Cheniere Energy Partners (CQP)

Published November 18th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	$55	**5 Year CAGR Estimate:**	5.9%	**Market Cap:**	$27.1 B
Fair Value Price:	$64	**5 Year Growth Estimate:**	-3.0%	**Ex-Dividend Date:**	2/4/2023[1]
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	3.2%	**Dividend Payment Date:**	2/11/2022
Dividend Yield:	7.6%	**5 Year Price Target**	$55	**Years Of Dividend Growth:**	6
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 $27.1 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 in the last two years. 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 in 2020, 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 five years. Nevertheless, despite the cancellation of many LNG cargos by its customers in 2020, 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 (11/3/22) financial results for the third quarter of fiscal 2022. Thanks to wider margins and to a lesser extent thanks to higher LNG volumes, CQP more than doubled its EBITDA over last year's quarter but it posted a loss of -$514 million due to losses from price hedges. It was the third consecutive quarter in which CQP failed to reap the full benefit from record LNG prices due to its price hedges. Nevertheless, business trends remain ideal for CQP. Due to the sanctions of western countries on Russia, European gas prices have remained excessive. As a result, the demand for LNG cargos has skyrocketed and hence CQP reaffirmed its guidance for annual distribution of $4.00-$4.25 in 2022. Moreover, the Train 6 of the Sabine Pass Liquefaction project came online in February. This project will be a material growth driver for the next few years.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.27	-$0.03	-$1.19	-$0.43	-$0.20	-$1.32	$2.51	$2.25	$2.32	$3.00	***$4.20***	***$3.61***
DPS	$1.70	$1.70	$1.70	$1.70	$1.70	$1.79	$2.28	$2.46	$2.59	$2.66	***$4.20***	***$3.25***
Units[2]	33.5	54.2	57.1	57.1	57.1	178.5	348.6	348.6	399.3	484.0	***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 six 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 completed its sixth train this year. Thanks to the significant growth in production that will result from the sixth train and the record demand for LNG cargos, which has resulted from the high

[1] Estimated date.
[2] In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

European gas prices, CQP is likely to post record earnings this year. Due to the high comparison base and the cyclical nature of LNG, we have assumed a -3% average annual decline in earnings-per-share over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/E	---	---	---	---	---	---	13.6	18.9	15.0	13.8	***13.1***	***15.3***
Avg. Yld.	7.5%	6.2%	5.5%	5.7%	6.2%	6.0%	6.7%	5.8%	7.4%	6.4%	***7.6%***	***5.9%***

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 13.1, which is lower than the 10-year average ratio of 15.3. If CQP trades at its average valuation level in five years, it will enjoy a 3.2% annualized gain to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

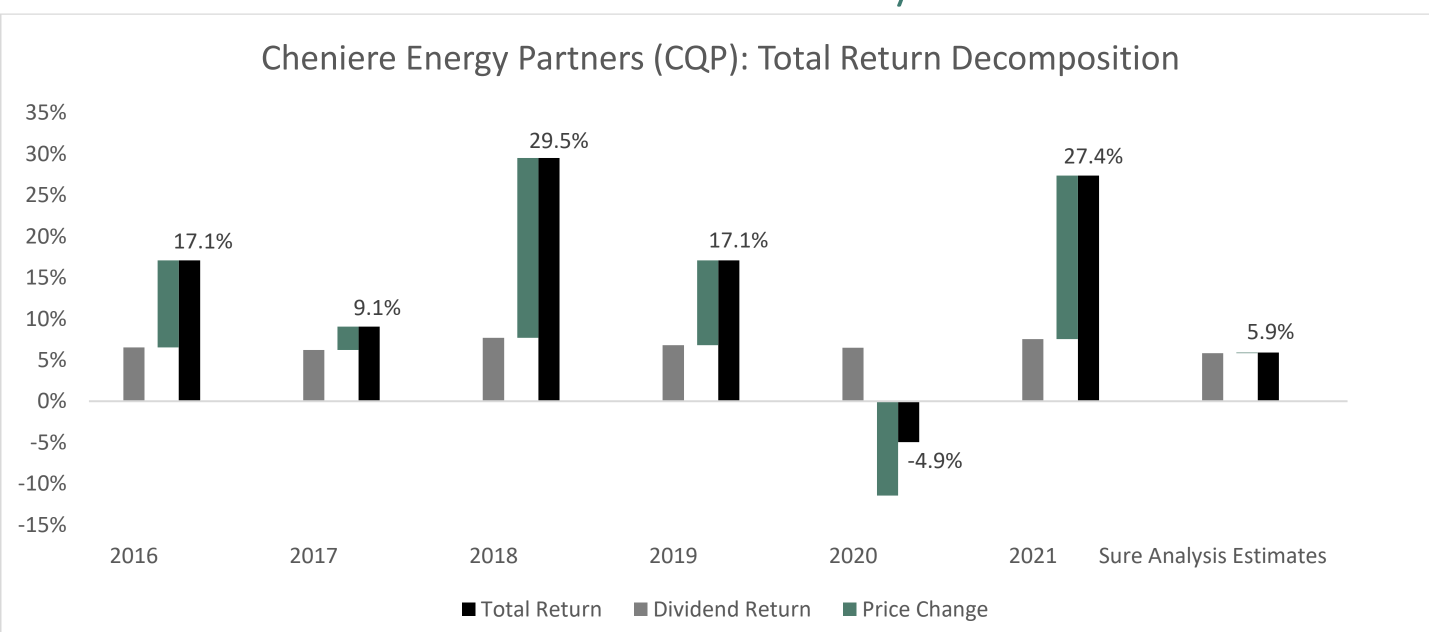
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	630%	---	---	---	---	---	91%	109%	112%	89%	***100%***	***90%***

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 7.6% 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 recent completion of a sixth production train. CQP has rallied 34% this year, but it could still offer a 5.9% average annual return over the next five years thanks to its 7.6% distribution and a 3.2% valuation tailwind, partly offset by a -3.0% annual decline of earnings-per-share. The stock maintains its hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	264	268	269	270	1,100	4,304	6,426	6,838	6,167	9,434
Gross Profit	207	211	210	235	532	1,645	2,599	2,930	3,034	3,486
Gross Margin	78.2%	78.6%	78.3%	87.0%	48.4%	38.2%	40.4%	42.8%	49.2%	37.0%
SG&A Exp.	114	154	126	141	103	95	86	113	110	96
D&A Exp.	---	57	59	66	156	339	424	527	551	557
Operating Profit	38	(32)	1	3	250	1,158	1,987	2,047	2,130	2,567
Operating Margin	14.5%	-11.9%	0.2%	1.1%	22.7%	26.9%	30.9%	29.9%	34.5%	27.2%
Net Profit	(150)	(240)	(410)	(319)	(171)	490	1,274	1,175	1,183	1,630
Net Margin	-56.8%	-89.5%	-153%	-118%	-15.5%	11.4%	19.8%	17.2%	19.2%	17.3%
Free Cash Flow	-1,157	-3,085	-2,783	-3,084	-2,315	-313	1,070	216	779	1,643

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	4,266	8,517	10,388	12,833	15,542	17,553	17,974	19,384	19,145	19,358
Cash & Equivalents	419	351	249	146	---	---	---	1,781	1,210	876
Accounts Receivable	---	---	4	1	187	348	444	388	484	779
Inventories	3	10	8	17	97	95	99	116	107	176
Total Liabilities	2,386	6,877	9,257	12,120	15,099	16,914	17,174	18,669	18,606	18,640
Accounts Payable	74	10	9	16	27	12	15	40	12	21
Long-Term Debt	2,167	6,576	8,991	11,692	14,433	16,046	16,066	17,579	17,580	17,177
Shareholder's Equity	1,880	1,640	1,131	713	443	639	800	715	539	718

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	-5.0%	-3.8%	-4.3%	-2.7%	-1.2%	3.0%	7.2%	6.3%	6.1%	8.5%
Return on Equity	-22.5%	-13.6%	-29.6%	-34.6%	-29.6%	90.6%	177%	155%	189%	259%
Units Out.	33.5	54.2	57.1	57.1	57.1	178.5	348.6	348.6	399.3	484.0
Revenue/Share	1.25	0.81	0.80	0.78	3.26	10.80	13.28	14.13	12.74	19.49
FCF/Share	(5.45)	(9.35)	(8.24)	(8.87)	(6.85)	(0.79)	2.21	0.45	1.61	3.39

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