Cheniere Energy Partners (CQP)

Published May 13th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$48	**5 Year CAGR Estimate:**	7.3%	**Market Cap:**	$23.0 B
Fair Value Price:	$58	**5 Year Growth Estimate:**	-2.0%	**Ex-Dividend Date:**	5/8/2024
% Fair Value:	83%	**5 Year Valuation Multiple Estimate:**	3.9%	**Dividend Payment Date:**	5/15/2024
Dividend Yield:	6.8%	**5 Year Price Target**	$53	**Years Of Dividend Growth:**	0
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 $23.0 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 four 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 six 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 May, CQP reported (5/3/24) results for the first quarter of fiscal 2024. Its number of LNG cargos rose 2% over the prior year's quarter but the company incurred material losses in its commodity derivatives. As a result, its earnings plunged 65%, from $1.935 billion to $682 million. Due to the sanctions of western countries on Russia, European gas prices have remained above average, though they have incurred a sharp correction off blowout levels in 2022. The demand for LNG cargos remains strong but it has somewhat moderated. As a result, CQP reiterated its guidance for an annual distribution of $3.15-$3.35 in 2024, which is lower than the record distribution of $4.16 offered last year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	-$1.19	-$0.43	-$0.20	-$1.32	$2.51	$2.25	$2.32	$3.00	$4.63	$4.50	***$4.15***	***$3.75***
DPS	$1.70	$1.70	$1.70	$1.79	$2.28	$2.46	$2.59	$2.66	$3.88	$4.16	***$3.25***	***$3.10***
Units[1]	57.1	57.1	57.1	178.5	348.6	348.6	399.3	484.0	484.0	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 6 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 in 2022 and plans to add up to 3 more trains in the upcoming years. Thanks to the strong demand for LNG cargos, which has resulted from the elevated European gas prices, CQP is likely to post above-average earnings this year, albeit lower than the record earnings in 2022-2023. Due to the high comparison base and the cyclical nature of LNG, we have assumed a -2% average annual decline in earnings-per-share over the next five years.

[1] 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.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/E	---	---	---	---	13.6	18.9	15.0	13.8	11.2	11.3	***11.6***	***14.0***
Avg. Yld.	5.5%	5.7%	6.2%	6.0%	6.7%	5.8%	7.4%	6.4%	7.5%	8.2%	***6.8%***	***5.9%***

CQP has posted losses in many years and hence its price-to-earnings ratio has been meaningful in just six years over the last decade. The MLP is currently trading at a price-to-earnings ratio of 11.6, which is lower than the 10-year average ratio of 14.0. If CQP trades at its average valuation level in five years, it will enjoy a 3.9% annualized gain to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

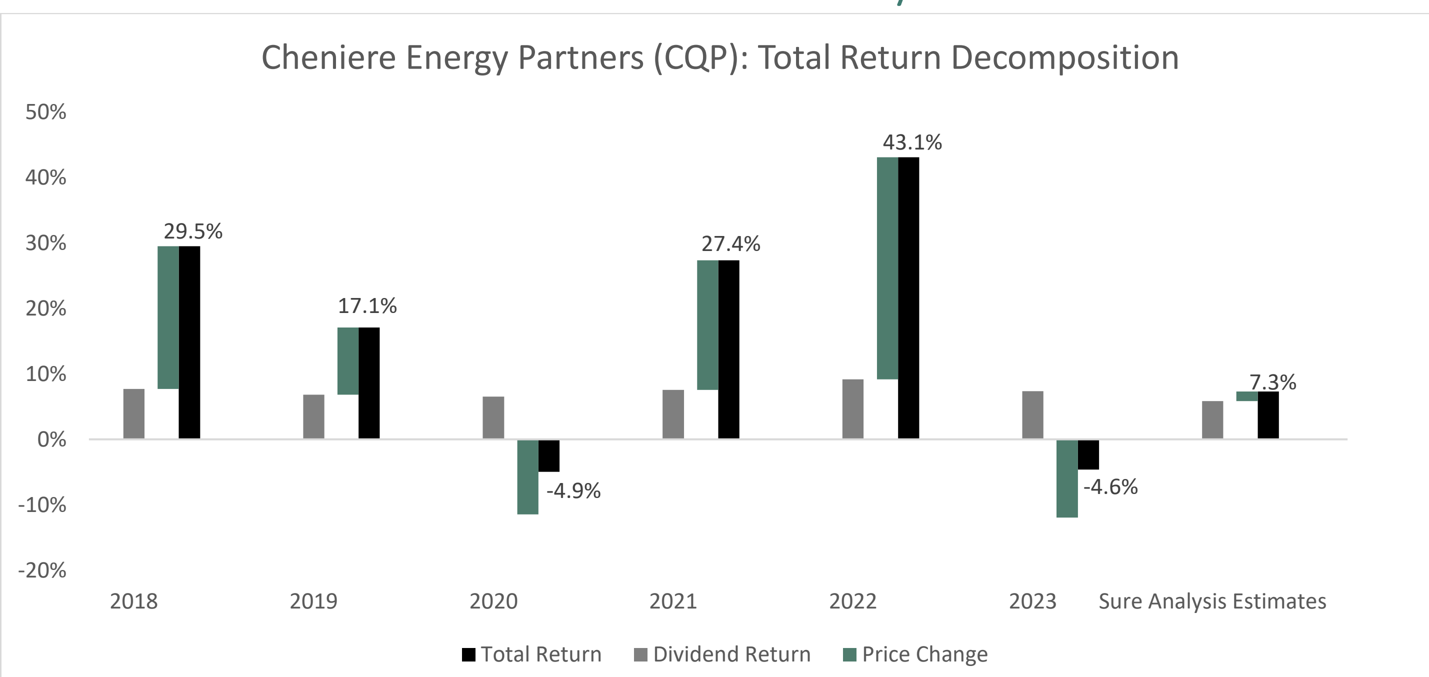
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	---	91%	109%	112%	89%	84%	92%	***78%***	***83%***

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 6.8% 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, the recent completion of a sixth production train and the potential addition of up to 3 more production trains. CQP could offer a 7.3% average annual return over the next five years thanks to its 6.8% distribution and a 3.9% valuation tailwind, partly offset by a -2.0% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	269	270	1,100	4,304	6,426	6,838	6,167	9,434	17,206	9,664
Gross Profit	210	235	532	1,645	2,599	2,930	3,034	3,486	4,472	6,249
Gross Margin	78.3%	87.0%	48.4%	38.2%	40.4%	42.8%	49.2%	37.0%	26.0%	64.7%
SG&A Exp.	126	141	103	95	86	113	110	96	97	99
D&A Exp.	59	66	156	339	424	527	551	557	634	672
Operating Profit	1	3	250	1,158	1,987	2,047	2,130	2,567	3,380	5,036
Operating Margin	0.2%	1.1%	22.7%	26.9%	30.9%	29.9%	34.5%	27.2%	19.6%	52.1%
Net Profit	(410)	(319)	(171)	490	1,274	1,175	1,183	1,630	2,498	4,254
Net Margin	-153%	-118%	-15.5%	11.4%	19.8%	17.2%	19.2%	17.3%	14.5%	44.0%
Free Cash Flow	-2,783	-3,084	-2,315	-313	1,070	216	779	1,643	3,698	2,889

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	10,388	12,833	15,542	17,553	17,974	19,384	19,145	19,358	19,633	18,102
Cash & Equivalents	249	146	---	---	---	1,781	1,210	876	904	575
Accounts Receivable	4	1	187	348	444	388	484	779	1,154	642
Inventories	8	17	97	95	99	116	107	176	160	142
Total Liabilities	9,257	12,120	15,099	16,914	17,174	18,669	18,606	18,640	21,764	18,886
Accounts Payable	9	16	27	12	15	40	12	21	32	69
Long-Term Debt	8,991	11,692	14,433	16,046	16,066	17,579	17,580	17,177	16,198	15,906
Shareholder's Equity	1,131	713	443	639	800	715	539	718	(2,131)	(784)

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-4.3%	-2.7%	-1.2%	3.0%	7.2%	6.3%	6.1%	8.5%	12.8%	22.5%
Return on Equity	-29.6%	-34.6%	-29.6%	90.6%	177%	155%	189%	259%	---	---
Units Out.	57.1	57.1	57.1	178.5	348.6	348.6	399.3	484.0	484.0	484.0
Revenue/Share	0.80	0.78	3.26	10.80	13.28	14.13	12.74	19.49	35.55	19.97
FCF/Share	(8.24)	(8.87)	(6.85)	(0.79)	2.21	0.45	1.61	3.39	7.64	5.97

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