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Cheniere Energy (LNG) Q4 2016 Results - Earnings Call Transcript

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Q4: 02-26-17 Earnings Summary

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EPS of $-0.34 misses by $-0.04 | Revenue of $571.6M (+ 735.3% Y/Y) beats by $0.01M

Cheniere Energy, Inc. (NYSEMKT:LNG)

Q4 2016 Earnings Call

February 28, 2017 11:00 am ET

Executives

Randy Bhatia - Cheniere Energy Partners LP

Jack A. Fusco - Cheniere Energy, Inc.

Anatol Feygin - Cheniere Energy, Inc.

Michael J. Wortley - Cheniere Energy, Inc.

Analysts

Jeremy B. Tonet - JPMorgan Securities LLC

Theodore Durbin - Goldman Sachs & Co.

Faisel H. Khan - Citigroup Global Markets, Inc.

Craig K. Shere - Tuohy Brothers Investment Research, Inc.

Alex S. Kania - Wolfe Research LLC

Jean Ann Salisbury - Sanford C. Bernstein & Co. LLC

Michael Webber - Wells Fargo Securities LLC

Fotis Giannakoulis - Morgan Stanley & Co. LLC

Pavel S. Molchanov - Raymond James & Associates, Inc.

Operator

Good morning. My name is Scott, and I will be your conference operator today. At this time, I would like to welcome everyone to the Cheniere Fourth Quarter and Full Year 2016 Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. Thank you.

Randy Bhatia, Vice President of Investor Relations, you may begin your conference.

Randy Bhatia - Cheniere Energy Partners LP

Good morning, everyone, and welcome to Cheniere Energy's fourth quarter and full year 2016 earnings conference call. The slide presentation and access to the webcast for today's call can be found on our website, located at cheniere.com.

Participating on today's call are Jack Fusco, Cheniere's President and Chief Executive Officer; Anatol Feygin, Executive Vice President and Chief Commercial Officer; and Michael Wortley, Executive Vice President and Chief Financial Officer.

Before we begin, I would like to remind all listeners that our remarks, including answers to your questions, may contain forward-looking statements. Actual results could differ materially from what is described in these statements. Slide 2 of our presentation contains a discussion of those forward-looking statements and associated risk.

In addition, we may include references to non-GAAP financial measures, such as adjusted EBITDA, net loss as adjusted and net loss per share as adjusted. A reconciliation of these non-GAAP financial measures to the most comparable GAAP measure can be found in the appendix of the slide deck.

As part of our discussion on Cheniere Energy, Inc.'s results, today's call may also include selected financial information and results for Cheniere Energy Partners, L.P., or CQP, and Cheniere Energy Partners LP Holdings, or CQH. On this call, we do not intend to cover CQP or CQH's results separately from those of Cheniere Energy, Inc.

After prepared remarks from each of the participating executives, we will open the call for Q&A. As shown on the agenda on slide 3, Jack will begin with an overview of the quarter and year and then give an update on construction and operating progress at our liquefaction projects. Following Jack's comments, we will hear from Anatol on our commercial activities, and then from Michael, who will review financial results.

I will now turn the call over to Jack.

Jack A. Fusco - Cheniere Energy, Inc.

Thank you, Randy, and good morning to everyone. I'm pleased to be here today for Cheniere's fourth quarter and full year 2016 earnings call. 2016 was an incredibly important year for Cheniere with transition being the overarching theme across the entire company, including construction, operations, financing and executive leadership.

This transition took place against the backdrop of the start of LNG production at our liquefaction project at Sabine Pass. As I reflect on 2016, we have many accomplishments to be extremely proud of at Cheniere. And I personally want to thank the Cheniere professionals, who have supported me throughout this endeavor. As 2016 will go down as the year of transition, 2017 will go down as the year of opportunity.

As you will hear from Anatol, Michael and myself, we have only just begun. We have big plans and as we look forward to 2017, it is setting up to be a pivotal one for Cheniere and our stakeholders.

Turn now to slide 5 for an overview of some key operational and financial highlights of the fourth quarter and full year 2016. I am pleased to report consolidated revenue at Cheniere was approximately $1.3 billion for 2016, with over $500 million in LNG revenues in the fourth quarter alone. Net income attributable to common stockholders for the fourth quarter was approximately $110 million and net loss attributable to common stockholders for 2016 was $610 million. We generated over $150 million in adjusted EBITDA for the year, with approximately $134 million coming in the fourth quarter. Growth in revenue and adjusted EBITDA is driven by our continued transition into operations at our Sabine Pass Liquefaction project.

The fourth quarter reflects almost a full quarter of operations of both Trains 1 and 2. During the quarter, we continued to execute on our goals to strengthen our balance sheet and increase liquidity. Michael will cover these items in more detail in a few minutes, but I did want to highlight a couple of important transactions we did during the fourth quarter that demonstrate our commitment to managing the balance sheet throughout our structure.

In November, we repaid $2.1 billion of bonds at Sabine Pass LNG, which is our regas entity, with borrowings under the credit facility at CQP. Subsequent to the repayment of those bonds, there is now no long-term debt maturity anywhere in the Cheniere complex until 2020.

Over at our Corpus Christi project, we issued $1.5 billion of bonds to refinance a portion of that project's credit facility. That was the second bond issuance at Corpus in 2016 and investors should expect us to continue to refinance bank capacity into the bond market on an opportunistic basis.

Also at Corpus, during the fourth quarter, we entered into a $350 million Working Capital Facility for that project to provide support for gas procurement infrastructure initiatives. Finally, we're seeing the rating agencies recognize the construction and operational progress we've made, and also the strength of the financings we've structured for our projects.

You will recall in the third quarter, Sabine Pass Liquefaction received its first investment-grade credit rating when S&P upgraded it to a BBB minus. Subsequent to the end of the fourth quarter in January, SPL received its second investment-grade rating, which Fitch assigned, a BBB minus rating to the debt. Having Sabine Pass rated investment-grade, is a key achievement for the project, which we expect will yield benefits to us on multiple fronts for the years to come.

On the operational front, in the fourth quarter, we produced 24 cargoes at SPL, none of which were commissioning cargoes. For the full year 2016, SPL produced and exported a total of 56 cargoes. Those cargoes aggregate to nearly 200 TBtu of gas and that gas was taken to 17 different countries around the world.

We have updated the map located in the appendix for more details. Certainly, we're pleased to be playing a pivotal role in supplying LNG to customers and markets across the globe. In November, the date of the first commercial delivery, or DFCD, was reached under our fixed price 20-year sale and purchase agreement with BG Gulf Coast LNG relating to the first train at SPL.

And as we discussed on the last call, Train 3 began commissioning during the third quarter last year. In December, Train 3 began receiving what we would consider meaningful amounts of natural gas.

In mid-January, first LNG production was achieved at Train 3 and the first commissioning cargo was loaded and exported at the end of January. We continue to work together with Bechtel on the commissioning process with the goal of bringing the trains online faster and more efficiently.

Our collaboration with Bechtel and the application of lessons learned is resulting in a relatively smooth commissioning process on Train 3 thus far and we look forward to taking care, custody and control from Bechtel by the end of the first quarter.

Slide 6 provides an update on construction progress at our LNG projects at Sabine Pass and Corpus Christi. We remain very pleased with the overall progress of construction at Corpus Christi and construction and operations at Sabine Pass. As I have mentioned on both of our previous calls, our number one priority at the sites is to execute on the construction of the LNG platform safely, on-time and on-budget.

Highlighting the fourth quarter was the commencement of our first long-term fixed price SPA after DFCD was achieved for the first train in November. Also as I mentioned on the previous slide, Train 3 commissioning continues to progress well and four commissioning cargoes have been produced to-date.

On all trains, Bechtel continues to progress construction efforts against the contractual schedule dates. We, at Cheniere, remain focused on transitioning the trains from construction management to operations management safely, efficiently and effectively. From an operational perspective, we expect 2017 to be an eventful year as well. As an addition to the substantial completion of Train 3, we expect to achieve substantial completion of Train 4 in the second half of the year, and to achieve DFCD on the offtake contracts tied to both Trains 2 and 3 during the course of the year.

Turning to slide 7, I'd like to update you on the progress we've made on the goals that I've laid out on our previous calls and provide an overview of some of our goals for 2017. We've made significant progress each quarter thus far in achieving our set goals and the fourth quarter was no exception. I'd like to walk you through some of the highlights since our last call.

Operationally, our primary goal remains to ensure safe, reliable and efficient LNG platform operations. We are pleased with the commissioning process and we have worked with Bechtel to apply lessons learned from the first two trains. We look forward to completing commissioning of Train 3 over the coming weeks and completing Train 4 in the second half of 2017. There has been a considerable amount of questions, discussion and speculation around our gas nominations in LNG production.

As we've stated in the past, we're pleased with the production and performance of the trains at Sabine Pass thus far. That said, we continue to work to identify operational bottlenecks and implement solutions to optimize production at the plant. We're optimistic that we'll have more precision on the trains' performance capabilities in short order, and we expect to provide more information at the upcoming Analyst Day in April.

Financially, we remain committed to strengthening our balance sheet. The refinancing of the SPLNG bonds as well as recent bond offerings at Corpus and SPL were key accomplishments and we will remain opportunistic in refinancing our remaining credit facilities in the bond market at attractive rates.

Despite not completing the CQH fold in offer we announced last year, we continue to explore opportunities to simplify our corporate structure in ways that are attractive to our stakeholders. In addition, as I stated earlier, we continue to increase financial transparency and we plan to provide the investment community with long-term financial guidance and capital allocation strategies at our Analyst Day.

On the commercial front, we continue to successfully monetize commissioning cargoes and pursue incremental long-term contracts necessary to support financing of our next trains, Corpus Christi 3, Sabine Pass Train 6. We are also pursuing a number of initiatives along the LNG value chain to leverage our core capabilities on the LNG platform that I'll touch upon those initiatives shortly.

During the fourth quarter, we continued to make progress on organizational changes, but we'll always look for ways to best align their structure and philosophy with our shareholders. The restructuring efforts started in late 2015 are now substantially complete. We've implemented a new long-term share-based incentive compensation plan to align employees' and our shareholders' interests following a successful proxy vote by our shareholders last month.

We're pleased with the continued evolution of the company and we remain guided by our defined vision and values and we strive to be recognized as a premier global LNG company. And finally, I'd like to take this opportunity to express my appreciation to our shareholders for their overwhelming support on our recent shareholder vote regarding equity grants for our employees.

The proposal was approved by approximately 85% of the shares present and entitled to vote on the matter. Designing and implementing the sustainable long-term incentive compensation structure for our employees is something I've been working on since joining Cheniere last year. In order to achieve our goals, it's imperative that we are able to appropriately incentivize our employees to maximize long-term shareholder value and the overwhelming support the vote received helps ensure that we can do that for the years to come.

Turning to slide 8, I'd like to update you on a few of our strategic initiatives and the process. We're dedicated to evaluating and investing in development opportunities along the LNG value chain to leverage our platform to grow our core LNG business. We're in various stages of developing liquefaction projects and other infrastructure projects in support of natural gas supply and LNG demand. As I outlined on our last call, at the heart of these development initiatives is our belief in the long-term demand growth profile for energy and more specifically LNG. Long-term supply and demand fundamentals support our bullish view on the need for incremental liquefaction capacity, and our place on the cost curve positions us well to compete and win.

We continue to pursue our evaluation of a mid-scale LNG solution that we introduced to you last quarter. Our consortium of Siemens, KBR and Chart are progressing well on the FEED analysis. We're assessing the commercial, regulatory and logistical feasibility and the full-cycle cost profile of a potential project. We look forward to receiving some of the results to that effort over the next several months and we will communicate more on that to you when appropriate. In that regard, we believe expansion of our existing facilities is far superior to new greenfield development based on the significant investment in site and gas procurement infrastructure. Our focus is to leverage our people, our site, our gas resourcing capability and knowhow to provide the next generation of competitively priced U.S. LNG.

We're also progressing on our MIDSHIP Pipeline project to connect gas production in the SCOOP and STACK to the Gulf Coast markets and support long-term gas supply efforts for both Sabine Pass and Corpus Christi. Since our last call, we have made considerable progress along the three key critical paths; commercial, regulatory and financing. Today, however, details of the progress remain commercially sensitive, but we hope to be able to update the market on the project in more detail very soon.

With regard to our pursuit of integrated FSRU to power projects, as many of you know, our El Campesino project in Chile suffered a setback recently with an unexpected and unfavorable ruling from the Chilean Supreme Court. The Supreme Court ruled that the Chilean Government's Environmental Evaluation Service breached certain administrative procedures in issuing the environmental permit for the LNG terminal portion of the project.

As a result, we expect a delay in construction of the LNG terminal while a portion of the Environmental Impact Assessment process is resumed. We and the other project sponsors remain fully committed to the project and we will continue to work diligently to deliver the assets under development, which will provide a much needed new reliable source of supply for the Chilean power market.

Before turning the call to Anatol, I did want to touch briefly on an additional topic to address some of the questions we have recently received from the investment community around the potential impact to our company under the new presidential administration. In Washington, our team is actively working to ensure that our interests are represented and our voice is heard in relevant policy discussions. We have a strong relationship on both sides of the aisle on Capitol Hill and are building relationships with the new administration. We will continue on our non-partition engagement in Washington on key issues that may affect our company, such as tax reform and trade policy.

And now, Anatol is here to provide an update on our commercial activities.

Anatol Feygin - Cheniere Energy, Inc.

Thanks, Jack, and good morning, everyone. Turning to slide 10, I'd like to provide an update on some global LNG fundamentals that Jack referred to earlier through the end of 2016 and look back at what was an encouraging year for LNG demand overall.

An increase in demand during 2016 was to be expected, because of the ramp up of supply from projects entering service in Australia and of course our Sabine Pass. What was largely unexpected was the size and speed of the demand response to the new LNG supply. Global demand last year was up 6% year-on-year at 15 million ton net increase, but more than 28 million tons of demand growth outweighed the 13 million ton decline which came mostly from a slowdown in Latin America and Japan.

China and India underscored their potential to quickly increase LNG demand and tighten global markets. China in particular imported more than 7 million more tons versus 2015. That's equivalent to production from nearly two conventional size liquefaction trains. Demand from India was up more than 4 million tons year-on-year with a bulk of its incremental increase coming in Q3.

Strength also came from new market entrants, Egypt and Pakistan, as well as increases from longtime importers in Spain and France. LNG supply grew more in 2016 than it has on an annual basis since 2011. In addition to our own plant starting up, four projects in Australia were either beginning operations or ramping up during the year, adding the majority of the 17.5 million tons of incremental supply.

Declines at legacy producers helps to keep the year-over-year increase from being even bigger. Despite the increase in Pacific Basin supply, the region still had to draw on LNG produced in the Atlantic Basin, especially during the second half of the year when the demand response from Asia was strengthened considerably.

Now, turning to slide 11, LNG consumption was expected to rise with the introduction of new supply, but there was a noticeable uptick in demand in the fourth quarter, while prices increased. Asian spot prices during the quarter reached two-year highs, approaching $10 an MMBtu. The demand pull from Asia was headlined by China which increased imports by more than 60%, about 3.5 million tons in Q4.

South Korea and Spain both imported 16% more LNG in Q4, while Taiwan was up double digits at 13%. A cold snap in Asia helps underpin the increased demand and LNG was able to quickly fill in for nuclear outages, domestic gas shortages, and compete effectively with coal and liquid fuels. The first two trains were operating at Sabine Pass for most of Q4 and the profile of delivery destinations from the plant showed the ability of U.S. LNG to be reactive to market conditions.

Cargoes loaded from the plants during 2016 between Cheniere and our customers were sent to 17 countries. Asia grew as a destination for Sabine volumes in Q4 as price spreads between Henry Hub and Asia attracted U.S. supply into the Pacific Basin. 18 cargoes loaded at Sabine Pass during the quarter, including 10 in December alone used the Panama Canal to reach customers in Asia or the West Coast of Mexico.

Turn now to slide 12 where I'll cover some details of our gas procurement activities, headed by Corey Grindal, since starting production over a year ago. The underlying competitiveness of LNG from Sabine Pass at least in part comes from Cheniere's ability to manage the day-to-day operations of securing feed gas for the plant.

Recall that unlike other projects under construction in the U.S., Cheniere's model is different and that our product and service offering includes gas procurement and transportation. During the fourth quarter, Cheniere emerged as one of the largest physical gas buyers in the U.S. market, taking in more than 1.5 Bcf a day. We've quickly increased our intake at the plant to more than 2 Bcf a day to feed liquefaction on the third train, which as Jack said, is deep into the commissioning process and has started LNG production.

Our gas supply team has done a tremendous job matching up gas supply with the daily needs of the plants during commissioning, ramp-up and commercial operation, which can be challenging even for the smooth startup process at Sabine Pass, which we have seen thus far with Train 3.

Our gas supply team has been a big part of the LNG production reliability we've seen in Sabine Pass throughout the startup process. It is going to serve us well as we continue to bring our liquefaction trains online and as the leading full service U.S. LNG provider.

A critical and frankly costly part of building and maintaining a highly effective gas supply function, has been securing a diverse range of transportation and supply options around North America, tapping into every major basin for supply.

Together, our two projects are one of the largest pipeline capacity holders in the country with more than 5 Bcf a day of firm capacity on eight pipeline systems. This capacity represents an annual expenditure of approximately $400 million in capacity payments between our two project companies, but will ensure our ability to effectively manage intraday volume variances, price volatility and effectively operate as one of the largest gas buyers in the U.S.

With that diverse capacity, we're able to build a portfolio of supply from domestic gas producers and take full advantage of the cost competitive basins across the U.S. In fact, it doesn't stop at the U.S., as we recently entered into our first supply deal to receive Montney gas on a Henry Hub Index from a Canadian producer.

Turning now to slide 13, Cheniere's strength in U.S. natural gas markets is just one piece of our full-service LNG offering that stretches from feed gas procurement, all the way to delivered LNG sales and downstream development of LNG to power projects.

With two trains operational and the third commissioning, we have begun to build operational best practices that are helping us maximize production, as we transition to our fourth train at Sabine Pass, which is on track to be operational later this year.

Increased efficiency at Sabine Pass, and then at Corpus Christi is also expected to allow us to seamlessly expand through already permitted liquefaction capacity at both our sites. The strong performance at the two and soon-to-be three trains at Sabine have provided our LNG marketing group with cargoes to sell in the short-term market.

By the end of Q4, the group had sold and delivered 28 cargoes from Sabine Pass. The team has also been successfully managing an LNG shipping portfolio needed to handle the volume coming from Sabine Pass and have chartered more than 20 tankers, since the plant came into operation.

This winter, our shipping portfolio peaked at nine tankers, making Cheniere one of the top five holders of shipping capacity in the market. Cheniere's growing success in U.S. gas supply management, LNG operations, LNG marketing and shipping is putting us in a better position to leverage our DES LNG offering.

Cheniere has the uncontracted capacity of LNG from Sabine and Corpus ready to sell now, on either FOB or DES terms, which allows us to be more flexible and creative with what we can offer buyers. Our global origination team continues to target customers with contracts on a range of terms, quantities and lengths, including LNG to power projects that are facilitated by floating regasification. We believe that as our operational capabilities continue to grow, our full-service LNG portfolio supply model will be as competitive as any LNG in the market today.

With that, I'll now turn the call over to Michael to review our financial results.

Michael J. Wortley - Cheniere Energy, Inc.

Thanks, Anatol. Good morning, everyone. I'm pleased to announce our financial results for the fourth quarter and full year 2016, the summary of which begins on slide 15. Trains 1 and 2 at Sabine Pass were in commercial operations for most of the full fourth quarter. The previously announced flare work was completed during October and the outcome was a significant improvement in our financial results again this quarter. We continue to be pleased with the positive transition in our financial results as trains at Sabine Pass enter into commercial service.

We're also moving the company closer to articulating our long-term financial strategy and providing financial guidance. As Jack mentioned earlier, we anticipate releasing strategy and guidance at our Analyst Day in April of this year. Our long-term goal remains value creation through disciplined capital allocation.

As a reminder, as we go through these results, Cheniere Energy consolidates the results of CQP and CQH. For the fourth quarter of 2016, we reported consolidated revenue of $572 million compared to $68 million in the corresponding 2015 period. For the full year 2016, we reported consolidated revenue of $1.3 billion compared to $271 million in 2015.

Revenue recognized from LNG sales was approximately $500 million in the fourth quarter and more than $1 billion for the full year 2016. During the fourth quarter, we loaded 24 cargoes, none of which were commissioning cargoes. Therefore, these cargoes either have been or will be reflected on the income statement. Note, that for cargoes that are sold delivered ex-ship or DES, revenues are not recognized until the volumes are offloaded at the point of destination.

For the full year, we loaded and exported 56 cargoes, of which 13 were classified as commissioning cargoes, which are recorded as an offset to construction and process on the balance sheet. As a reminder, proceeds from the sale of commissioning cargoes are recorded as such because these amounts are earned prior to our taking over care, custody and control of a respective train.

Accordingly, it may continue to be difficult to model our revenue accurately and tie out our reported revenue to production in upcoming quarters as we continue to commission trains at Sabine Pass. We can also recognize revenue on the income statement without corresponding production at SPL as Cheniere marketing can sell cargoes purchased from other supply sources.

The 24 cargoes loaded at SPL during the fourth quarter included early volumes lifted by BG Gulf Coast LNG and Gas Natural Fenosa under their respective contracts prior to the date of first commercial delivery of those contracts, volumes lifted by BG after DFCD under its contract and volumes lifted by CMI.

Of the 24 cargoes, 11 were lifted by our foundation customers and 13 were lifted by CMI. Total operating costs and expenses increased during the fourth quarter and full year 2016 as compared to the corresponding 2015 periods, generally as a result of the commencement of operations of SPL Trains 1 and 2 in May and September of 2016, respectively.

Additionally, certain operating expense line items previously capitalized during construction have begun to be expensed. Depreciation and amortization expense increased in the fourth quarter due to a full quarter depreciation of assets related to Trains 1 and 2.

SG&A expense decreased by approximately 37% in fourth quarter 2016, as compared to the fourth quarter of 2015 and decreased 28% for full year 2016 as compared to prior year. The decrease in SG&A expense was primarily due to timing of stock-based compensation recognition and recognition of certain employee-related costs within restructuring expense, which were historically reported in SG&A, a reduction in certain professional service fees and reallocation of certain costs from SG&A to O&M following commencement of operations at SPL.

Included in the SG&A line item, our aggregate share-based compensation expenses for the 3 months and 12 months ended December 31, 2016 of approximately $7 million and $38.2 million, respectively. As indicated on the last quarter call, amounts under these legacy grants will be recognized over the next approximately year-and-a-half.

As stated on the last call, we expect long-term run rate SG&A to total approximately $200 million per year prior to any stock-based compensation expense. During the fourth quarter, we recognized approximately $12 million in restructuring expenses. These expenses totaled $61 million for the year. These expenses are primarily related to share-based compensation, severance and employee-related costs under restructuring and operational efficiency initiatives initiated in late 2015. These initiatives were substantially complete at year end 2016.

Net income attributable to common stockholders was $109.7 million or $0.48 per share for fourth quarter 2016 compared to a net loss of $291.1 million or $1.28 per share for the corresponding 2015 period. Net loss attributable to common stockholders for full year 2016 was $610 million or $2.67 per share compared to $975.1 million or $4.30 per share for 2015.

Impacting earnings during the fourth quarter were significant items totaling approximately $216 million. These significant items had an impact of $170 million for full year 2016. These items related to derivative gains primarily due to changes in LIBOR over the period, loss on early extinguishment of debt related to refinancings at SPL, Corpus, SPLNG and Creole Trail, changes in the fair value of our commodity derivative, restructuring expense, amortization of the beneficial conversion feature related to certain Class B units to CQP and impairment expense.

The management of our consolidated balance sheet continues to drive much of the impact to EPS and investors should expect EPS results to continue to be influenced by such financing-related items for the foreseeable future. As such, we also report adjusted EBITDA and net loss as adjusted, which exclude these items. Additional detail on the impact of these items can be found in the reconciliation tables in the appendix of the slide deck.

Adjusted EBITDA for the three months and 12 months ended December 31, 2016 was $134.2 million and $153.6 million, compared to a loss of $90.6 million and $228.6 million for the comparable 2015 period.

With regard to liquidity, as of December 31, 2016, we had unrestricted cash and cash equivalents at Cheniere of approximately $875 million.

On slide 17, I'd like to discuss some recent highlights from key finance initiatives that are underway. These have all been touched on already, but I'd like to provide a bit more insight into each. First in January, SPL received an investment-grade rating of BBB minus from Fitch Ratings.

This second investment-grade rating at SPL enables SPL to access the investment-grade market which features significantly more depth than the high yield market and fixed income products, which can better match the tenor of our long-term foundation customer LNG contracts.

As Jack mentioned earlier, the investment-grade rating is expected to yield benefits to us on multiple fronts, and therefore, maintaining that rating is central to our long-term financing strategy at SPL. Corpus Christi project financing was structured with similar investment-grade metrics as Sabine Pass and we expect the ratings of that project to progress toward investment-grade over time.

The achievement of two investment-grade ratings at SPL allowed us to launch a private placement bond offering at SPL, and we were able to place $800 million aggregate principal amount of senior secured notes due 2037, which priced at par to yield 5%. These bonds begin to amortize in year nine and have a weighted average life of just over 15 years and a final maturity of 20.5 years.

After this issuance, there is approximately $1.2 billion remaining on the SPL bank facilities. It's our goal to complete the refinancing of the SPL bank facility in the near future.

In December, we launched a bond offering at Corpus in place, $1.5 billion principal amount of senior secured notes due 2025, which priced at par to yield 5.875%, our lowest coupon at Corpus thus far. There is approximately $6 billion remaining on the Corpus bank facility. We'll continue to be opportunistic in terming out the bank facility at Corpus to better align the maturity profile at projected annual EBITDA levels.

In December, we also entered into a $350 million Working Capital Facility at Corpus to be used for loans and letters of credit for certain working capital requirements related to development and placing into operations CCL's liquefaction facilities in the Corpus Christi Pipeline or related facilities.

Initially, this facility will be used primarily for gas procurement and transportation and infrastructure credit support as well as funding of debt service reserves, payment of transaction fees and expenses and other general corporate purposes.

In November, we repaid the full $2.1 billion principal outstanding SPLNG senior secured notes due 2016 and 2020, using borrowings under the CQP bank facility arranged last year. There are now no long-term debt maturities in the Cheniere complex until 2020.

Summary of our current consolidated debt maturity profile can be found in the appendix. Finally, in the fourth quarter, Cheniere terminated its previously announced offer made to the board of CQH to acquire those shares of CQH, not already owned by Cheniere in a stock for stock exchange.

Subsequent to the termination announcement, Cheniere acquired approximately 5.8 million shares of CQH through individually negotiated transaction with CQH shareholders. We remain focused on evaluating opportunities to simplify our corporate structure to reduce complexity for debt and equity investors. As has been mentioned previously, we're preparing long-term guidance regarding our expected financial results and long-term financial strategy, which we look forward to presenting at Analyst Day in April.

With that, we would like to thank you for your time today and your interest in Cheniere. We look forward to seeing you at Analyst Day and updating you on our next call.

Operator, we're now ready to open the line for questions.

Question-and-Answer Session

Operator

Your first question comes from the line of Jeremy Tonet with JPMorgan. Your line is open.

Jeremy B. Tonet - JPMorgan Securities LLC

Good morning.

Jack A. Fusco - Cheniere Energy, Inc.

Good morning.

Michael J. Wortley - Cheniere Energy, Inc.

Good morning, Jeremy.

Jeremy B. Tonet - JPMorgan Securities LLC

I was wondering, if you might be able to touch on some of the marketing deals that were signed prior to 2015. Would you be able to provide any color on what possibly you're shipping in 2017 or any thoughts on pricing, just trying to figure out what our expectation should be there?

Jack A. Fusco - Cheniere Energy, Inc.

Yes, go ahead.

Anatol Feygin - Cheniere Energy, Inc.

Thanks, Jeremy. So, we've released those numbers to you guys in the aggregate in the past. Those are transactions that we're entered into substantially in 2014 and will flow through the income statement – or started flowing through in 2016, but will substantially come through by the first half of 2018. So, we've given you numbers on what that looks like in the aggregate. Over time, I will say, you will be able to triangulate some of that by looking at both the export numbers on our side and the import numbers in terms of the countries of destination, but at this point, they're pretty commercially sensitive and other than the kind of lump sum and the term of those deals, we're not going to provide much more color.

Jeremy B. Tonet - JPMorgan Securities LLC

Okay. Fair enough. And then maybe just turning to the LNG market in the fourth quarter, as noted, there was some really good strength that emerged there as demand really picked up. Some of that has faded into the first quarter here. Just wondering if you could provide any more color in addition to what you said on the call as far as the potential for demand to pick up again, any more strength – pockets of strength in 2017, anything forward looking you could provide there.

Anatol Feygin - Cheniere Energy, Inc.

Yes. I guess the overarching message is we continue to be pleasantly surprised by the speed and magnitude of the demand response. The world when it sees attractive prices and the ability to bring these volumes with destination flexibility and timely and reliable deliveries, puts solutions in place that allow underutilized infrastructure to be more utilized, right? That's the issue in a lot of the Asian markets and as we've talked about in the past, the FSRUs continue to help us and other LNG providers place these attractive Btus into the market.

There is historically during these periods of supply additions, the market tends to overestimate the LNG that's going to come to market, and underestimate how quickly the demand will materialize. We saw that in 2010/2011 when the Qatari volumes ramped up and we're seeing that today, right?

The projects, we're on time, ahead of schedule, on budget, et cetera, but lots of other projects as you know have had some teething problems. We've mentioned in a number of occasions, a lot of the legacy projects that don't have the nameplate capacities that the market has gotten used to, and at the same time, this somewhat stealth demand that is harder to handicap because these projects are not nearly as visible as a multi-million ton train that everyone sees and knows chapter and verse about.

So, we're optimistic that there is a very substantial structural components to this demand response and you will see some seasonality. As you pointed out, we're clearly seeing that today. But a year ago, nobody had dialed in the kind of strength that we saw in Q4 and continued into Q1.

Jack A. Fusco - Cheniere Energy, Inc.

And, Jeremy, I would just add, this is Jack, that nat gas at $2.76 today, we're going to be extremely competitive and you should expect us to be competitive and aggressive in the market to get our product to market.

Jeremy B. Tonet - JPMorgan Securities LLC

That makes sense. And maybe one last one if I could, and I don't know if you're going to save this for Analyst Day, but just wondering as far as we think about CQP in lifting the distribution higher, would you look for a DCFD to be fully online for Trains 1, 2, 3 before you'd look to do that or any other broad strokes that you could provide around how you're thinking about when is the right time to raise the distribution?

Michael J. Wortley - Cheniere Energy, Inc.

Yes, sure. This is Michael. So, the first thing that will happen right is the B units will convert from a picking instrument to a common, so that's kind of a stealth distribution increase. They'll start getting MQD $0.425 here probably in the third quarter. And so that will take our distributions from $25 million a quarter to well north of $100 million. So that will be the first thing that happens. And then the question will be when do we start actually paying on the subunits, and we'll talk more about how we think that cadence looks in April, but certainly with co-gas (41:00) coming on, we'll be in a position to start paying on those I'd say in the near future, but talk more specifically about that in April.

Jack A. Fusco - Cheniere Energy, Inc.

Thank you, Jeremy.

Jeremy B. Tonet - JPMorgan Securities LLC

Thank you.

Operator

Your next question comes from the line of Ted Durbin with Goldman Sachs. Your line is open.

Theodore Durbin - Goldman Sachs & Co.

Thanks. Good morning. It looks like Train 3 is coming in service a little earlier than expected, can you just walk us through the cash flow impact of that?

Jack A. Fusco - Cheniere Energy, Inc.

The cash flow impact.

Michael J. Wortley - Cheniere Energy, Inc.

On Train 3, right, so DFCD on co-gas (41:41) if the train comes on in March as we expect will be...

Unknown Speaker

June 1.

Michael J. Wortley - Cheniere Energy, Inc.

June 1. So, you can assume that in between when it comes on in March as we expect and June 1, that our marketing affiliate will have to put those volumes away at market prices, whatever those are and they'll be in a position to do that.

Theodore Durbin - Goldman Sachs & Co.

Okay. That's great. That's helpful. And then, maybe just coming back to the market itself, the big move-up in the spot price this winter, has that changed the conversations with some of the offtakers? Are you talking about longer-term contracts, maybe the size there and then the types of buyers that might be out there, whether a portfolio or utility like buyers?

Anatol Feygin - Cheniere Energy, Inc.

Thanks Ted, this is Anatol again. Yes, I would say that the mood of the community overall changed pretty dramatically in the fall of 2016. If you comp it sort of on a year-on-year basis, certainly, much different swagger in the step-up of the LNG community. I wouldn't say that our discussions have changed materially. We are talking to largely the same cadre of customers, they include – we don't discriminate, we will transact with creditworthy counterparties, be they portfolio players, load serving entities, et cetera and we continue those conversations.

There are a number of them that are in advanced stages. I will say that I could have said exactly the same thing six months ago and 12 months ago. So, yes, the attitudes and the mood is much better. Everybody agrees that this dearth of FIDs that we've experienced over the last really 18 months is going to be an issue next decade. Everyone agrees that there is no fairy dust to bring liquefaction online dramatically faster than this kind of four-year period.

So, as time moves on, the sense of urgency is increasing as well. So, we are in very healthy advanced discussions with a large cadre of counterparties and it's our number one priority to deliver term offtake to underwrite more liquefaction.

Theodore Durbin - Goldman Sachs & Co.

Okay, great. I'll leave it at that. Thank you.

Jack A. Fusco - Cheniere Energy, Inc.

Thanks, Ted.

Operator

Your next question comes from the line of Faisel Khan with Citigroup. Your line is open.

Faisel H. Khan - Citigroup Global Markets, Inc.

Thanks. Good morning. Just one question. Jack, I think and, Michael, I think you mentioned in your prepared comments about sort of the – try to simplify the structure and make it more streamlined. Is it your guys' opinion that the structure itself right now is sort of is holding valuation back or is there something that's sort of more difficult to manage a structure the way it is that impacts sort of your guys' ability to run the organization?

Michael J. Wortley - Cheniere Energy, Inc.

Yeah, Faisel. This is Michael. So, I think, on holding valuation back. I mean, it's possible right, I mean you go to some of these more traditional long-only holders and you put an org chart in front of them that's got seven or eight boxes on it and that to explain that money moves from the MLP to a CQH type entity, and then it makes the distribution decision. Yeah, I think that gets a little tedious and I mean, it's not that complicated, but for some of these larger investors who don't have the time to spend their whole day figuring out our structure, I think they throw it in the too hard pile. So it's possible, it's possible. And I think to the extent some of those boxes aren't useful from a financing standpoint going forward, it's our duty to kind of clean them up if it makes sense from a shareholder value perspective, so that remains a priority for us, I'll just say.

Faisel H. Khan - Citigroup Global Markets, Inc.

Got you. Great. Thank you.

Randy Bhatia - Cheniere Energy Partners LP

Thanks.

Operator

Your next question comes from the line of Craig Shere with Tuohy Brothers. Your line is open.

Craig K. Shere - Tuohy Brothers Investment Research, Inc.

Good morning. You've got a lot of results already complete, I mean, you've refinanced pretty much all the SPL debt, you've accelerated Train 3 in terms of timing and have a lot of commissioning cargoes under your belt. With all that known, do you have any feedback about this original guidance of $2 billion to $2.5 billion of backend equity funding needed for completion of Train 4 and Train 5?

Michael J. Wortley - Cheniere Energy, Inc.

Not yet, not yet. That will be a function of the ultimate cost of the five train project and you've asked this before, Craig, and it's a fair question, but Train 5 is 13% complete as of today, so I think releasing – we have substantial contingency in releasing all that today and saying, well, now, the backended equity is $2 billion, I just still think it's too early but a fair question. We got to get into Train 5 a little bit further before we're ready to start making those pronouncements.

Craig K. Shere - Tuohy Brothers Investment Research, Inc.

Fair enough. And just a quick follow-up. Train 4 has been described for a long time in your monthly FERC filings as an August target subject to month (47:17). But you kind of have described in your recent releases as second half 2017. In terms of falling one way or the other from that August time table, are you able to give us some probability that, it would be more likely to be earlier than later or vice versa?

Jack A. Fusco - Cheniere Energy, Inc.

Yeah. I think it's little too early for us to tell. But as you can see from Train 3, our relationship with Bechtel continues to get stronger and we continue to learn and conduct our work more safely and more efficiently. So we're guardedly optimistic, but we're expecting big things in 2017.

Craig K. Shere - Tuohy Brothers Investment Research, Inc.

Okay. Thank you very much.

Operator

Your next question comes from the line of Alex Kania with Wolfe Research. Your line is open.

Alex S. Kania - Wolfe Research LLC

Hi. Good morning. A couple of questions. First on marketing; I saw this in the 10-K and I think, Michael, you noted this as well. You took a decent amount of marketing based on third-party derived LNG. I was just kind of curious how do you see remarketing cargoes going forward as a piece of the marketing business versus selling cargoes that are originated at Sabine or Corpus?

Michael J. Wortley - Cheniere Energy, Inc.

Yeah. I think the ultimate goal is to sell volumes from SPL, but there is a lot of uncertainty on production and particularly when in the commissioning period. And so from time-to-time, our marketing guys will have placed the cargo out three months or four months. And then the delivery window from the plant shifts or we had to take the plant down for maintenance or something, and then we end up having to go cover that position in the market. And so, it's not really – it's flexibility and a key competency of our marketing guys that we can have that flexibility and manage that, but I don't think it's not something we want to do with regularity, right. The goal is just to sell SPL volumes. Would you add anything?

Anatol Feygin - Cheniere Energy, Inc.

Alex, it's Anatol. I would just say that as you look at even in the deck, we kind of try to highlight the pull into the Pacific basin that we saw from Atlantic, and clearly we have a tremendous team on the optimization side that can take advantage of these dynamics and optimize our portfolio. To Michael's point, no question that job one is getting the volumes sold out of SPL as profitably as possible. But then there is a large and very effective optimization function that the team performs on a daily basis.

Alex S. Kania - Wolfe Research LLC

Got it. Okay. And then just a question on the commercialization, just of expansion trains, and obviously it's a little sensitive right now on progress there, but do you expect that Chilean project delay to have any direct impact on, let's say being able to move forward with the Corpus 3? Or would it be kind of independent, something that marketing could handle either way?

Michael J. Wortley - Cheniere Energy, Inc.

Yeah. More the latter right. So the way that project was set up, finance structured, it's an attractive project as we said in the prepared remarks. We're committed to getting it across the finish line. It's in very good shape, other than this one major setback, but it was not a meaningful contributor to our decision on Corpus Train 3.

Alex S. Kania - Wolfe Research LLC

Thanks very much.

Operator

Your next question comes from the line of Jean Ann Salisbury with Bernstein. Your line is open.

Jean Ann Salisbury - Sanford C. Bernstein & Co. LLC

Good morning. Is Cheniere marketing still paying a $3 fixed fee to CQP for cargoes or is that being renegotiated?

Jack A. Fusco - Cheniere Energy, Inc.

There is an informal, I guess, agreement in place that to the extent a trade doesn't clear $3 that we have a committee of CQP that really set up a profit-sharing mechanism and you can assume that the terminal gets the lion's share of the profit for volumes below $3.

But I'll tell you, this winter we didn't have to use that committee much because the trades were clearing $3. So we don't have a document in place, but we have committee in place to deal with them on a one-off basis and that's been working fine.

Jean Ann Salisbury - Sanford C. Bernstein & Co. LLC

Okay. Thanks. And then as a follow-up, I know that a border adjustment tax system is somewhat speculative, but probably is something that you have discussed. Just what are your thoughts on how it could impact Cheniere?

Jack A. Fusco - Cheniere Energy, Inc.

Yeah. Just as you say, to the extent exports are favored we're in a pretty good spot, I guess we'd leave it at that. I mean we're in communication with the ways and means guys and trying to get our business treated favorably if they want to treat exports favorably.

Jean Ann Salisbury - Sanford C. Bernstein & Co. LLC

Okay. Thank you.

Operator

Your next question comes from the line of Michael Webber with Wells Fargo. Your line is open.

Michael Webber - Wells Fargo Securities LLC

Hey. Good morning, guys. How are you?

Jack A. Fusco - Cheniere Energy, Inc.

We're doing well, Michael.

Michael Webber - Wells Fargo Securities LLC

First one is just on the recent refi activity and you put some color on slide 21, which is helpful. But just curious, when we think about obstacles towards re-visiting distribution growth guidance of CQP, is it fair to say that with the removal of the maturity streams before 2019 that any remaining hurdles are effectively blocking and tackling around delivery of Trains 3 and Trains 4 at this point? Or do you think you need to actually address those maturities and the maturity stacks in 2020 and 2022 as well?

Jack A. Fusco - Cheniere Energy, Inc.

No. The key was getting the bank facility out of the way, and that is not out of the way yet, but we're in the market on a transaction now that if it's successful would get that credit facility out of the way. And it has more restrictive distribution covenants in it than our bonds. So the distribution growth pathway has really always been dependent on getting that bank facility out of the way and so that's the key milestone that we hope to achieve here pretty soon.

The bond maturities are less important out in 2020, 2021 and I think Train 3 and Train 4 in getting those up and running are really what matter.

Michael Webber - Wells Fargo Securities LLC

Got you. Okay, that's helpful. And then, Anatol, you mentioned the kind of the diversity of cargo destinations, I think 17 countries and 60 different shipments, but the midstream aspect of this trade is proven to be a bit more, I guess, inefficient than we would've thought on paper. And we've actually seen transportation costs rise a bit over the winter, just from the back of the fact that the trading of those assets and the merchant reaction has been a bit slower than we would have expected and then kind of leading days has been much wider than we would have expected given the destinations.

I'm just curious, how do you think about managing your transportation portfolio against that kind of a backdrop, do you get longer on tonnage than you would have initially thought, just given out the inefficiencies that have kind of popped up here?

Anatol Feygin - Cheniere Energy, Inc.

So on the shipping side, as we touched on, we are as close to being a 800-pound gorilla there as anybody and have a tremendous team that has been very effective at managing that fleet, but that is one of the places where as we touched on optimization comes into play and we've had a lot of opportunities to take advantage of that and take advantage of the very inefficiencies that I guess you speak to.

In terms of our portfolio, I've actually been very pleasantly surprised by the utilization rate on those chartered vessels and as you know, we have three on a five-year charter and augment that with medium and short-term positions to service the volumes that we see coming out of SPL and I would say, from our vantage point, that's been very effectively done at pretty attractive economics and has allowed us to capture some, some meaningful incremental optimization margin.

Jack A. Fusco - Cheniere Energy, Inc.

And I would say Michael, as you know, most of our, all of our foundation customers and contracts are FOB Louisiana, so we are not taking any of that shipping risk or cost.

Michael Webber - Wells Fargo Securities LLC

Right, I guess, the idea that the, the market is tightened up for transportation a bit more quickly than everyone would have thought just given the, how young that kind of merchant trade is, so I'm just curious on a forward basis, has it changed the way you think about your transportation needs, just given the fact that it's tightened up a bit more quickly?

Anatol Feygin - Cheniere Energy, Inc.

Marginally, yes, we evaluate that, obviously, on a regular basis, we have our own view and analysis of how the shipping markets will play out. To your point, the, one of the side effects of this stealth or surprisingly strong demand is that, it did absorb some incremental shipping capacity, but the other side of that is true as well, as we've seen prices come off here and as we move into the shoulder season, the shipping rates have come off as well. So, we're actively managing that on a real-time basis and our views do moderate from time-to-time as we reassess.

Michael Webber - Wells Fargo Securities LLC

Got you. Yeah, that's a good problem to have. All right. I'll stop there and turn it over, thanks, guys.

Randy Bhatia - Cheniere Energy Partners LP

All right.

Operator

Your next question comes from the line of Fotis Giannakoulis with Morgan Stanley. Your line is open.

Fotis Giannakoulis - Morgan Stanley & Co. LLC

Yes, hello, gentlemen. I would like to ask your – a few about and give us – give me an overview about the off-take market we haven't seen the last 18 months, lot of activity in terms of off-take agreements. What need to happen in order to see more long-term contracts that will lead to additional liquefaction trains for Corpus Christi and Sabine Pass?

Jack A. Fusco - Cheniere Energy, Inc.

Yes, thanks, Fotis. Again, it's something that I don't think there is a silver bullet, I do think if you go back to the two kind of big surges in activity for contracting for U.S. LNG, they happened in fall of 2011, which to some extent was catalyzed by the tragedy of Fukushima and in spring of 2014, which was somewhat affected by Russia's activity in Crimea and Ukraine. So, we have a very attractive offering, we have – we are on the low-end of the cost curve from a liquefaction standpoint. The world has been, I think very pleasantly surprised by what this Henry Hub thing is and how attractively priced it is.

So we think that, that as potential off-takers move through time, see this gap opening up early next decade with a lack of FIDs and look at our portfolio that continues to deliver, the team continues to perform exceptionally through the value chain and we offer a very attractive, attractively priced LNG molecule, that's our sale for sure and it certainly resonates the question of timing, I can't give you a very specific date on obviously, but we have very productive, advanced discussions and the world of LNG is getting more and more comfortable with what Henry Hub is and how Cheniere can perform and delivering that.

Fotis Giannakoulis - Morgan Stanley & Co. LLC

Thank you. And one last follow-up. There are some discussions about projects reaching FID in North America, for example Golden Pass and there are a number of other projects that they are seeking financing or taking FIDs. How do these projects compare to your expansion plans and in terms of cost and what is the advantage that Cheniere offers?

Anatol Feygin - Cheniere Energy, Inc.

Well, I guess all we would say is that Corpus Train 3 is very attractive, as a Brownfield expansion, it's fully permitted, as you know partially commercialized and it is a very attractive offering both in terms of costs, as well as in terms of time to market. So you would have to ask the other guys how their cost structure compares to that. We've been pretty transparent about ours and don't see – really don't see any reason why Corpus Train 3 isn't the next project that reaches FID.

Jack A. Fusco - Cheniere Energy, Inc.

Yeah, I would say Fotis, you're going to hear a lot more about our strategy and our opportunities in April. But we believe that with our investment, not only in our people, but in our sites, in our bus, in our tanks, in our pipeline infrastructure that we're going to be extremely competitive for many-many years to come.

Fotis Giannakoulis - Morgan Stanley & Co. LLC

Thank you Jack. Thank you Anatol.

Operator

Your last question comes from the line of Pavel Molchanov with Raymond James. Your line is open.

Pavel S. Molchanov - Raymond James & Associates, Inc.

Thanks for taking the question, guys. I haven't heard anybody ask about Corpus, let me try this one. As you've been operating Sabine for the past year, are there any operational learnings that are going to be relevant as you start up Corpus about two years from now bearing in mind of course one's greenfield, one's not?

Jack A. Fusco - Cheniere Energy, Inc.

Yeah. So Pavel, the interesting thing, Doug Shanda and his team have done a fantastic job at recruiting and hiring operators and maintenance folks and in having them report to Sabine Pass to go through not only our simulator training, but also hands on training with the existing Trains at Sabine. And we're in the process now of re-locating those folks to Corpus, so they will be on the ground early and be very comfortable and familiar with that site.

Pavel S. Molchanov - Raymond James & Associates, Inc.

Okay. And then, at the beginning you guys mentioned that at the Analyst Day in April, you will be offering some guidance. Historically, of course you've kind of held away from giving any specific targets on cargoes in particular, are you going to be getting that granular and actually guiding to specific cargoes as part of the guidance?

Anatol Feygin - Cheniere Energy, Inc.

I mean we broke out today CMI listings versus third-party off-taker listings, we don't see any problem pointing that out in the future. I mean I think the ultimate number we're going to be showing is the free cash flow generative ability of the company and how much EBITDA we can generate both this year and on a run rate basis. I mean if cargo count is important to people, we could probably provide that?

Jack A. Fusco - Cheniere Energy, Inc.

Yeah. And in some sense, we will be providing that through the DOE disclosure.

Pavel S. Molchanov - Raymond James & Associates, Inc.

Yeah.

Jack A. Fusco - Cheniere Energy, Inc.

On a monthly basis.

Pavel S. Molchanov - Raymond James & Associates, Inc.

Okay. Understood. Appreciate it.

Jack A. Fusco - Cheniere Energy, Inc.

Thank you very much.

Anatol Feygin - Cheniere Energy, Inc.

Thanks, Pavel.

Jack A. Fusco - Cheniere Energy, Inc.

Thanks, everybody. We appreciate your interest in Cheniere and all of your support.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

Comments (0)