

## Chesapeake Energy

4Q23 Earnings recap: smart steps in 2024 -  
pacing activity, timing production capacity

Reiterate Rating: BUY | PO: 115.00 USD | Price: 77.65 USD

## Pacing activity, positioning for recovery, moving gas mkts

Since US gas prices fell <\$2.00/mcf the key question facing investors has been how the producers will react. Of the pure play gas E&Ps to report so far we view CHK's response - to deliberately moderate production, cut capex & pace activity to avoid pushing gas into a bad market - as the model of how to navigate current gas weakness. CHK will cut spending 20% vs 2023 levels; exit / exit gas production will fall ~27%; but in its place is 1bcf/d of 'stored' capacity available to sell into a forward curve in steep contango while building inventory of uncompleted wells. CHK will run 7 rigs (4 Haynesville, 3 Marcellus) and cut frac activity in half for 2024: but it will cease to bring on new wells after 1Q24 and will instead defer 80 wells until a sustainable price recovery is in place, noting these can be turned online in a matter of weeks. The enabler is low net debt helped by the last of its Eagleford asset sales, a forward hedge strategy that protects ~60% of 2024 production at an avg floor of \$3.66/mcf. For 2024, CHK looks FcF neutral at strip: but w/CHK's move lifting after-market gas futures, we suggest the floor for gas prices is in.

## Adj EPS handily beats consensus; cashflow better by 24%

Adj EPS of \$1.31 handily beat consensus of \$0.76 (BofA \$1.21). Vs our estimate, the beat was slightly better production & hedge gains offset by higher operating costs. Cash flow from operations was \$566mm, ahead of street consensus of \$456mm. After a use of working capital of \$93mm and capex of \$379mm, CHK had free cashflow of ~\$91mm, partially funding share repurchases (\$42mm) and dividends (\$75mm). Following the sale of its 3rd package in the Eagleford CHK added \$366mm to its cash position leaving net debt at ~\$950mm or 0.6x prospective 2024 EBITDA, in the worst gas price in a decade.

## CHK remains the low risk play on a changing gas market

In summary, CHK's balance sheet, low breakeven, and strong hedge portfolio has allowed management to navigate current weakness in natural gas markets. However, we believe our thesis on the pending change in the dynamics of US natural gas is intact - and with a downward reset in its cost base pending with the potential merger with SWN, which we expect in 3Q24 we see CHK positioned as the low risk play on a structural shift in US gas prices after two decades as a stranded market. Incorporating guidance our PO drops to \$115 from \$120. We reiterate our Buy rating and CHK remains our top US gas idea.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	17.29	4.92	1.09	7.63	11.10
GAAP EPS	33.04	16.96	1.09	7.63	11.10
EPS Change (YoY)	88.1%	-71.5%	-77.8%	600.0%	45.5%
Consensus EPS (Bloomberg)			3.58	8.77	10.09
DPS	5.60	2.83	2.20	2.20	2.20
Valuation (Dec)					
P/E	4.5x	15.8x	71.2x	10.2x	7.0x
GAAP P/E	2.4x	4.6x	71.2x	10.2x	7.0x
Dividend Yield	7.2%	3.6%	2.8%	2.8%	2.8%
EV / EBITDA*	2.0x	3.8x	8.3x	4.6x	3.6x
Free Cash Flow Yield*	2.7%	5.6%	1.5%	10.5%	15.3%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

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21 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	120.00	115.00

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## Stock Data

Price	77.65 USD
Price Objective	115.00 USD
Date Established	21-Feb-2024
Investment Opinion	B-1-7
52-Week Range	69.68 USD - 91.00 USD
Mkt Val (mn) / Shares Out (mn)	9,862 USD / 127.0
Free Float	95.1%
Average Daily Value (mn)	185.37 USD
BofA Ticker / Exchange	CHK / NAS
Bloomberg / Reuters	CHK US / CHK.OQ
ROE (2024E)	1.4%
Net Dbt to Eqty (Dec-2023A)	9.0%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

Mcf – thousand cubic foot  
E&P – exploration and production  
bcf – billion cubic foot

# iQprofile<sup>SM</sup> Chesapeake Energy

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	28.0%	17.9%	1.7%	8.3%	11.4%
Return on Equity	34.0%	7.1%	1.4%	9.9%	13.6%
Operating Margin	40.3%	77.0%	11.0%	38.4%	45.2%
Free Cash Flow	266	551	145	1,035	1,508

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.6x	3.4x	9.5x	2.3x	2.0x
Asset Replacement Ratio	2.2x	1.2x	1.1x	1.1x	1.1x
Tax Rate	NM	22.4%	23.0%	23.0%	23.0%
Net Debt-to-Equity Ratio	50.3%	9.0%	10.6%	5.0%	-0.8%
Interest Cover	23.6x	30.2x	3.3x	16.5x	29.3x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	9,378	4,080	2,597	3,714	4,515
% Change	95.4%	-56.5%	-36.3%	43.0%	21.6%
Gross Profit	6,811	5,699	2,282	3,433	4,200
% Change	142.4%	-16.3%	-60.0%	50.4%	22.3%
EBITDA	6,270	3,343	1,541	2,805	3,526
% Change	192.3%	-46.7%	-53.9%	82.0%	25.7%
Net Interest & Other Income	(160)	(104)	(87)	(37)	(20)
<b>Net Income (Adjusted)</b>	<b>2,513</b>	<b>702</b>	<b>153</b>	<b>1,070</b>	<b>1,557</b>
<b>% Change</b>	<b>139.8%</b>	<b>-72.1%</b>	<b>-78.2%</b>	<b>600.0%</b>	<b>45.5%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	4,869	2,419	153	1,070	1,557
Depreciation & Amortization	1,753	1,527	1,231	1,306	1,410
Change in Working Capital	(123)	275	0	0	0
Deferred Taxation Charge	(1,332)	428	39	111	117
Other Adjustments, Net	(1,072)	(2,269)	24	(27)	(25)
Capital Expenditure	(3,829)	(1,829)	(1,302)	(1,425)	(1,550)
<b>Free Cash Flow</b>	<b>266</b>	<b>551</b>	<b>145</b>	<b>1,035</b>	<b>1,508</b>
<b>% Change</b>	<b>-74.7%</b>	<b>107.1%</b>	<b>-73.6%</b>	<b>611.7%</b>	<b>45.6%</b>
Share / Issue Repurchase	(1,071)	(355)	0	0	0
Cost of Dividends Paid	(1,212)	(487)	(297)	(521)	(898)
Change in Debt	(5,740)	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	130	1,079	1,086	1,500	2,159
Trade Receivables	1,438	685	685	685	685
Other Current Assets	1,130	1,118	1,118	1,118	1,118
Property, Plant & Equipment	11,187	9,765	9,748	9,855	9,984
Other Non-Current Assets	1,583	1,729	1,804	1,804	1,804
<b>Total Assets</b>	<b>15,468</b>	<b>14,376</b>	<b>14,441</b>	<b>14,962</b>	<b>15,749</b>
Short-Term Debt	1,627	20	20	20	20
Other Current Liabilities	1,077	1,509	1,521	1,533	1,545
Long-Term Debt	3,093	2,028	2,191	2,040	2,040
Other Non-Current Liabilities	547	90	129	240	356
<b>Total Liabilities</b>	<b>6,344</b>	<b>3,647</b>	<b>3,861</b>	<b>3,833</b>	<b>3,961</b>
<b>Total Equity</b>	<b>9,124</b>	<b>10,729</b>	<b>10,586</b>	<b>11,134</b>	<b>11,793</b>
<b>Total Equity &amp; Liabilities</b>	<b>15,468</b>	<b>14,376</b>	<b>14,446</b>	<b>14,967</b>	<b>15,754</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Oil & Gas Producers

## Company Description

Headquartered in Oklahoma City, CHK is an oil and gas positions in Appalachia, the Gulf Coast, and South Texas. As of year-end 2021, it has estimated proved reserves of approximately 1,596 MMboe, of which approximately 81% is natural gas and approximately 59% proved developed.

## Investment Rationale

Visibility on free cash flow with a pristine balance sheet means CHK's point forward investment case provides an attractive value play, on a conservative gas deck (\$3.00) and a low volatility option on long term gas prices continuing to benefit from a moderate international arbitrage.

## Stock Data

Average Daily Volume 2,259,422

## Quarterly Earnings Estimates

	2023	2024
Q1	1.87A	0.18E
Q2	0.64A	-0.11E
Q3	1.09A	0.16E
Q4	1.32A	0.87E

## 4Q23 Earnings Recap

The table below compares actuals to estimates and prior yoy and qoq results

### Exhibit 1: CHK 4Q23 Earnings Estimates

Updated for 4Q23 results

Segment Earnings	4Q23A	4Q23E	4Q22A	YOY	3Q23A	QOQ
Total Rev & Non-Op Inc	1,948	912	4,126	-53%	1,512	29%
Production Expenses	(63)	(58)	(126)	-50%	(73)	-14%
DD&A	(379)	(370)	(453)	-16%	(382)	-1%
Income Tax Expense	(166)	(51)	1,390	-112%	(1)	0%
Other Income / Expenses	(387)	(262)	1,538	-125%	(1,071)	-64%
<b>Net Income (Adjusted)</b>	185	170	618	-70%	155	19%
Special Items	(384)	-	(2,962)	-87%	85	-552%
<b>Net Income (Reported)</b>	569	170	3,513	-84%	70	713%
Earnings (Adjusted)	1.32	1.21	4.22	-69%	1.09	21%
Earnings (Reported)	4.06	1.21	24.00	-83%	0.49	725%
Dividend	0.55	0.55	0.50	10%	0.55	

Source: BofA Global Research estimates; Company Data

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## Estimate Changes

Adjusting for results and updated guidance, mainly the change in pace of production in 2024, our estimates change as follows.

### Exhibit 2: CHK Earnings Estimates

2024 EPS calls to \$1.09 on lower activity

	Q1	Q2	Q3	Q4	FY	BBG Consensus
2023A	1.87	0.64	1.09	1.21	4.82	4.40
2024E	0.18	(0.11)	0.16	0.87	1.09	3.58
Previous	0.39	0.12	0.47	1.49	2.47	n/a
2025E	1.82	1.36	1.83	2.62	7.63	8.77
Previous	2.38	1.50	1.88	2.72	8.47	n/a
2026E	3.01	2.57	2.58	2.95	11.10	10.09
Previous	3.21	2.83	2.91	3.35	12.30	n/a

Source: BofA Global Research estimates; Bloomberg

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Note that our estimates do not yet include the acquisition of Southwestern Energy. At this time, we believe there is a risk that the transaction could be delayed to 3Q24 (though company's preliminary announcement expected the transaction to close 2Q2024), as in our view, a second FTC request may be a possibility— all the other similar deals announced so far, have had a second request.

## Price objective basis & risk

### Chesapeake Energy (CHK)

Our price objective of \$115/sh assumes \$75 Brent and \$70 WTI long-term. We assume long-term HH natural gas of \$4.00. We apply a long-term (post-tax) weighted average cost of capital (WACC) of 7.2%, which is based on the BofA Strategy team's assumed risk premium and a five-year monthly beta.

Downside risks to our price objective are: E&P companies, in general, are subject to commodity price volatility, commensurate slowdowns in development drilling, and potential investor apathy. Company-specific downside risks to our price objective are: (1) Potential M&A as the company does consider potential acquisitions, (2) potential regional bottleneck, and (3) a production mix heavily weighted towards natural gas, making it more susceptible if commodity prices were to decline.

Upside risks to our PO 1) higher potential long-term gas and 2) the debottlenecking of US gas as LNG infrastructure is built along the Gulf Coast.

## Analyst Certification

I, Doug Leggate, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## Special Disclosures

BofA Securities is currently acting as financial advisor to Southwestern Energy Company in connection with its proposed merger with Chesapeake Energy Corporation, which was announced on January 11, 2024. The proposed transaction is subject to approval by shareholders of Southwestern Energy Company and Chesapeake Energy Corporation. This research report is not intended to provide voting advice, serve as an endorsement of the proposed transaction, or result in the procurement, withholding or revocation of a proxy.

### US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	APA Corporation	APA	APA US	Doug Leggate
	Canadian Natural Resources	YCNQ	CNQ CN	Doug Leggate
	Canadian Natural Resources	CNQ	CNQ US	Doug Leggate
	Chesapeake Energy	CHK	CHK US	Doug Leggate
	Chevron Corp.	CVX	CVX US	Doug Leggate
	ConocoPhillips	COP	COP US	Doug Leggate
	Coterra Energy Inc	CTRA	CTRA US	Doug Leggate
	EQT Corporation	EQT	EQT US	John H. Abbott
	ExxonMobil Corp.	XOM	XOM US	Doug Leggate
	Granite Ridge Resources, Inc	GRNT	GRNT US	John H. Abbott
	Imperial Oil	IMO	IMO US	Doug Leggate
	Imperial Oil	YIMO	IMO CN	Doug Leggate
	Kimbell Royalty Partners	KRP	KRP US	John H. Abbott
	Occidental Petroleum Corp.	OXY	OXY US	Doug Leggate
	Ovintiv Inc	YOVV	OVV CN	Doug Leggate
	Ovintiv Inc	OVV	OVV US	Doug Leggate
	Range Resources Corp	RRC	RRC US	Doug Leggate
	Suncor	YSU	SU CN	Doug Leggate
	Suncor	SU	SU US	Doug Leggate
<b>NEUTRAL</b>				
	California Resources Corporation	CRC	CRC US	Kalei Akamine
	CNX Resources	CNX	CNX US	John H. Abbott

## US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Delek US Holdings, Inc.	DK	DK US	Doug Leggate
	Devon Energy Corp.	DVN	DVN US	Doug Leggate
	Diamondback Energy Inc.	FANG	FANG US	Doug Leggate
	EOG Resources	EOG	EOG US	Doug Leggate
	Gulfport Energy Corporation	GPOR	GPOR US	Doug Leggate
	HF Sinclair Corporation	DINO	DINO US	Doug Leggate
	Marathon Petroleum Company	MPC	MPC US	Doug Leggate
	PBF Energy	PBF	PBF US	Doug Leggate
	Permian Resources Corporation	PR	PR US	Doug Leggate
	Phillips 66	PSX	PSX US	Doug Leggate
	Valero Energy Corp.	VLO	VLO US	Doug Leggate
<b>UNDERPERFORM</b>				
	Chord Energy Corporation	CHRD	CHRD US	John H. Abbott
	Crescent Energy Company	CRGY	CRGY US	John H. Abbott
	Marathon Oil Corp.	MRO	MRO US	Doug Leggate
	National Fuel Gas Company	NFG	NFG US	John H. Abbott
	Northern Oil and Gas	NOG	NOG US	John H. Abbott
	Vital Energy Inc	VTLE	VTLE US	John H. Abbott
<b>RSTR</b>				
	Pioneer Natural Resources	PXD	PXD US	Doug Leggate

iQmethod<sup>SM</sup> Measures Definitions

## Business Performance

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

## Quality of Earnings

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

## Valuation Toolkit

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

## Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

## Numerator

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

## Numerator

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

## Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

## Denominator

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

## Denominator

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales  
Basic EBIT + Depreciation + Amortization

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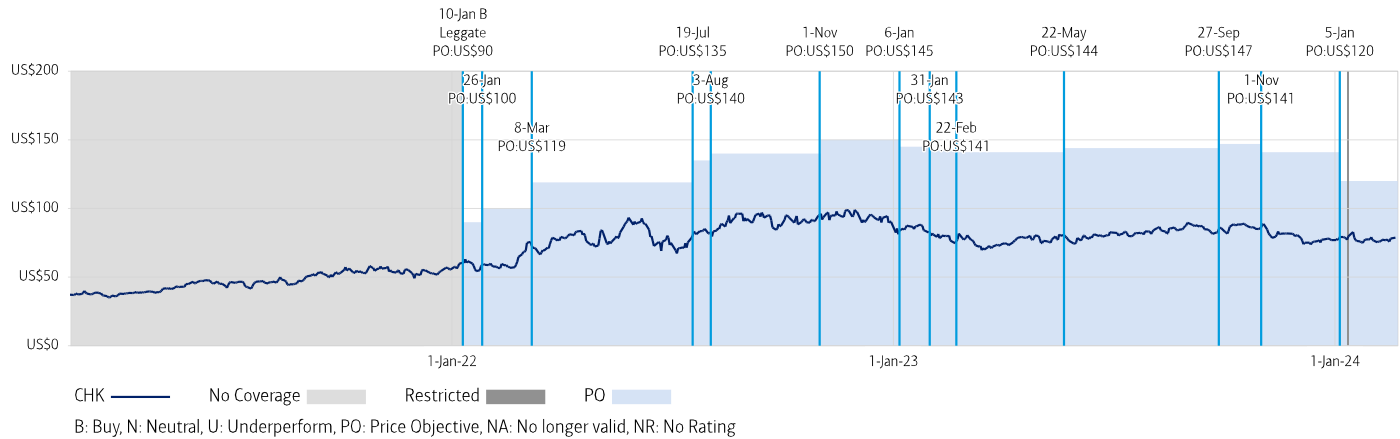
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# Disclosures

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### Chesapeake (CHK) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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