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Oil drop threatens to push energy groups into liquidation

Recapitalising balance sheets may not be enough to save some companies

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A growing number of energy companies that have filed or will soon file for bankruptcy court protection are likely to be liquidated, with their prospects diminished by the latest falls in natural gas and oil prices, according to distressed investors and restructuring advisers.

Companies that restructure crippling debt loads can often emerge from bankruptcy and start life anew, but with the latest fall in energy prices, even a freshly capitalised balance sheet may not be enough to save the company.

“Even if you take away all the debt, it is not clear some energy firms can operate,” said one restructuring specialist. “Their basic economics requires oil to be considerably north of where it is. They can’t reorganise.”

In the case of Walter Energy, which filed for Chapter 11 a few months ago, the group said it would run out of money by early 2016 and has opted for a sale of substantially all of its assets, the LCD unit of Standard & Poor’s said.

Not a single creditor will be repaid at all but instead will receive a share in the proceeds from the sale, people involved in the situation said.

Creditors to Magnum Hunter Resources, which filed for bankruptcy protection this month, will receive nothing other than equity and even those who provide a loan to permit the company to operate under Chapter 11 will receive equity rather than getting their money back, according to two people advising the company.

The speed and extent of the fall in oil prices — Brent hit an 11-year low below $36 a barrel on Tuesday — has caught many investors on the hop, forcing them to recalibrate the value of debt.

When Samson Resources filed for bankruptcy in mid-September, wiping out $4.2bn of equity, the expectation was that second lien lenders, in the middle of the capital structure, would take over the company, wiping out the junior debt but paying senior debt holders 100 cents on the dollar. Now that assumption is being questioned and the pre-filing agreement with creditors has fallen apart.

With the drop in energy prices “elements of the restructuring agreement, including refinancing senior debt and a commitment to inject new money, are likely no longer feasible”, according to a court document filed on December 17 in Delaware. “Any new restructuring would likely provide significantly less value for stakeholders than the transaction (originally) contemplated.”

Second lien lenders who expected to take over Samson had pledged to put $400m into the company. But with prices of natural gas less than $1.75 per million British thermal units — when the investment thesis of the original owners required prices of $4 per mmbtu — "it was rational to take another look", said one person involved in the talks.

In its attempt to survive, Samson has cut costs and suspended all drilling.

Energy companies also face other challenges as hedges that helped shelter them from the full impact of falling prices begin to expire.