

Cheniere Energy Inc. (LNG)

\$59.24 (As of 01/31/20)

Price Target (6-12 Months): **\$63.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 10/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: D

Momentum: F

Summary

Cheniere Energy, with its first-mover advantage in exporting liquefied natural gas from the United States, is primed for significant revenue and earnings growth on the back of solid operations and long-term contracts. The firm's gas supply deals for its Sabine Pass and Corpus Christi projects offers excellent cash flow visibility in the coming years. Boosting investors' confidence, Cheniere Energy maintained its EBITDA and cash flow outlook despite incurring a loss in the third quarter. However, setting up natural gas liquefaction plants is a costly affair that requires massive capital spending. This has translated into a huge debt burden of \$30.8 billion for the company, thereby deteriorating its leverage and credit metrics. As such, with limited upside, Cheniere Energy stock warrants a cautious stance from the investors.

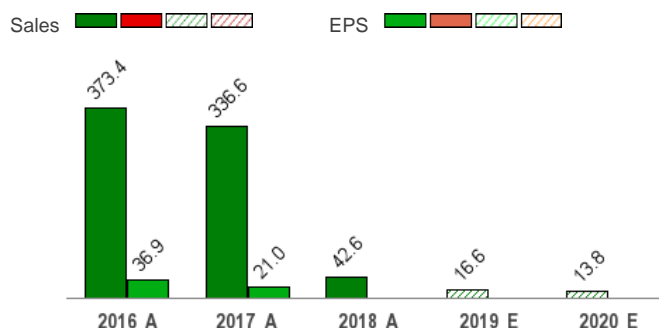
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$70.60 - \$57.90
20 Day Average Volume (sh)	1,800,880
Market Cap	\$15.1 B
YTD Price Change	-3.0%
Beta	1.16
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<u>Oil and Gas - Exploration and Production - United States</u>
Zacks Industry Rank	Top 42% (106 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1,662.5%
Last Sales Surprise	2.4%
EPS F1 Est- 4 week change	-2.3%
Expected Report Date	02/25/2020
Earnings ESP	10.1%
P/E TTM	NA
P/E F1	23.8
PEG F1	1.0
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	3,042 E	2,713 E	2,680 E	3,192 E	10,597 E
2019	2,261 A	2,292 A	2,170 A	2,644 E	9,310 E
2018	2,242 A	1,543 A	1,819 A	2,383 A	7,987 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.65 E	\$0.60 E	\$0.67 E	\$0.85 E	\$2.49 E
2019	\$0.54 A	-\$0.44 A	-\$1.25 A	\$0.54 E	-\$0.45 E
2018	\$1.18 A	-\$0.07 A	\$0.26 A	\$0.26 A	\$1.90 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 01/31/2020. The reports text is as of 02/03/2020.

Overview

Houston, TX-based Cheniere Energy Inc. is primarily engaged in businesses related to liquefied natural gas (or LNG) through its two business segments: LNG terminal; and LNG and natural gas marketing. The company, through its controlling interest in Cheniere Energy Partners L.P., owns and operates the Sabine Pass LNG terminal in Louisiana – North America's first large-scale liquefied gas export facility. Furthermore, Cheniere Energy owns and operates the 94-mile Creole Trail Pipeline – an interconnect between the Sabine Pass receiving terminal and the downstream markets – through its subsidiary.

Cheniere Energy intends to construct up to six trains at Sabine Pass with each train expected to have a capacity of about 4.5 million tons per annum. While Trains 1, 2, 3 and 4 are functional; Train 5 is undergoing commissioning. Train 6 is being commercialized and has secured the necessary regulatory approvals.

Cheniere Energy Partners is also developing a liquefaction and export terminal in Corpus Christi, TX. Train 1 commissioning is complete, Train 2 is under construction and Train 3 is commercialised with necessary approvals in place. The facility came online in 2019. Cheniere Energy intends to develop seven midscale liquefaction trains adjacent to the CCL Project. The company has initiated the regulatory approval process regarding same. The total production capacities for these trains are expected to be approximately 9.5 Mtpa.

Additionally, Cheniere Energy is involved in LNG and natural gas marketing activities through its subsidiary, Cheniere Marketing LLC.

Global LNG demand is likely to continue growing for the next few years and is projected to rise to around 384 million tons per annum by 2020. Cheniere Energy, the U.S.'s only listed LNG export pure play, foresees the fundamentals of LNG to be favorable in the long run, considering the secular shift to the cleaner burning fuel for power generation worldwide and in the Asia-Pacific region in particular. While the increasing demand for gas in the European power sector will be a key factor in the near-term LNG supply rise, the consumption boost is primarily set to come from Asian importers like China, India, South Korea and Pakistan.



Reasons To Buy:

- ▲ Being the first company to receive FERC approval to export LNG from its 2.6 billion cubic feet per day Sabine Pass terminal, Cheniere Energy certainly enjoys a distinct competitive advantage. Moreover, with the commencement of production at its CCL project, the facility has sent its first cargo shipment. Given first-mover advantage in the LNG export market, the firm is primed for significant revenue and earnings growth on the back of long-term contracts and solid operations.
- ▲ Cheniere Energy has been witnessing consistent improvement in revenues for the past few years. Over the last 3 years (2016–2018), the company's revenue recorded a CAGR of 149.5%. Cheniere Energy looks well positioned to maintain its revenue growth trajectory over the coming years on the back of solid operations and long-term contracts.
- ▲ The largest U.S. liquefied natural gas exporter also reiterated its EBITDA and distributable cash flow forecast for 2019 despite the third-quarter loss. As it is, Cheniere Energy has also authorized a stock buyback program of \$1 billion over the next three years.
- ▲ The company, being one of the few LNG exporters of U.S., shipped 273 LNG vessels in 2018. Cheniere Energy exports natural gas to more than 30 countries. Apart from helping the company protect its future income and lowering exposure to commodity price fluctuations, these factors will help to generate excellent cash flow visibility for investors.

With its first-mover advantage in the LNG export market, Cheniere Energy is primed for significant revenue and earnings growth.

Reasons To Sell:

- ▼ Exporting natural gas – by setting up large liquefaction plants – is a very capital-intensive undertaking, with each unit running up multi-billion-dollar bills. This has translated into a huge debt load for Cheniere Energy - currently at around \$30.8 billion, with a debt-to capital ratio of 95.4%. This remains the key concern of the company, restricting its financial freedom.
 - ▼ With China targeting hundreds of billions worth of goods from United States for import levies as part of its tit-for-tat tariff measure, there is a risk that U.S. LNG exports might become less competitive. The Chinese buyers may also look for purchasing natural gas from non-U.S. LNG suppliers, which might affect Cheniere's revenues, since it enjoys a dominant position in the U.S. LNG export market.
 - ▼ Moreover, Cheniere Energy is still at the expansion stage, which means high capital spending and cash outflow for the foreseeable future as the company looks to conclude building remaining units at Sabine Pass and Corpus Christi projects. This is expected to place a substantial burden on the group's leverage and credit metrics. Notably, the overall costs and expenses in the recent quarter rose 33.6% to \$1.9 billion from the same quarter last year.
 - ▼ While Cheniere Energy's long-term take or pay contracts with clients bode well for its cash flow visibility, it also needs the counterpart to be solvent and be able to pay for the company to realize the benefits from these pacts.
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Cheniere Energy's high debt obligations restricts its financial freedom.

Last Earnings Report

Cheniere Energy Reports Q3 Loss, Revenues Beat Estimates

Cheniere Energy, Inc. recently incurred a loss when it reported third-quarter 2019 results.

This largest U.S. liquefied natural gas exporter posted loss per share of \$1.25. However, the Zacks Consensus Estimate was for earnings of 8 cents per share. High operating costs and expenses caused this underperformance. The loss also compares unfavourably with the year-ago earnings of 26 cents.

Owing to higher LNG volumes, quarterly revenues increased 19.3% to \$2,170 million from \$1,819 million a year ago. The top line also surpassed the Zacks Consensus Estimate of \$2,118 million in the quarter under review.

The company posted adjusted EBITDA of \$694 million with DCF of around \$520 million. During the quarter, Cheniere shipped 108 cargoes, reflecting a 66% surge from the year-earlier figure. Total volumes of LNG exported were 384 trillion British thermal units (TBtu) compared with 228 TBtu in the prior year.

Costs & Balance Sheet

Overall costs and expenses rose 33.6% from the corresponding quarter of last year to \$1,863 million. This increase is mainly attributed to higher cost of sales that scaled up to \$1,267 million from \$1,027 million in the prior-year quarter. Also, operating and maintenance expenses almost doubled to \$308 million in the quarter under review. Further, depreciation and amortization expenses soared 88.5% from the year-ago quarter to \$213 million.

As of Sep 30, Cheniere had approximately \$2,539 million in cash and cash equivalents. Its net long-term debt was \$30,795 million (with a debt-to-capitalization ratio of 95.4%).

2019 Guidance

Cheniere reiterated its guidance for 2019. It anticipates adjusted EBITDA within \$2,900-\$3,200 million with distributable cash flow between \$600 million and \$800 million.

For 2020, the company projects its adjusted EBITDA to increase 30% and come in the range \$3,800-\$4,100 million with distributable cash flow between \$1000 million and \$1300 million.

Project Updates

Sabine Pass Liquefaction Project (SPL): Sabine Pass is North America's first large-scale liquefied gas export facility. Cheniere intends to construct up to six trains at the Sabine Pass with each train's expected capacity to be about 4.5 million tons per annum (Mtpa). Notably, run-rate LNG production is anticipated within 4.7-5 Mtpa. While Trains 1 through 5 are functional, Train 6 is currently under construction with completion expected within the first half of 2023.

Corpus Christi Liquefaction Project (CCL): Cheniere's Corpus Christi LNG project, under which the company intends to develop three trains, is predicted to come online in 2019. Each train's estimated nominal production capacity is 4.5 Mtpa of LNG. Notably, Train 1 and 2 are functional while Train 3 is under construction. In June this year, the first commissioned cargo from Train 2 was dispatched. Now the company is awaiting the first real shipment later this year. Train 3 is currently under construction and the facility is expected to enter service in the first half of 2021.

Corpus Christi Expansion Project: Cheniere aims to develop seven midscale liquefaction trains adjacent to the CCL Project. Total production capacity of these trains is assumed to be 9.5 Mtpa.

Quarter Ending **09/2019**

Report Date	Nov 01, 2019
Sales Surprise	2.44%
EPS Surprise	-1,662.50%
Quarterly EPS	-1.25
Annual EPS (TTM)	-0.89

Valuation

Cheniere Energy shares are down 12% over the trailing 12-month period. Stocks in the Zacks sub industry and the Zacks Oil-Energy sector are down 37.8% and 13.5% over the past year, respectively.

The S&P 500 index is up 20% in the past year.

The stock is currently trading at 1.41X forward 12-month sales, which compares to 2.2X for the Zacks sub-industry, 0.8X for the Zacks sector and 3.43X for the S&P 500 index.

Over the past five years, the stock has traded as high as 46.52X and as low as 1.35X, with a 5-year median of 2.17X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$63 price target reflects 1.5X F12M sales.

The table below shows summary valuation data for LNG

Valuation Multiples - LNG					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	1.41	2.2	0.8	3.43
	5-Year High	46.52	3.8	1.44	3.43
	5-Year Low	1.35	1.84	0.67	2.54
	5-Year Median	2.17	2.74	0.99	3
EV/EBITDA TTM	Current	22.13	7.86	4.9	12.25
	5-Year High	309.95	17.27	10.19	12.86
	5-Year Low	22.05	4.96	4.57	8.48
	5-Year Median	73.01	8.41	6.5	10.7
P/B TTM	Current	10.16	1.65	1.12	4.41
	5-Year High	14.56	3.45	1.59	4.55
	5-Year Low	3.58	1.22	1.02	2.85
	5-Year Median	8.88	2.18	1.31	3.62

As of 01/31/2020

Industry Analysis Zacks Industry Rank: Top 42% (106 out of 255)



Top Peers

Ameren Corporation (AEE)	Neutral
Dominion Energy Inc. (D)	Neutral
NextDecade Corporation (NEXT)	Neutral
New Fortress Energy LLC (NFE)	Neutral
Sempra Energy (SRE)	Neutral
Magellan Petroleum Corporation (TELL)	Neutral
Dynagas LNG Partners LP (DLNG)	Underperform
GasLog LP. (GLOG)	Underperform

Industry Comparison Industry: Oil And Gas - Exploration And Production - United States				Industry Peers		
	LNG Neutral	X Industry	S&P 500	AEE Neutral	D Neutral	TELL Neutral
VGM Score	D	-	-	D	D	F
Market Cap	15.09 B	100.79 M	23.55 B	20.19 B	70.58 B	1.70 B
# of Analysts	6	5	13	5	5	5
Dividend Yield	0.00%	0.00%	1.81%	2.41%	4.28%	0.00%
Value Score	B	-	-	C	D	F
Cash/Price	0.20	0.05	0.04	0.00	0.01	0.05
EV/EBITDA	16.42	3.08	13.97	11.47	15.33	-13.43
PEG Ratio	1.00	0.73	1.97	3.83	4.14	NA
Price/Book (P/B)	10.16	0.69	3.21	2.46	2.49	8.38
Price/Cash Flow (P/CF)	15.39	1.93	13.36	10.66	11.42	NA
P/E (F1)	23.71	9.29	18.42	23.71	19.73	NA
Price/Sales (P/S)	1.66	0.79	2.60	3.36	4.57	79.05
Earnings Yield	4.20%	7.07%	5.43%	4.22%	5.07%	-6.70%
Debt/Equity	20.90	0.48	0.72	1.05	1.20	0.29
Cash Flow (\$/share)	3.85	1.85	6.92	7.70	7.51	-0.50
Growth Score	D	-	-	C	D	F
Hist. EPS Growth (3-5 yrs)	NA%	0.42%	10.68%	8.26%	3.83%	NA
Proj. EPS Growth (F1/F0)	654.44%	13.42%	7.59%	5.49%	3.18%	30.77%
Curr. Cash Flow Growth	1,354.41%	30.47%	10.81%	12.97%	9.80%	57.53%
Hist. Cash Flow Growth (3-5 yrs)	38.33%	5.41%	8.78%	8.12%	8.56%	NA
Current Ratio	2.21	0.75	1.22	0.65	0.51	0.96
Debt/Capital	95.43%	36.94%	42.99%	51.33%	53.18%	22.18%
Net Margin	-2.46%	12.41%	11.69%	13.34%	6.40%	-677.62%
Return on Equity	-11.83%	2.98%	17.33%	10.10%	11.65%	-57.16%
Sales/Assets	0.27	0.28	0.55	0.22	0.16	0.05
Proj. Sales Growth (F1/F0)	13.82%	6.68%	4.12%	3.09%	7.49%	479.56%
Momentum Score	F	-	-	D	D	C
Daily Price Chg	-1.00%	-0.96%	-1.98%	0.18%	-0.84%	-0.92%
1 Week Price Chg	-7.35%	-6.37%	-1.09%	0.80%	-0.06%	-19.56%
4 Week Price Chg	-4.94%	-15.47%	-2.11%	7.89%	4.62%	-3.04%
12 Week Price Chg	-4.13%	-9.00%	2.15%	9.94%	6.77%	-6.15%
52 Week Price Chg	-9.76%	-38.61%	14.15%	18.33%	22.08%	-29.80%
20 Day Average Volume	1,800,880	256,383	1,808,632	1,387,512	2,570,528	1,533,698
(F1) EPS Est 1 week change	0.00%	-2.24%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.30%	0.00%	0.00%	-0.48%	-0.32%	16.59%
(F1) EPS Est 12 week change	-3.87%	-1.92%	-0.09%	-1.03%	-0.05%	-0.77%
(Q1) EPS Est Mthly Chg	-1.14%	-2.43%	0.00%	0.22%	-1.79%	67.39%

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	B
Growth Score	D
Momentum Score	F
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.

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