



Investors Beware: These 3 Oil Companies Could Go Bankrupt

Description

Now that crude oil is flirting with \$50 per barrel, many value investors are once again starting to sniff around the energy sector.

I think this is a fine strategy provided oil stays around \$50 per barrel. All of the underlying stats I'm seeing—things like inventory levels, rig counts, and production projections—do point to crude staying higher. Low prices have done exactly what they've done before, which is to discourage production.

But as we all know, the price of crude is extremely unpredictable. If you would have asked me in mid-2014 if we would see sub-\$30 oil sometime in the next two years, the answer would have been a resounding no.

Because the price of oil is so volatile, it's important for any value investor to make sure any investment in the sector has a solid balance sheet. Because oil has been down for so long now, many of the weaker producers are in danger of bankruptcy unless oil recovers in a big way very soon. Since we can't count on that to happen, we have to be very careful when looking at these types of stocks.

Here are three oil companies I think are on their last legs.

Penn West

Penn West Petroleum Ltd. (TSX:PWT)(NYSE:PWE) is the perfect example of what can happen to a producer in low price environment.

Penn West was drowning in debt, so management started selling off non-core assets. As the price of crude continued to fall, so did the value of these assets. Since buyers knew Penn West needed these assets to go away, this further complicated the selling process. It's easy to negotiate with a desperate seller.

These days, Penn West still owes \$1.86 billion to creditors. It recently announced it was going to enter negotiations with its debtholders for the second time in as many years, hoping for some sort of loan relief. If a compromise can't be reached, Penn West may technically default on June 30. That's not

good news, no matter how you spin it.

Twin Butte

Over the past five years, **Twin Butte Energy Ltd.** (TSX:TBE) is down a whopping 97.6%, falling from \$2.75 per share all the way to \$0.065 . At least it paid a dividend from 2012 to 2015.

Twin Butte has nearly \$210 million in debt coming due over the next year, including \$85 million that was due on April 30. Lenders have agreed to push the due date of this latest maturity back a month as the company looks to sell assets to pay back the loan. We're very close to the deadline, and nothing has been announced yet.

There's always the possibility something gets negotiated. At this point, however, it's not looking good.

Lightstream

The **Lightstream Resources Ltd.** (TSX:LTS) story is similar to those of Penn West and Twin Butte. It simply owes too much money to too many creditors.

On May 2, Lightstream's bank creditors decreased the amount the company could borrow on its credit facility from \$550 million to \$250 million. Since the balance was \$371 million, this meant Lightstream had only 90 days to sell more than \$120 million in assets.

Even if the company is able to dig itself out of this latest hole, its total debt is more than \$1.55 billion. That's too much, especially for a company with production that recently dropped 25%. I'm not sure how Lightstream will avoid bankruptcy.

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