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Lonestar Resources Needs to Bump Up Capital Raising to Support Drilling Goals
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Lonestar Resources will likely need to bump up its capital-raising goal for its big drilling plan next year, said two sources familiar with the matter.

The Texas-based exploration and production firm intends to drill 11 to 14 wells in 2017 on its Eagle Ford acreage, with two to four at Cyclone, two at Carter Lake, and a few at Burns Ranch and Horned Frog, said CEO Frank Bracken on the company's 3Q16 earnings call.

Lonestar is seeking to raise USD 50m on the equity market, according to a Form S-1 filed late October with the US Securities and Exchange Commission. A portion of its proceeds will be used to repay Seaport Global, which is leading the secondary offering, lower the amount drawn from its revolver and for general corporate purposes.

In 2015, the company spent USD 95m to drill and complete 16 wells in the Eagle Ford shale. That's about USD 6m capital spend per well, and suggests a range of USD 66m to 84m in capital spend for the 2017 drilling plan. The firm's 2017 budget calls for a capital spend between USD 62m and 72m to develop its Eagle Ford shale assets, implying that it would need to exceed its budget if it wanted to reach its drilling targets.

"Using the company's historical spend as a high-level yardstick, Lonestar has a projected spend on these 11 to 14 wells that could go higher," said Raoul Nowitz, managing director at SOLIC Capital Advisors.

Lonestar has been sorting out its balance sheet and paring down activity amid the oil-price slump. After several deleveraging episodes, the company signaled its readiness to ramping things up. Bracken said the firm will begin fracture stimulations on its three wells in Burns Ranch this week, and position its balance sheet for acquisitions.

The volume of asset sales in Eagle Ford in the next two years are going to be "mind-boggling," Bracken said on the call, adding that the company expects to do more Horned Frog and Cyclone type of deals.

With an M&A play, Lonestar could probably bring up the capital raise goal to a range of USD 75m to USD 100m, a banker said. Aside from the RBL facility, the company could also tap into the USD 100m in drilling funds via a joint development agreement with IOG Capital announced last July, though it's uncertain how much is left on that facility, the banker said.

Overall, the company is in a better position with good acreage.

"They have runway on liquidity and I think it's an improving story," a source familiar with the matter said.

Debt reduction

In a three-pronged approach to shed its debt load, Lonestar has slashed capital spending by 63% in the six months through September 2016. And as the high yield energy market melted out during summer, the company acquired USD 68.2m of its second lien notes via the open market, leaving a balance of USD 151.7m as of 30 September. Lonestar had about USD 6 million in cash and USD 11.9m available under revolver as of that date.

Furthermore, Lonestar got a liquidity injection of USD 15.8m from the sale of its convention assets on 13 October.

The firm will do more opportunistic buybacks if its 8.75% senior unsecured notes due 2019 are still trading at large discount, a sellside analyst said. The notes most recently traded at 75 on 9 November, yielding 22.4% from the mid-60s in September, according to MarketAxess.

Lonestar's stock traded at USD 9.57 per share for a market capitalization of USD 77m as of mid-day today (21 November), up 68% from the closing price of USD 5.7 per share from a year ago.

The company did not respond to a request for comment.

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