Some Energy Companies Find the Going Tough

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A pump jack near Williston, N.D. The oil slump has created opportunities for lawyers and bankers. *PHOTO: DANIEL ACKER/BLOOMBERG NEWS*

By
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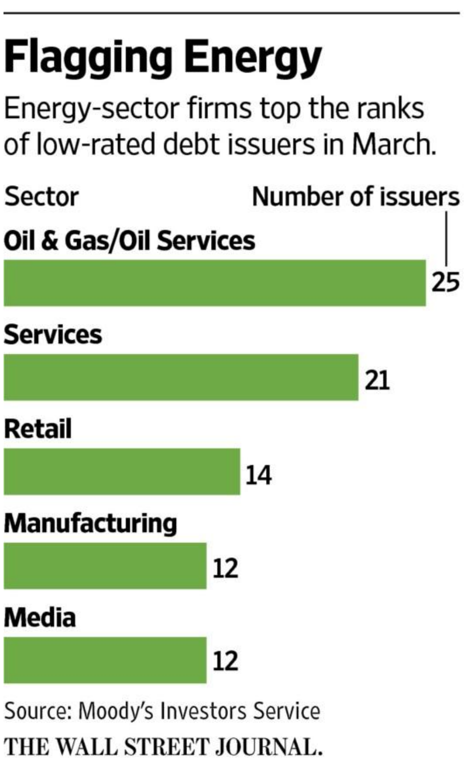

The number of companies with the worst below-investment-grade debt ratings rose to 184 in February, the highest count since November 2010, and remained at that level in March, according to Moody's Investors Service. That is a 16% increase over March 2014.

The 25 oil-and-gas and oil-services companies listed accounted for 13.6% of the total this month, their highest share ever. Moody's tally of stressed companies includes only U.S. nonfinancial firms rated B3 with a negative outlook for future ratings changes or lower. The B3 rating is six notches into junk territory.

"If this trend increases, we might see more defaults in the energy sector," said Julia Chursin, an associate analyst at Moody's.

A 52% slide in oil prices since June has marred an otherwise healthy period for corporate balance sheets. While companies broadly are still benefiting from an improving U.S. economy and easy borrowing conditions, energy companies face a cloudy outlook.

A number of energy companies already have filed for bankruptcy protection. Texas oil-and-gas company Quicksilver Resources Inc. sought Chapter 11 protection last week, following bankruptcy filings by BPZ Resources Inc. and Dune Energy Inc. this month.
Others are exploring options to raise capital or restructure their debt loads. Houston energy company Midstates Petroleum Co. has held talks with potential investors to raise financing, according to investor materials released this month. Moody's has a Caa1 rating on the company. Samson Resources Corp., which has a B3 Moody's rating, is weighing options for its $3.8 billion in debt, The Wall Street Journal reported last month. The Tulsa, Okla., company's lenders this month trimmed how much it can borrow in exchange for more leniency on how much debt it can carry.

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"Midstates believes it has adequate access to the capital markets, which gives us the flexibility to deal with our current situation," said a spokesman. Samson declined to comment.

Meanwhile, the oil slump has created opportunities for the lawyers and bankers who advise struggling companies. Bankruptcy filings remain low, and the speculative-grade corporate default rate stands at just over 2%, well below the 4.55% historical average.

"If you go back to June of last year, I don't think any of us thought that we'd see the explosion of opportunities around companies in commodities," said Steve Zelin, senior managing director in Blackstone Group LP's restructuring advisory group.

A recovery in prices may lift the fortunes of some oil-and-gas companies. And bargain-hunting investors have lined up to seek investments in the sector, raising the possibility of financial lifelines for some companies.

“Overall, the picture’s not that gloomy yet,” Ms. Chursin said. The ratings firm’s forecast for corporate defaults for next year is “still pretty low,” she added. Moody expects the default rate for junk-rated companies to rise to 2.9% by next February.

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