CNNMoney

Oil Bankruptcies Mount Despite Crude Rebound

Here's a crude reality: Oil prices are recovering too late to save many drillers drowning in tons of debt.

May 16, 2016

SandRidge Energy (SD) became the latest victim of the oil crash, with the Oklahoma City-based shale driller filing for Chapter 11 bankruptcy on Monday.

Based on roughly $4 billion of debt, SandRidge is the second-biggest oil-focused U.S. company to file for bankruptcy during the current oil bust, according to a CNNMoney analysis of stats compiled by law firm Haynes and Boone.

The biggest bankruptcy took place just last week when Linn Energy (LINE) filed for Chapter 11 with more than $10 billion in debt. Other bankruptcy filings in recent days include energy exploration and production company Breitburn Energy Partners (BBEP) on Sunday and shale driller Penn Virginia (PVA) last week.

It's a sign of the continued struggles despite the 80% spike in oil prices since mid-February to around $47.50 a barrel today. Oil companies continue to grapple with diminished cash flows as they've cut back on production and contend with low prices.

All of this makes it very difficult to pay back the debt they piled up just a few years ago when oil prices were comfortably sitting above $100 a barrel. Hence, the boom-to-bust nature of the oil business.

There have already been at least 29 U.S. oil and gas bankruptcies this year alone, according to Haynes and Boone. That brings the toll since the start of last year to at least 64.

The default rate among exploration and production junk bonds has soared to a record 27% over the past 12 months, according to a recent Fitch Ratings report. Fitch thinks the default rate could hit 35% by the end of 2016.

George Koutsonicolis, managing director at oil restructuring firm SOLIC Capital, believes more bankruptcies are coming, especially among smaller drillers.

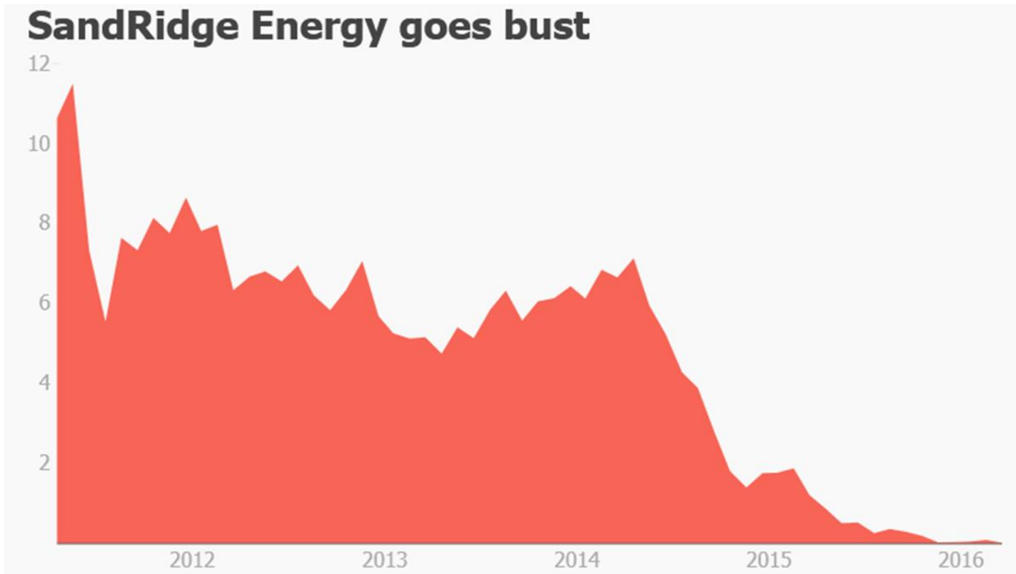
"The industry has historically been full of wildcatters and speculators. It's not surprising we're going through this boom-and-bust cycle," Koutsonicolis said.

Just look at SandRidge, which hinted at a possible bankruptcy in March. The company's stock was trading at $80 apiece back in 2008, but today it's worth just 2 cents. SandRidge piled on debt to pay for its drilling efforts in the U.S.

But SandRidge suffered a 32% plunge in oil production during the fourth quarter of last year. And each barrel of oil sold for just $46 last year, compared with $90 in 2014. Natural gas revenue has also been squeezed by depressed gas prices. SandRidge tried to reduce leverage in recent months by slashing spending, selling assets and negotiating with lenders.

SandRidge hopes to speed its time through bankruptcy court by filing a "pre-arranged" Chapter 11. That means the shale company has already negotiated a reorganization plan with most of its creditors.

The bankruptcy plan calls for SandRidge to convert about $3.7 billion of debt into equity, slimming down the company's bloated balance sheet.



"We are pleased that our creditors recognize the long-term value SandRidge and its employees can create with an improved balance sheet," SandRidge CEO James Bennett said in a statement.

SandRidge said it will continue paying employees, vendors and suppliers during the bankruptcy. The company believes it will have "ample liquidity" after emerging from Chapter 11, meaning it won't need to borrow more money to fund its drilling operations in Oklahoma and Colorado.

Hoping to reassure employees, SandRidge also said it does not "anticipate any job losses" as a result of the bankruptcy filing.

###