

Cheniere Energy Inc. (LNG)

\$33.92 (As of 04/02/20)

Price Target (6-12 Months): **\$36.00**

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:A

Value: B

Growth: A

Momentum: D

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 for the current year. 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 \$30,774 million for the company with a debt/cap ratio of 92.6%, thereby deteriorating its leverage and credit metrics. As such, with limited upside, Cheniere Energy stock warrants a cautious stance from the investors.

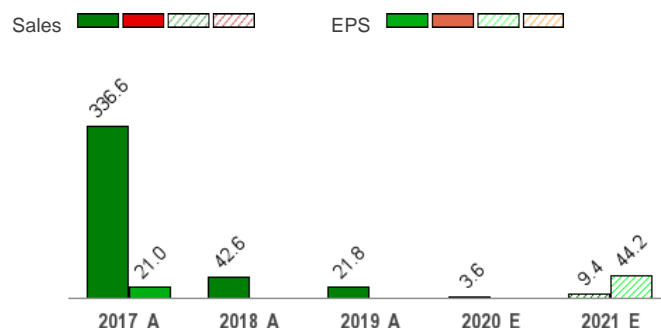
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$70.49 - \$27.06
20 Day Average Volume (sh)	4,762,115
Market Cap	\$8.6 B
YTD Price Change	-44.5%
Beta	1.44
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Oil and Gas - Exploration and Production - United States
Zacks Industry Rank	Bottom 39% (155 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	31.5%
Last Sales Surprise	13.2%
EPS F1 Est- 4 week change	-8.8%
Expected Report Date	05/14/2020
Earnings ESP	-45.6%
P/E TTM	NA
P/E F1	16.3
PEG F1	0.7
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,879 E	3,115 E	2,925 E	3,211 E	11,020 E
2020	2,746 E	2,659 E	2,566 E	2,768 E	10,077 E
2019	2,261 A	2,292 A	2,170 A	3,007 A	9,730 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.77 E	\$0.90 E	\$0.78 E	\$0.95 E	\$3.00 E
2020	\$0.42 E	\$0.52 E	\$0.57 E	\$0.64 E	\$2.08 E
2019	\$0.54 A	-\$0.44 A	-\$1.25 A	\$0.71 A	-\$0.57 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 04/02/2020. The reports text is as of 04/03/2020.

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 (2016–2019), the company's revenue recorded a CAGR of 96.5%. 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 guidance for the full year. It anticipates adjusted EBITDA within \$3.8-\$4.1 billion with distributable cash flow between \$1 billion and \$1.3 billion.
- ▲ The company, being one of the few LNG exporters of U.S., shipped 429 LNG vessels in 2019. 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 \$30,774 million, with a debt-to-capital ratio of 92.6%. 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 Q4 Earnings and Sales Beat Estimates

Cheniere Energy, Inc. recently reported strong fourth-quarter 2019 results.

This largest U.S. liquefied natural gas exporter delivered earnings per share of 71 cents, beating the Zacks Consensus Estimate for earnings of 54 cents. The figure also skyrocketed 173% from the year-ago earnings of 26 cents. Solid contribution from LNG revenues led to this outperformance. Precisely, revenues from LNG came in at \$2,871 million, surpassing the Zacks Consensus Estimate of \$2,706 million and also increasing 27.8% from the year-ago value of \$2,245 million.

Owing to higher LNG volumes, quarterly revenues rose 26.2% to \$3,007 million from \$2,383 million a year ago. The top line also beat the Zacks Consensus Estimate of \$2,657 million in the quarter under review.

The company posted adjusted EBITDA of \$987 million with DCF of around \$780 million. During the quarter, Cheniere shipped 130 cargoes, jumping 62.5% from the year-earlier figure. Total volumes of LNG exported were 457 trillion British thermal units (TBTu) compared with 284 TBTu in the prior year.

Costs & Balance Sheet

Overall costs and expenses surged 33.6% from the corresponding quarter of last year to \$1,991 million. This increase is mainly attributed to higher operating and maintenance expenses that more than doubled to \$330 million in the quarter under consideration. Also, depreciation and amortization expenses soared 100.9% from the year-ago quarter to \$233 million. Further, selling, general and administrative expenses scaled up to \$88 million from \$75 million in the prior-year quarter.

As of Dec 31, Cheniere had approximately \$2,474 million in cash and cash equivalents. Its net long-term debt was \$30,774 million (with a debt-to-capitalization ratio of 92.6%).

2020 Guidance

Cheniere reiterated its guidance for the full year. It anticipates adjusted EBITDA within \$3.8-\$4.1 billion with distributable cash flow between \$1 billion and \$1.3 billion.

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 4.5 million tons per annum (Mtpa). Notably, run-rate of 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): Under this project, the company intends to build three trains. 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 2019, the first commissioned cargo from Train 2 was dispatched. Train 3 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 10 Mtpa.

Quarter Ending **12/2019**

Report Date	Feb 25, 2020
Sales Surprise	13.18%
EPS Surprise	31.48%
Quarterly EPS	0.71
Annual EPS (TTM)	-0.44

Valuation

Cheniere Energy shares are down 44.4% in the year-to-date period and 49.7% over the trailing 12-month period. Stocks in the Zacks sub industry and the Zacks Oil-Energy sector are down 65.1% and 47.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 72.8% and 52.7%, respectively.

The S&P 500 index is down 23.1% in the year-to-date period and 14.2% in the past year.

The stock is currently trading at 0.83X forward 12-month sales, which compares to 1.16X for the Zacks sub-industry, 0.57X for the Zacks sector and 2.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 32.75X and as low as 0.73X, with a 5-year median of 2.15X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$36 price target reflects 0.88X 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	0.83	1.16	0.57	2.7
	5-Year High	32.75	3.8	1.45	3.43
	5-Year Low	0.73	1.16	0.57	2.54
	5-Year Median	2.15	2.73	0.99	3
EV/EBITDA TTM	Current	19.53	4.47	3.57	9.15
	5-Year High	310.51	17.3	10.36	12.88
	5-Year Low	NA	4.26	3.12	8.27
	5-Year Median	41.3	8.28	6.51	10.78
P/B TTM	Current	3.55	0.71	0.65	3.33
	5-Year High	14.56	3.45	1.6	4.55
	5-Year Low	3.12	0.64	0.52	2.85
	5-Year Median	8.77	2.18	1.31	3.63

As of 04/02/2020

Industry Analysis Zacks Industry Rank: Bottom 39% (155 out of 254)



Top Peers

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

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	A	-	-	C	C	F
Market Cap	8.62 B	29.14 M	17.16 B	17.68 B	59.55 B	258.96 M
# of Analysts	7	5	13	5	5	7
Dividend Yield	0.00%	0.00%	2.5%	2.76%	5.29%	0.00%
Value Score	B	-	-	D	D	F
Cash/Price	0.35	0.14	0.06	0.00	0.00	0.31
EV/EBITDA	12.02	2.92	10.80	10.65	14.76	-2.08
PEG Ratio	0.69	1.21	1.74	3.51	3.50	NA
Price/Book (P/B)	3.55	0.31	2.33	2.15	1.85	1.54
Price/Cash Flow (P/CF)	11.51	0.70	9.11	9.15	9.10	NA
P/E (F1)	16.24	9.37	14.73	20.73	16.49	NA
Price/Sales (P/S)	0.89	0.32	1.81	2.99	3.59	9.00
Earnings Yield	6.13%	-0.61%	6.71%	4.83%	6.07%	-42.45%
Debt/Equity	12.72	0.57	0.70	1.09	1.07	0.35
Cash Flow (\$/share)	2.95	1.80	7.01	7.84	7.80	-0.50
Growth Score	A	-	-	C	B	F
Hist. EPS Growth (3-5 yrs)	NA%	11.07%	10.92%	8.19%	4.15%	NA
Proj. EPS Growth (F1/F0)	464.40%	-71.65%	1.02%	3.22%	1.65%	34.99%
Curr. Cash Flow Growth	-24.06%	-2.87%	5.93%	2.50%	30.28%	1.49%
Hist. Cash Flow Growth (3-5 yrs)	43.87%	5.53%	8.55%	6.59%	12.51%	NA
Current Ratio	2.25	0.73	1.24	0.57	0.61	0.62
Debt/Capital	92.71%	39.85%	42.33%	52.09%	49.85%	25.90%
Net Margin	6.66%	-3.30%	11.67%	14.01%	8.74%	-527.46%
Return on Equity	-6.88%	2.11%	16.70%	10.29%	12.05%	-68.34%
Sales/Assets	0.28	0.27	0.54	0.21	0.16	0.07
Proj. Sales Growth (F1/F0)	3.57%	-9.43%	1.54%	4.12%	6.89%	271.96%
Momentum Score	D	-	-	B	D	D
Daily Price Chg	6.00%	3.74%	1.45%	5.82%	1.62%	15.09%
1 Week Price Chg	-4.37%	0.00%	12.29%	17.97%	8.70%	-13.97%
4 Week Price Chg	-26.23%	-38.45%	-21.33%	-16.71%	-18.48%	-26.39%
12 Week Price Chg	-46.37%	-60.01%	-28.56%	-6.42%	-13.26%	-84.68%
52 Week Price Chg	-49.77%	-74.68%	-22.55%	0.15%	-7.59%	-89.74%
20 Day Average Volume	4,762,115	309,785	4,257,668	2,771,344	5,984,855	3,766,953
(F1) EPS Est 1 week change	0.00%	-3.39%	-0.04%	-0.63%	-0.83%	0.00%
(F1) EPS Est 4 week change	-8.84%	-72.26%	-4.30%	-0.63%	-0.97%	-8.65%
(F1) EPS Est 12 week change	-18.36%	-70.50%	-5.47%	-0.54%	-1.15%	11.35%
(Q1) EPS Est Mthly Chg	-14.11%	-86.54%	-5.91%	1.73%	-4.62%	-10.35%

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	A
Momentum Score	D
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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