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,048 E	919 E	934 E	976 E	3,883 E
2019	1,143 A	1,310 A	952 A	962 E	4,297 E
2018	1,434 A	1,055 A	1,159 A	1,245 A	4,558 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.24 E	-\$0.09 E	-\$0.09 E	\$0.03 E	\$0.08 E
2019	\$0.83 A	\$0.09 A	-\$0.06 A	\$0.11 E	\$0.94 E
2018	\$1.01 A	\$0.44 A	\$0.35 A	\$0.79 A	\$1.70 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 01/10/2020. The reports text is as of 01/13/2020.

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.

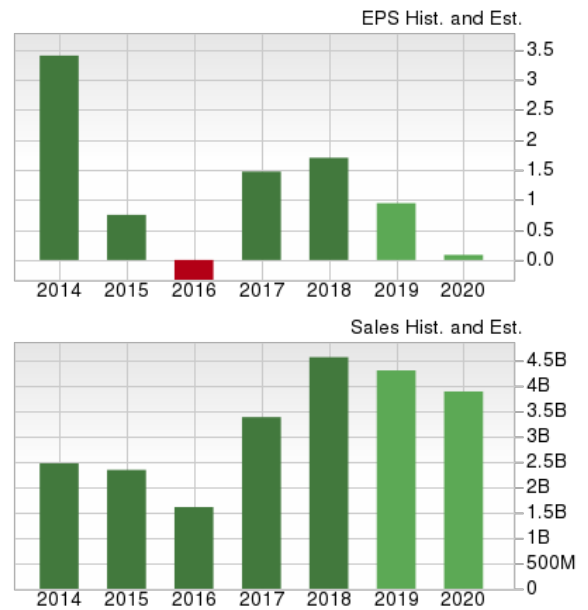
The upstream energy payer's operations in the basin spreads across 1.4 million gross acres, with proved oil and gas reserve potential of 21.8 trillion cubic feet equivalent (Tcfe). Importantly, the company's core resources in the Appalachian Basin comprises huge inventory of drilling locations that will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

As of Dec 31, 2018, the company had 1 million net Marcellus Acres with nearly 14,500 gross productive wells. At the end of 2018, the company had proved developed reserves of 11.6 trillion cubic feet equivalent, 21% higher than 2017 level. Through 2018, the company produced 1,487,689 million cubic feet equivalent of natural gas. Of the total volumes, natural gas comprises 93.2%.



Reasons To Buy:

- ▲ EQT Corporation is a pure-play Appalachian explorer which produces the largest volume of natural gas 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. Notably, the leading upstream energy player expects to keep 2019 and 2020 production volumes almost flat despite considerably lowering capital budgets for the respective years.
- ▲ Being a leading natural gas producer, EQT Corporation is well placed to play the crucial role of lowering global greenhouse gas emissions. Moreover, the company is strongly committed to maintain investment grade credit profile and has decided to lower debt level 30% by mid-2020.

The company expects its premium asset base to contribute nearly \$3 billion to adjusted free cash flow over the next five years.

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. Moreover, the U.S. Energy Information Administration expects Henry Hub natural gas price in 2020 to average \$2.45/MMBtu, declining 14 cents from 2019 average. This will further affect the company's bottom line.
- ▼ The company has been persistently paying lower dividend yield than the oil-energy sector over the past few years. While the company has a dividend yield of 1.4%, the sector averaged 4.6%.
- ▼ 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.

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

Last Earnings Report

EQT Corporation Q3 Earnings & Revenues Beat Estimates

EQT Corporation reported third-quarter 2019 adjusted loss from continuing operations of 6 cents per share, narrower than the Zacks Consensus Estimate of a loss of 17 cents. However, in the year-ago comparable period, the company reported adjusted profit of 16 cents per share.

Total operating revenues declined to \$951.6 million from \$1,050.1 million in the prior-year quarter. However, the top line beat the Zacks Consensus Estimate of \$884 million.

The better-than-expected results were supported by a year-over-year increase in natural gas equivalent production level, partially offset by lower average price realization of commodity, and higher gathering and transmission expenses.

Production and Price Realization

Sales volume rose to 380.8 billion cubic feet equivalent (Bcfe) of natural gas from the year-ago figure of 374.2 Bcfe. Average realized price of natural gas equivalents was \$2.47 per thousand cubic feet, down 10.5% from \$2.76 in the year-ago quarter.

Expenses

Total selected operating expenses were \$1.47 per unit in third-quarter 2019, up from \$1.39 in the prior-year quarter.

Notably, processing expenses were 8 cents per thousand cubic feet equivalent (Mcf) compared with 10 cents in the third quarter of 2018. However, gathering expenses rose to 55 cents per Mcf from 53 cents in the year-ago period. Transmission costs increased to 52 cents per Mcf from the year-ago level of 49 cents.

Wells Drilled

The company spud 28 net wells in the third quarter. Of the total, 20 wells were drilled in the PA Marcellus, the average lateral length being 12,200 feet; and eight were drilled in the OH Utica, the average lateral length being 10,400 feet.

Cash Flows

EQT Corp's adjusted operating cash flow was \$296.1 million in the quarter, down from \$554.7 million a year ago.

Capex & Balance Sheet

Total capital expenditure amounted to \$474.6 million in the third quarter, down from \$854.3 million in the year-ago period.

As of Sep 30, 2019, the company had \$7.5 million in cash and cash equivalents, and \$5.2 billion of net debt.

Guidance

In fourth-quarter 2019, the company expects to drill net 23 wells in the PA Marcellus.

The company anticipates total sales volume of 355-375 Bcfe for the December-end quarter of 2019. For 2019, it expects total sales volume of 1,490-1,510 Bcfe.

The company anticipates adjusted operating cash flow of \$1.77-\$1.82 billion for 2019. It expects capital expenditure of \$1.74-1.79 billion for the year, considerably lower than \$1.83-\$1.93 billion guided earlier. The mid-point of the latest guided 2019 capital spending reflects a year-over-year plunge of 35%.

For 2020, the leading upstream energy player expects total sales volume of 1,450-1,500 Bcfe, almost in line with the guidance for 2019. Importantly, the company anticipates capital spending of \$1.3-\$1.4 billion for 2020, suggesting a significant reduction from its projected 2019 spending.

EQT Corp expects to lower debt by 30% by the middle of 2020, reflecting the upstream firm's focus on maintaining strong balance sheet.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	7.55%
EPS Surprise	64.71%
Quarterly EPS	-0.06
Annual EPS (TTM)	1.65

Valuation

EQT Corporation shares are down 57.2% over the trailing 12-month period. Over the past year, the Zacks sub-industry is up 4.5%, but the sector is down 0.3%.

The S&P 500 index is up 28.3% in the past year.

The stock is currently trading at 0.58X forward 12-month sales, which compares to 2.66X for the Zacks sub-industry, 0.89X for the Zacks sector and 3.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 6.42X and as low as 0.55X, with a 5-year median of 3.16X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$12 price target reflects 0.79X 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	0.58	2.66	0.89	3.5
	5-Year High	6.42	3.8	1.44	3.5
	5-Year Low	0.55	1.84	0.67	2.54
	5-Year Median	3.11	2.74	0.99	3
EV/EBITDA TTM	Current	3	8.43	5.06	12.12
	5-Year High	82	17.27	10.22	12.86
	5-Year Low	2.99	4.96	4.56	8.48
	5-Year Median	11.67	8.39	6.49	10.67
P/B TTM	Current	0.21	1.96	1.23	4.46
	5-Year High	1.98	3.45	1.59	4.47
	5-Year Low	0.2	1.22	1.02	2.85
	5-Year Median	1.09	2.18	1.31	3.61

As of 01/10/2020

Industry Analysis Zacks Industry Rank: Top 36% (91 out of 254)



Top Peers

Antero Resources Corporation (AR)	Neutral
California Resources Corporation (CRC)	Neutral
Concho Resources Inc. (CXO)	Neutral
Murphy Oil Corporation (MUR)	Neutral
Noble Energy Inc. (NBL)	Neutral
Range Resources Corporation (RRC)	Neutral
Southwestern Energy Company (SWN)	Neutral
Continental Resources, Inc. (CLR)	Underperform

Industry Comparison Industry: Oil And Gas - Exploration And Production - United States				Industry Peers		
	EQT Neutral	X Industry	S&P 500	AR Neutral	CLR Underperform	CXO Neutral
VGM Score	D	-	-	B	B	D
Market Cap	2.26 B	172.91 M	24.03 B	721.12 M	12.38 B	17.91 B
# of Analysts	12	5	13	5	11	9
Dividend Yield	1.36%	0.00%	1.78%	0.00%	0.60%	0.56%
Value Score	C	-	-	A	B	C
Cash/Price	0.00	0.04	0.04	0.00	0.00	0.00
EV/EBITDA	-7.24	3.52	14.04	6.67	5.20	4.93
PEG Ratio	10.96	0.84	2.02	NA	1.82	NA
Price/Book (P/B)	0.21	0.73	3.32	0.10	1.79	0.97
Price/Cash Flow (P/CF)	0.99	2.31	13.52	0.62	4.29	7.87
P/E (F1)	109.63	10.02	18.82	NA	15.56	22.12
Price/Sales (P/S)	0.49	0.99	2.63	0.16	2.70	4.06
Earnings Yield	0.90%	7.03%	5.31%	-13.50%	6.42%	4.52%
Debt/Equity	0.47	0.51	0.72	0.88	0.81	0.23
Cash Flow (\$/share)	8.92	1.85	6.94	3.85	7.78	11.32
Growth Score	D	-	-	F	C	D
Hist. EPS Growth (3-5 yrs)	1.38%	0.57%	10.56%	-6.43%	0.72%	22.81%
Proj. EPS Growth (F1/F0)	-91.15%	13.82%	7.49%	34.16%	-2.45%	45.04%
Curr. Cash Flow Growth	66.32%	31.40%	14.83%	41.39%	57.14%	55.80%
Hist. Cash Flow Growth (3-5 yrs)	17.14%	5.41%	9.00%	96.98%	8.43%	14.99%
Current Ratio	1.03	0.74	1.23	0.62	0.89	1.51
Debt/Capital	32.11%	36.94%	42.99%	46.71%	44.63%	19.02%
Net Margin	-14.66%	14.03%	11.08%	-20.96%	17.00%	28.98%
Return on Equity	3.81%	3.23%	17.16%	0.32%	12.49%	3.24%
Sales/Assets	0.23	0.28	0.55	0.27	0.29	0.17
Proj. Sales Growth (F1/F0)	-9.63%	5.91%	4.20%	-0.55%	3.75%	8.75%
Momentum Score	D	-	-	A	C	D
Daily Price Chg	-1.89%	-0.71%	-0.33%	-1.25%	-1.97%	-1.41%
1 Week Price Chg	-1.05%	2.64%	-0.30%	-0.74%	4.12%	5.66%
4 Week Price Chg	-6.55%	3.44%	1.71%	-18.84%	-2.83%	11.46%
12 Week Price Chg	-11.16%	2.69%	6.05%	-15.36%	17.85%	41.08%
52 Week Price Chg	-55.33%	-36.60%	22.39%	-77.77%	-29.17%	-27.18%
20 Day Average Volume	5,813,499	265,622	1,580,816	8,933,892	1,660,139	1,455,679
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.71%	-0.36%
(F1) EPS Est 4 week change	-34.71%	0.00%	0.00%	0.00%	4.20%	0.54%
(F1) EPS Est 12 week change	-67.55%	-18.67%	-0.50%	2.02%	-21.79%	-18.01%
(Q1) EPS Est Mthly Chg	-11.74%	0.00%	0.00%	0.00%	4.54%	1.29%

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	C
Growth Score	D
Momentum Score	D
VGM Score	D

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.