

US producers Ultra and Midstates fall victim to low oil price

Default rate for US junk-rated energy groups hits record after pair pushed into default

The default rate for US junk-rated energy groups has hit its highest level on record.

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by: [Eric Platt](#) in New York

The rebound in the oil price has failed to prevent the default rate for US junk-rated energy groups hitting a fresh record, and prompted warnings it could leave the industry saddled with zombie companies.



Bankruptcy protection filings from Ultra Petroleum and Midstates Petroleum Company on Friday and over the weekend helped push the trailing default rate to a record 13 per cent, according to Fitch ratings. That is up from less than 2 per cent a year ago.

A rebound in crude is also fanning concern that shale producers may begin to pump oil again, potentially saddling the industry with so-called zombie companies - or those that operate with too much debt to adequately invest in the underlying business but enough to cover their interest payments.

“If we stayed for a while at \$30 a barrel, strategic bankruptcies would have accelerated,” said Scott Roberts, co-head of high yield at Invesco. “But if we have this rapid appreciation in crude, you’ll end up with companies that should have restructured but that will muddle along with too much debt.”

Although West Texas Intermediate, the US oil benchmark, has surged 67 per cent since touching a low in February, Fitch still forecasts the default rate will reach 20 per cent by the end of the year.

The two latest groups to default counted almost \$6bn of debt between them and a combined cash position of \$362m, according to the [latest regulatory](#) filings [available](#).

The bankruptcy filings come as banks conduct twice-yearly lending determinations, with investors braced for cuts to many revolving credit facilities. Economists with JPMorgan noted on Monday that banks have tightened lending standards for commercial and industrial loans, citing “deterioration in the energy sector” as a likely contributing factor.

“This is not the end of the energy defaults,” Mr Roberts at Invesco said. “There are a number of companies with capital structures that are not sustainable at \$45 oil.”

Separate figures tracked by Standard & Poor’s showed the overall high-yield default rate in the US climbed to 3.9 per cent at the end of April, its highest level since September 2010.

Sharon Bonelli, an analyst with Fitch, said defaults had been “very concentrated” in commodity-linked industries, as companies adjust to the lower prices.

The bounce in crude prices from its lows for the year has [confounded investors](#) who warn a global slowdown could again weigh on commodities.

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A failure of the world's major oil producers earlier this month to strike a deal on freezing production was brushed aside by the crude market. Traders have instead focused on forecasts from the International Energy Agency and the US Energy Information Administration that falling production in the second half of the year will help rebalance the market.

Despite the more than three-month rally in crude, WTI has fallen just 60 per cent since its current slide began in July 2014. Brent, the international benchmark, is down more than 60 per cent since its current weakening began in June 2014.

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