

Cheniere Energy Inc. (LNG)

\$53.61 (As of 08/13/20)

Price Target (6-12 Months): **\$57.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/13/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

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 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 more than \$30.8 billion for the company with a debt/cap of 92.3%, thereby deteriorating its leverage and credit metrics. As such, with limited upside, Cheniere Energy stock warrants a cautious stance from the investors.

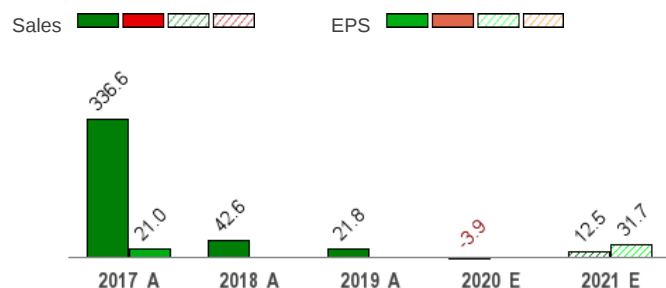
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$67.49 - \$27.06
20 Day Average Volume (sh)	1,278,878
Market Cap	\$13.5 B
YTD Price Change	-12.2%
Beta	1.63
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Oil and Gas - Exploration and Production - United States
Zacks Industry Rank	Bottom 35% (165 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	100.0%
Last Sales Surprise	-4.7%
EPS F1 Est- 4 week change	-21.0%
Expected Report Date	11/06/2020
Earnings ESP	-1,476.7%
P/E TTM	32.1
P/E F1	26.2
PEG F1	1.1
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,498 E	2,446 E	2,734 E	2,999 E	10,516 E
2020	2,709 A	2,402 A	2,076 E	2,133 E	9,348 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	\$0.70 E	\$0.56 E	\$0.67 E	\$0.98 E	\$2.70 E
2020	\$1.43 A	\$0.78 A	\$0.01 E	\$0.21 E	\$2.05 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 08/13/2020. The reports text is as of 08/14/2020.

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. Its total debt is currently more than \$30.8 billion with only \$2.04 billion in cash and cash equivalents. Importantly, the company's debt-to-capitalization as of the end of the second quarter was 92.3% which represents a major risk to 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.
 - ▼ 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.

Cheniere Q2 Earnings Top Estimates, Revenues Miss Mark

Cheniere Energy delivered earnings per share of 78 cents in the second quarter, surpassing the Zacks Consensus Estimate of 39 cents. Further, the outperformance reversed the year-ago loss of 44 cents per share. Revenue recognition of around \$458 million related to cargo cancellations aided the bottom line.

Moreover, revenues from LNG came in at \$2,295 million, increasing 5.6% from the year-ago number of \$2,173 million but below the Zacks Consensus Estimate of \$2,706 million.

Owing to higher LNG volumes, quarterly revenues rose 4.8% to \$2,402 million from \$2,292 million a year ago. However, the top line missed the Zacks Consensus Estimate of \$2,520 million in the quarter under review.

The company posted adjusted EBITDA of \$1,393 million with DCF of around \$580 million. During the quarter, Cheniere shipped 78 cargoes, jumping 25% from the year-earlier figure. Total volumes of LNG exported were 278 trillion British thermal units (TBTu) compared with 360 TBTu in the prior year.

Costs & Balance Sheet

Overall costs and expenses fell 21.2% from the corresponding quarter of last year to \$1,465 million. This drop is mainly attributed to lower cost of sales expenses that plummeted 37.1% from the year-ago quarter to \$803 million.

As of Jun 30, Cheniere had approximately \$2,039 million in cash and cash equivalents. Its net long-term debt was \$30,807 million (with a debt-to-capitalization of 92.3%).

During the six months ended Jun 30, the company repurchased an aggregate of 2.9 million shares of its common stock for \$155 million under its share buyback program.

2020 Guidance

On its latest earnings call, management stated that the worldwide LNG consumption was up by roughly 6% year over year in the first half of 2020. However, the company added that demand for the fuel took a hit from the coronavirus impact on gas demand as opposed to previous years' significant growth.

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, the run-rate of LNG production is projected within 4.7-5 Mtpa. While Trains 1 to 5 are functional, Train 6 is currently under construction with completion estimated within the second half of 2022.

Corpus Christi Liquefaction Project (CCL): Under this project, the company aims to build three trains, each with a nominal production capacity predicted to be 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 come online in the first half of 2021.

Corpus Christi Expansion Project: Cheniere looks 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 06/2020

Report Date	Aug 06, 2020
Sales Surprise	-4.70%
EPS Surprise	100.00%
Quarterly EPS	0.78
Annual EPS (TTM)	1.67

Valuation

Cheniere Energy shares are down 12.2% in the year-to-date period and 9.2% over the trailing 12-month period. Stocks in the Zacks sub industry and the Zacks Oil-Energy sector are down 35.6% and 33.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 27% and 26.5%, respectively.

The S&P 500 index is up 4.7% in the year-to-date period and 18.8% in the past year.

The stock is currently trading at 1.26X forward 12-month sales, which compares to 1.62X for the Zacks sub-industry, 0.75X for the Zacks sector and 3.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.14X and as low as 0.73X, with a 5-year median of 2.06X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$57 price target reflects 1.34X 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	1.26	1.62	0.75	3.7
	5-Year High	14.14	3.87	1.46	3.7
	5-Year Low	0.73	0.84	0.59	2.53
	5-Year Median	2.06	2.48	0.99	3.05
EV/EBITDA TTM	Current	14.2	5.67	4.78	12.75
	5-Year High	310.51	16	10.47	12.84
	5-Year Low	NA	3	3.04	8.24
	5-Year Median	34.61	6.59	6.49	10.9
P/B TTM	Current	4.51	1.03	0.95	4.71
	5-Year High	14.56	2.78	1.54	4.71
	5-Year Low	2.97	0.4	0.52	2.83
	5-Year Median	8.77	1.78	1.31	3.74

As of 08/13/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (165 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Ameren Corporation (AEE)	Neutral	3
Dynagas LNG Partners LP (DLNG)	Neutral	3
GasLog LP. (GLOG)	Neutral	3
NextDecade Corporation (NEXT)	Neutral	3
New Fortress Energy LLC (NFE)	Neutral	3
Sempra Energy (SRE)	Neutral	3
Magellan Petroleum Corporation (TELL)	Neutral	3
Dominion Energy Inc. (D)	Underperform	5

Industry Comparison Industry: Oil And Gas - Exploration And Production - United States				Industry Peers		
	LNG	X Industry	S&P 500	AEE	D	TELL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	5	3
VGM Score	B	-	-	C	C	F
Market Cap	13.52 B	71.25 M	23.58 B	20.10 B	66.63 B	317.17 M
# of Analysts	6	5.5	14	5	4	6
Dividend Yield	0.00%	0.00%	1.68%	2.43%	4.74%	0.00%
Value Score	B	-	-	C	D	F
Cash/Price	0.19	0.06	0.07	0.00	0.01	0.37
EV/EBITDA	13.84	3.47	13.34	12.12	16.29	-2.77
PEG Ratio	1.11	5.74	2.99	3.48	6.22	NA
Price/Book (P/B)	4.51	0.88	3.20	2.40	2.34	3.69
Price/Cash Flow (P/CF)	18.18	1.38	12.83	10.38	10.16	NA
P/E (F1)	26.28	8.59	21.99	23.49	21.95	NA
Price/Sales (P/S)	1.31	0.77	2.53	3.46	3.96	9.60
Earnings Yield	3.82%	0.77%	4.35%	4.25%	4.55%	-48.98%
Debt/Equity	10.40	0.50	0.77	1.22	1.30	1.40
Cash Flow (\$/share)	2.95	2.21	6.94	7.84	7.80	-0.50
Growth Score	B	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	NA%	16.39%	10.41%	7.41%	4.46%	NA
Proj. EPS Growth (F1/F0)	460.23%	-81.47%	-6.32%	3.40%	-14.80%	30.43%
Curr. Cash Flow Growth	-24.06%	-5.52%	5.20%	2.50%	30.28%	1.49%
Hist. Cash Flow Growth (3-5 yrs)	43.87%	3.16%	8.55%	6.59%	12.51%	NA
Current Ratio	2.61	0.91	1.33	0.81	0.64	0.96
Debt/Capital	91.23%	42.24%	44.59%	54.86%	54.60%	58.30%
Net Margin	11.60%	-52.26%	10.13%	14.57%	3.77%	-747.05%
Return on Equity	16.85%	1.60%	14.51%	10.27%	12.09%	-106.47%
Sales/Assets	0.29	0.27	0.51	0.20	0.16	0.09
Proj. Sales Growth (F1/F0)	-3.93%	-16.48%	-1.43%	1.36%	0.70%	130.19%
Momentum Score	F	-	-	C	B	D
Daily Price Chg	0.43%	-0.68%	-0.44%	-0.74%	-0.34%	-1.42%
1 Week Price Chg	7.80%	2.46%	2.30%	2.42%	-0.51%	3.16%
4 Week Price Chg	6.07%	0.33%	4.38%	5.96%	3.07%	-4.51%
12 Week Price Chg	19.96%	6.99%	13.59%	17.42%	0.90%	-8.08%
52 Week Price Chg	-9.20%	-38.01%	5.75%	7.33%	2.93%	-83.10%
20 Day Average Volume	1,278,878	368,512	1,984,154	1,309,363	3,613,386	10,077,410
(F1) EPS Est 1 week change	-6.58%	0.00%	0.00%	0.06%	0.00%	-5.88%
(F1) EPS Est 4 week change	-21.03%	2.96%	2.08%	0.77%	0.26%	0.00%
(F1) EPS Est 12 week change	-13.30%	22.67%	2.66%	0.55%	-19.21%	-19.01%
(Q1) EPS Est Mthly Chg	-98.43%	16.64%	0.94%	1.61%	-5.77%	12.90%

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	B
Growth Score	B
Momentum Score	F
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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