Why Oil Won't Rebound Until These Producers Go Bankrupt. Part 2

Description

Last week, I argued that even with oil prices plummeting, producers will keep drilling as long as they can. So, for oil production to actually fall, there will have to be some bankruptcies. Today, I highlight three more possibilities.

1. Pacific Rubiales

Pacific Rubiales Energy Corp. (TSX:PRE) was once a darling in the energy industry, thanks to its success drilling for oil in Colombia. More recently though, the company has fallen on hard times due to the low oil price.

Now, the focus turns to Pacific Rubiales' US$4.7 billion mountain of debt. To put this in perspective, the company's equity is only valued at $1.0 billion by the market. Making matters worse, Colombia's state-run Ecopetrol will not renew a contract in 2016 under which Pacific Rubiales operates the Rubiales oil field. The oil field currently accounts for half the company's production.

Pacific Rubiales has made some necessary steps. It suspended its monster dividend, and renegotiated some terms with creditors. That said, the company is in financial trouble, and insiders are selling. The stock could easily go to zero.

2. Twin Butte

Even before oil started its slide, **Twin Butte Energy Ltd.** (TSX:TBE) was facing its share of challenges. Back in May the company revised production guidance downwards, owing to operational problems at the company's vertical wells. The shares plunged in response and have fallen a lot further since. Now, Twin Butte is in serious trouble. It has net debt of about $1 per share, a big number for a company with a share price of $0.81.

The company did slash its dividend late last year, but still pays out $0.01 per share per month, good enough for a 15% yield. I would expect this to exert even more financial pressure on the company. Investors, be warned.

3. Athabasca Oil

This discussion would not be complete without mentioning **Athabasca Oil Corp.** (TSX:ATH), another energy company with some big problems.

At first glance, Athabasca's problems don't seem that severe. It has less than $800 million in long-term debt, compared to $500 million in cash. Unfortunately, this debt comes with special covenants tied to the value of the company's reserves. In plain English, with oil prices so low, Athabasca is likely not meeting all agreements tied to its debt.

For this reason, it has to renegotiate terms with its lenders, which is never an ideal scenario. Its debt is rated CCC+ by Standard & Poor's, not even close to investment grade. One bond manager put this company in a "funding for a dream category." If oil doesn't recover soon, the picture may get even worse.

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1. Editor's Choice

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1. TSX:FEC (Frontera Energy Corporation)

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