

Q3 Flash Report: Energy Bankruptcies Will Continue to Rise

The number of energy bankruptcies increased compared to 2019. That trend is expected to continue.
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As events in Saudi Arabia shook up the oil markets, the number of Chapter 11 filings by energy companies continued at an elevated level during the third quarter, compared to last year.

Conditions for oil companies – especially smaller and independent oil and gas producers – are expected to continue to deteriorate, leading to even more Chapter 11 filings through the end of 2019 and into 2020.

According to The Deal's database, there were 35 bankruptcies of energy companies during the most recent quarter, bringing the total for the year to 85. That is a significant increase over 2018, when to this point 66 energy companies had filed for bankruptcy. Just 15 sought that protection during the third quarter of 2018.

Raoul Nowitz, managing director at SOLIC Capital Advisors LLC, explained that even though prices have increased from the catastrophic lows seen several years ago, they're just not at levels that are workable for many companies.

Many companies have done work on their capital structures, he said, through distressed exchanges and reducing their debt loads, hoping to hang on long enough that prices will improve. But now, hedges are starting run off, maturity dates are approaching, capital markets are tightening and the reality of pricing is that oil is still trading at around \$50 per barrel, he explained.

"A lot of these companies were premised on an expectation of prices growing beyond [\$50 a barrel]," he said, adding that capital structures are just too over-levered, despite creative fixes, so "inevitably, they're not getting there."

Following the events in Saudi Arabia, when on Sept. 14 two oil installations were attacked by drones, there was an expectation that oil prices would rise. Nowitz said that any price increase resulting from the attack will be a short-term pop.

Indeed, on Sept. 16, the price of oil rose above \$60 but has steadily declined since. The U.S. oil stock is high, with twice as much oil being produced in the U.S. now as was in 2012, he said, and economics have moderated demand.

"I think you're going to see pricing pressures continue to persist," he said. "I don't see it get any better over the next 18-months -- and it may get worse."

With the expectation of more Chapter 11 filings within the energy sector coming, there's a question of how these cases will play out.

In 2015 and 2016, when prices around \$30 were devastating producers, many entered bankruptcy to accomplish debt-for-equity swaps, as lenders were unwilling to accept the low prices their collateral would fetch at auction.

Now, Nowitz said, attitudes have changed.

"We're likely to see greater activity effected through 363 [bankruptcy sales] if there's good acreage at a good price," he said.

"Investors and operators are realizing this is the pricing for some time to come."

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