2 Oil Companies That Could Go Bankrupt in 2020

Description

Canada has the third-largest oil reserves in the world, and it is the fourth-largest oil producer and exporter. In the last recession, Canada fared much better than the rest of the world, and especially better than the U.S., partly because of our strong energy sector. But now that strength is slowly seeping away.

The pandemic is the primary catalyst for drying up the demand for oil across the globe. So much so, that hundreds of oil tankers are now stuck at sea, filled with oil that nobody wants. The Saudi-Russia oil war worsened the situation, but even when these two and other OPEC countries decided to cut oil production, it's not enough to balance the scales.

Currently, uncertainty has surrounded the energy sector. We speculate that the sector will bounce back, but it's hard to say when. And in the meanwhile, many companies in the sector might go bankrupt. Two of the companies that might be in danger of bankruptcy are:

An intermediate oil and gas company

Birchcliff Energy (TSX:BIR) stock has crashed in the past but not as hard as it has crashed this time. Unfortunately, it doesn't seem like it's going to rally anytime soon. The market value has fallen by about 84% in the past five years. The current market capitalization of the company is $361 million, and its total debt is almost double that, $677 million.

And the debt isn't the only risky number in Birchcliff's profile. The company has almost no cash on hand ($0.1 million), and net income is negative. The current ratio is at 0.4 times, indicating the company's inability to meet its short-term financial obligation. The quick ratio is also 0.4 times. The return on equity has also fallen into negative territory and is currently negative 3.2%.

A high level of debt and poor liquidity might be indicators of an upcoming bankruptcy.

An oil exploration company

If we say **Baytex Energy** (TSX:BTE)(NYSE:BTE) stock got caught in the downward spiral of the sector, it might indicate that the company had just started falling. But that's not the case. The stock has been going down since mid-2015, and it has fallen by about 98%. Forget double-digit to single-digit, Baytex is currently trading under $1, at a price of $0.36 per share. That's quite a step down from its $23 per share price in 2015.

The company is also deeply in debt. The total debt of the company, $1.85 billion, is over nine times the total market capitalization of the company ($199 million). It also has minimal cash reserves, just over $5.5 million. The current ratio of 0.79 also spells trouble for the company's financial obligations. The stock is also deemed highly volatile, with a beta of 3.73.

The company's balance sheet and invisible future prospects are pointing toward an inevitable bankruptcy.

Foolish takeaway

Like the airline sector and many other industries in the country, oil companies may also be expecting a bailout to help them out of this brutal slump. But a bailout might not be massive enough to save every company. Also, a bailout by itself will not be enough to help oil companies restart. An increase in demand, in conjunction with financial assistance from the government, is probably the lifeline that oil companies need right now.

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