Will These 3 Companies Survive 2016?

Description

It's been a tough year for the TSX Composite Index, which has fallen in double digits, barring a big rally over the last two trading days.

The headlines were dominated by commodities, at least here in Canada. Although oil got most of the attention, other commodities such as natural gas, coal, iron ore, and wheat were also terrible performers. The worst commodity performer was molybdenum, which is used to make steel and oil drills. It's down approximately 50% year to date.

Many commodity companies survived 2015 by doing things like selling off excess assets, eliminating dividends, and cutting expenses to the bone. Thousands of workers lost their jobs in the subsequent downsizing.

Without a recovery in commodity prices in 2016, however, I'm not sure those moves will be enough. These companies have done everything they can. There isn't much left to do except wait for the underlying commodity to head higher. And if that doesn't happen, there will be bankruptcies.

Here are three companies that may not survive 2016.

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Penn West

Although I'm a shareholder of the beleaguered energy producer, I'm losing confidence that **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) will be able to survive 2016.

The company is currently sitting on more than $2.2 billion in total debt, a number that keeps creeping up despite asset sales. This is because the vast majority of it is issued in U.S. dollars, which then gets converted back to Canadian on the balance sheet. So even though the debt is being paid off in U.S. currency, it's losing ground due to the rapidly depreciating Canadian dollar. Penn West also has some $600 million worth of that debt coming due before 2017.

At $37 per barrel for crude, Penn West doesn't have the ability to generate enough cash to repay these loans, cover capital expenditures, and cover its paltry $0.01 per share quarterly dividend. The company either needs to sell assets in order to pay for the debt or hopefully find a banker who will lend it money.

I'm optimistic that will happen, but unless we see a major uptick in the price of crude, it's going to be an uphill battle. It's tough trying to get a good price in a depressed market. At least the weak Canadian dollar should help.

Sherritt

Sherritt International Corporation (TSX:S) is one of the world's largest nickel producers with production coming from Canada, Cuba, and Madagascar. Like Penn West, the company is riddled with debt. Sherritt owes more than $2.1 billion in total debt, which is offset somewhat by the $373 million of cash it has.

Sherritt has been hurt by the price of nickel declining. Since the price of the commodity peaked at more than US$22 per pound back in 2008, it's down some 80%. The current price is right around US$4 per pound.

At such a low price, Sherritt isn't making any money. Earnings are negative due to massive write-downs on projects that don't look to be worth nearly what the balance sheet dictates. Free cash flow is better, but the company has still bled more than $600 million in cash over the last year.

One saving grace that might save Sherritt in 2016 is it doesn't have any debt due until 2018.

Sears Canada

It isn't just commodity plays that may not survive 2016. Some of Canada's weaker retailers are skating on thin ice as well. There will come a day when the market finally forces **Sears Canada Inc.** (TSX:SCC) out of its misery.

In the last decade Sears has been spent selling anything that isn't nailed down. First it was the credit card division. Then it was valuable real estate in places like Toronto. All the cash generated by these sales was shipped back to the U.S. majority owners via special dividends. Finally, the whole Canadian division was put up for sale and no buyers have come forward.

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Sears Canada does have some attractive operating leases that have value. My prediction is that 2016 will be the year the company monetizes those leases as an American retailer uses the low Canadian dollar as motivation to finally expand into Canada. Once the good locations are sold off, the company will just shutter the rest and get what it can for the remaining real estate.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:S (Sherritt International Corporation)

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