Cheniere Energy Partners (CQP)

Published November 9th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	$44	**5 Year CAGR Estimate:**	9.4%	**Market Cap:**	$21.2 B
Fair Value Price:	$45	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	11/4/2021
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.4%	**Dividend Payment Date:**	11/12/2021
Dividend Yield:	6.0%	**5 Year Price Target**	$55	**Years Of Dividend Growth:**	5
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	2.7%

Overview & Current Events

Cheniere Energy Partners (CQP) is a Master Limited Partnership formed by Cheniere Energy. CQP owns and operates regasification facilities at the Sabine Pass liquefied natural gas (LNG) terminal, which is in Cameron Parish, Louisiana, providing LNG to energy companies and utilities around the world. CQP has a market capitalization of $21.2 billion.

LNG is natural gas in liquid form. It is a much cleaner fuel than the traditional fossil fuels and hence it is less impacted by the secular shift from fossil fuels to clean energy sources, which has accelerated lately. We expect LNG to continue to replace coal and thus play a major role in the transition to a cleaner energy landscape.

CQP went through a severe downturn last year, as the coronavirus crisis coincided with mild winter weather and thus caused record-low LNG prices. CQP is also facing a headwind due to the great increase in global LNG capacity in the last four years. Nevertheless, despite the cancellation of many LNG cargos by its customers last year, CQP posted strong results thanks to the take-or-pay feature of its long-term contracts. The MLP grew its earnings-per-share 3% and raised its distribution 5%. It thus outperformed the vast majority of energy companies, which suffered from the pandemic.

In early November, CQP reported (11/4/21) financial results for the third quarter of fiscal 2021. Higher LNG prices were offset by higher feedstock costs but the company switched from a loss per share of -$0.14 to a profit per share of $0.79 thanks to higher LNG volumes. The MLP offered total distributions of $2.66 in 2021, within its initial guidance of 2.60-$2.70, and issued distribution guidance of $3.00-$3.25 for 2022. In September, feed gas was introduced for the first time in Train 6 of the Sabine Pass Liquefaction project, which is expected to come online in the first quarter of 2022. This project is the primary driver behind the expected ~13% distribution hike next year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.23	$0.27	-$0.03	-$1.19	-$0.43	-$0.20	-$1.32	$2.51	$2.25	$2.32	***$2.90***	***$3.53***
DPS	$1.70	$1.70	$1.70	$1.70	$1.70	$1.70	$1.79	$2.28	$2.46	$2.59	***$2.66***	***$3.00***
Units[1]	27.9	33.5	54.2	57.1	57.1	57.1	178.5	348.6	348.6	399.3	***484.0***	***900.0***

We usually focus on distributable cash flow per unit for MLPs but CQP does not report this metric. As a result, we have focused on the earnings-per-share of the MLP. As the above table shows, CQP has a volatile performance record, which has resulted primarily from the dramatic swings of the LNG prices. This is only natural in the highly cyclical energy sector.

On the other hand, CQP has remarkably improved its performance in recent years. It has built five liquefaction trains in its Sabine Pass terminal since 2016. Thanks to improvements in its operations, its current production capacity is 12% higher than the initial nominal capacity. Moreover, CQP is currently constructing a sixth train, which is expected to come in service in the first quarter of 2022. Thanks to the significant growth in production that will result from the sixth train, CQP expects its annual distributable cash flow per unit to grow from approximately $3.00 to $3.75-$3.95. We have assumed 4% average annual earnings-per-share growth in order to be on the conservative side.

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[1] In millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/E	14.4	---	---	---	---	---	---	13.6	18.9	15.0	***15.2***	***15.5***
Avg. Yld.	9.6%	7.5%	6.2%	5.5%	5.7%	6.2%	6.0%	6.7%	5.8%	7.4%	***6.0%***	***5.5%***

CQP has posted losses in many years and hence its price-to-earnings ratio has been meaningful in just four years over the last decade. The MLP is currently trading at a price-to-earnings ratio of 15.2, which is slightly lower than the 10-year average ratio of 15.5. If the stock trades at its average valuation level in five years, it will enjoy a 0.4% annualized gain to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

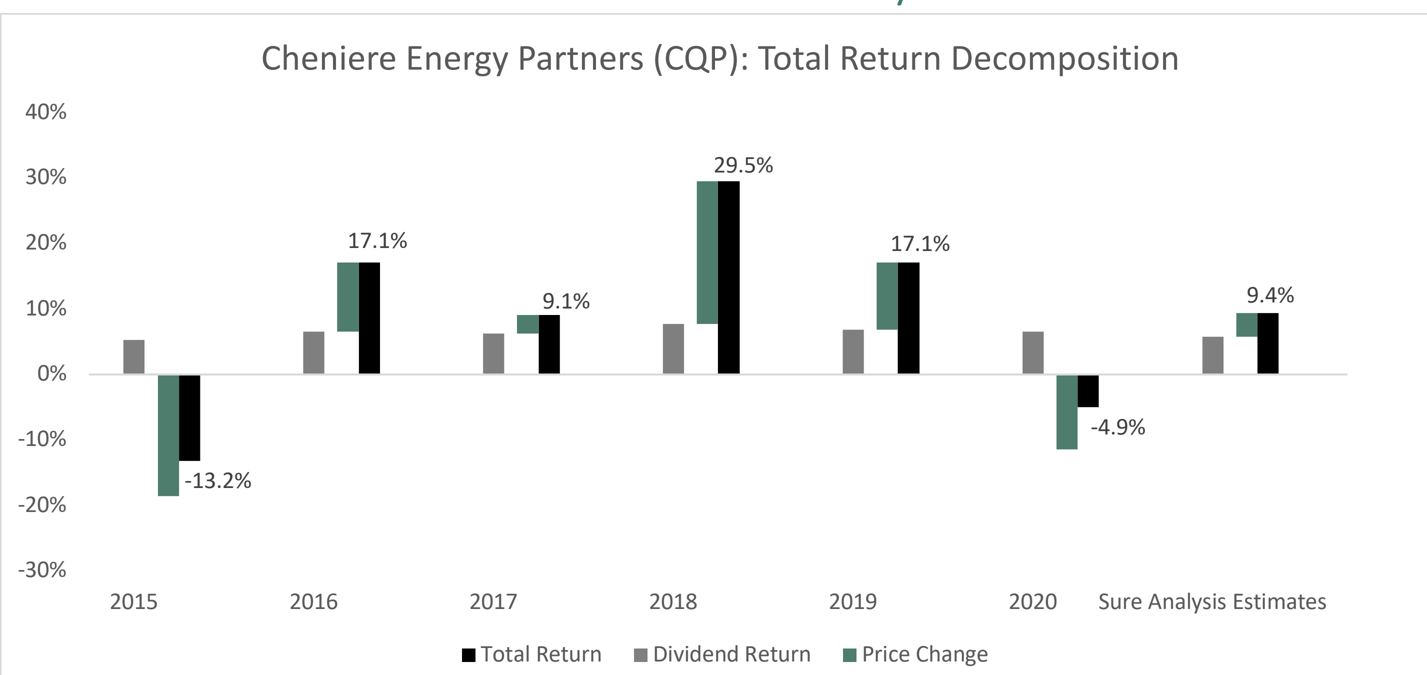
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	138%	630%	---	---	---	---	---	91%	109%	112%	***92%***	***85%***

CQP belongs to the energy sector and hence it is vulnerable to the boom-and-bust cycles caused by the dramatic swings of LNG prices. This helps explain the losses incurred in many years and the volatile performance record of the MLP. Due to this cyclicality, the stock may not be suitable for income-oriented investors, despite its attractive 6.0% distribution yield. On the bright side, CQP proved to be one of the most resilient energy companies to the pandemic. It grew its earnings-per-share 3% and raised its distribution 5% whereas numerous energy companies cut their dividends. CQP also has a decent balance sheet, which is significant during the downturns of its business.

Final Thoughts & Recommendation

CQP proved resilient to the pandemic. Even better, it has promising growth prospects ahead thanks to the secular growth of global LNG consumption and the construction of a sixth production train. As a result, CQP could offer a 9.4% average annual return over the next five years thanks to its 6.0% distribution yield, 4.0% annual growth of earnings-per-share and a 0.4% annualized expansion of price-to-earnings ratio. We maintain our buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	284	264	268	269	270	1,100	4,304	6,426	6,838	6,167
Gross Profit	226	207	211	210	235	532	1,645	2,599	2,930	3,034
Gross Margin	79.6%	78.2%	78.6%	78.3%	87.0%	48.4%	38.2%	40.4%	42.8%	49.2%
SG&A Exp.	68	114	154	126	141	103	95	86	113	110
D&A Exp.	---	---	57	59	66	156	339	424	527	551
Operating Profit	122	38	(32)	1	3	250	1,158	1,987	2,047	2,130
Operating Margin	43.0%	14.5%	-11.9%	0.2%	1.1%	22.7%	26.9%	30.9%	29.9%	34.5%
Net Profit	(31)	(150)	(240)	(410)	(319)	(171)	490	1,274	1,175	1,183
Net Margin	-10.9%	-56.8%	-89.5%	-153%	-118%	-15.5%	11.4%	19.8%	17.2%	19.2%
Free Cash Flow	-1	-1,157	-3,085	-2,783	-3,084	-2,315	-313	1,070	216	779

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1,737	4,266	8,517	10,388	12,833	15,542	17,553	17,974	19,384	19,145
Cash & Equivalents	81	419	351	249	146	---	---	---	1,781	1,210
Accounts Receivable	1	---	---	4	1	187	348	444	388	484
Inventories	5	3	10	8	17	97	95	99	116	107
Total Liabilities	2,282	2,386	6,877	9,257	12,120	15,099	16,914	17,174	18,669	18,606
Accounts Payable	1	74	10	9	16	27	12	15	40	12
Long-Term Debt	2,192	2,167	6,576	8,991	11,692	14,433	16,046	16,066	17,579	17,580
Shareholder's Equity	(545)	1,880	1,640	1,131	713	443	639	800	715	539

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-1.8%	-5.0%	-3.8%	-4.3%	-2.7%	-1.2%	3.0%	7.2%	6.3%	6.1%
Return on Equity	---	-22.5%	-13.6%	-29.6%	-34.6%	-29.6%	90.6%	177%	155%	189%
Units Out.	27.9	33.5	54.2	57.1	57.1	57.1	178.5	348.6	348.6	399.3
Revenue/Share	1.74	1.25	0.81	0.80	0.78	3.26	10.80	13.28	14.13	12.74
FCF/Share	---	(5.45)	(9.35)	(8.24)	(8.87)	(6.85)	(0.79)	2.21	0.45	1.61

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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