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Bankruptcies in Fracking Sector Mount in 2019

E&P Companies' Debt of $26 Billion Doubled Over Previous Year

Key Findings

- 42 U.S. E&Ps filed for bankruptcy in 2019.
- Their aggregate debt was $26 billion – double the amount from 2018.
- Appalachian frackers have been hit especially hard as natural gas prices were cut by a third.
- Bankruptcy-related debt among oilfield services companies that rely on revenue from frackers, also doubled in 2019 compared to 2018.
- More bankruptcies are expected, as the gas and oil glut continues and prices remain subdued.

Bankruptcies among fracking-focused companies exploded in 2019. The 42 bankruptcy filings among Exploration & Production (E&P) companies in 2019 involved nearly $26 billion in debt – double the $13 billion in bankruptcy-related debt filed in 2018.[1]

"Following a steep drop in oil prices in the fourth quarter of 2018, there was a sharp increase in the number of filings in 2019," reported Haynes & Boone, a legal firm that publishes a quarterly report on bankruptcies.

After years of mounting debt and negative cash flows,[2] the fracking sector has experienced an ongoing wave of bankruptcies over the past five years. Natural gas prices, which dropped by a third in 2019, and persistently low oil prices throughout the year that averaged $57 per barrel[3] compared to $65[4] the year before, pushed 42 companies focused on unconventional production of oil and gas to file for bankruptcy protection in 2019.

Moody's concludes that the oil and gas industry never "fully recovered" from the 2015-2016 oil price slump.[5]

All told, 208 North American oil and gas producers declared bankruptcy between January 2015 and December 31, 2019, affecting more than $121 billion in debt.[6]

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[1] Haynes & Boone. Oil Patch Bankruptcy Monitor. January 17, 2020.
[2] IEEFA. Fracking sector spills more red ink in Q3. November 19, 2019.
[3] EIA.gov. WTI Spot Prices
[4] Ibid.
[5] Moody's. Energy defaults are on the rise again, clouded economic outlook calls for a higher US speculative grade default rate. October 31, 2019.
[6] Haynes & Boone. Oil Patch Bankruptcy Monitor. January 17, 2020.

2019 saw an especially large uptick in bankruptcies among E&P companies. In just the first nine months of 2019, these bankruptcies had already involved nearly $13 billion in debt, compared to $13.2 billion in all of 2018 and $8.5 billion in 2017.[7]

Subsequently, in the fourth quarter of 2019, nine fracking-focused companies filed for an additional nearly $13 billion in debt to be restructured or written off, which sent the 2019 total ballooning to $25.8 billion, nearly double the 2018 level.

Bankruptcy filings in the oilfield services sector, which relies heavily on the fracking industry for revenues,[8] also doubled in 2019 compared to 2018. More than $8 billion in bankruptcy filings were recorded in 2019, compared to less than $4 billion in 2018.[9] The oilfield services sector has gone through nearly 200 bankruptcies involving more than $66 billion in debt since 2015[10] – including, in May 2019, the insolvency of Weatherford International, formerly the world's fourth-largest oilfield services company, which must restructure $7.6 billion in long-term debt.

Schlumberger and Halliburton,[11] the world's largest oilfield services companies, recorded significant losses in 2019, with Schlumberger writing off $12.7 billion in Q4 2019, an amount that Tudor Pickering, an investment bank that focuses on the oil and gas industry, suggested was "eyebrow-raising."[12]

More bankruptcies are all but certain, as oil and gas borrowers must repay or refinance more than $100 billion dollars in debt over the next few years.[13]

Hardest hit have been the Appalachian frackers, which primarily produce natural gas. Their already-battered stocks have been further pummeled since the beginning of the year, as gas prices continue to decline.[14] The largest of them, EQT, took a $1.8 billion write-off in Q4 2019, and reduced its workforce by 25 percent in 2019.[15]

Chevron walked away from its Appalachian shale gas holdings in December 2019, taking an impairment charge of more than $5 billion.[16] It has put its shale assets on the market, but energy consultant Rystad expects it will get far less than the more than $4 billion it paid for these assets.[17]

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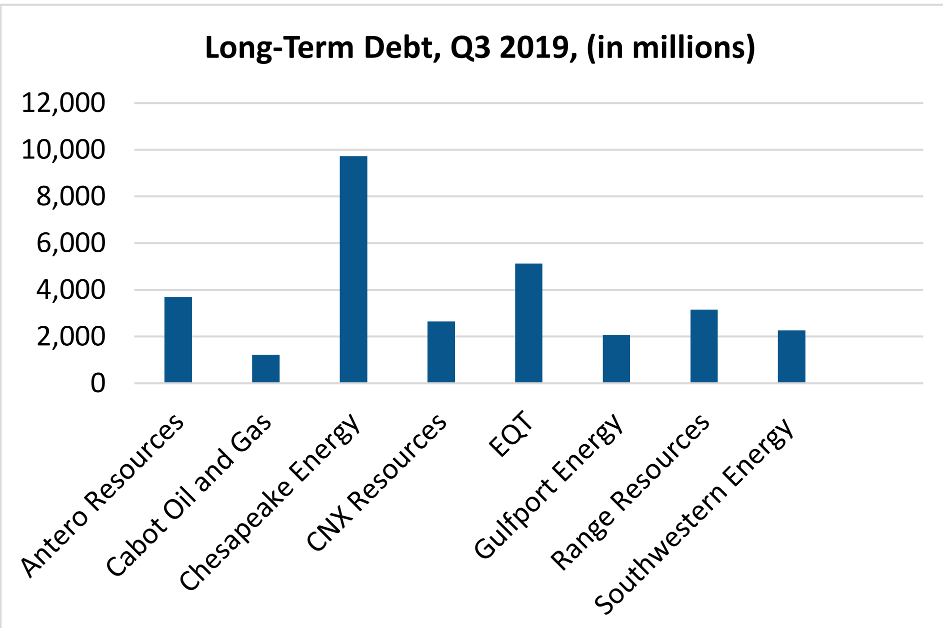
7 Ibid.
8 Deloitte. The oilfield services sector transforms again. 2017
9 Haynes & Boone. Oilfield Services Bankruptcy Tracker. January 17, 2020
10 Ibid.
11 Houston Chronicle. Halliburton closes 2019 with 1.1 billion loss, January 21, 2020
12 Bloomberg.com. Schlumberger rips off band-aid with $12.7 billion write-down. October 18, 2019.
13 Oil & Gas Journal. Rystad Energy: US shale bankruptcies 'not industry-wide epidemic.' September 25, 2019.
14 S&P Global Market Intelligence. Appalachian shale gas stocks are pummeled as benchmark approaches $2MMbtu. January 20, 2019
15 KallanishEnergy.com EQT may incur a $1.8 b 4th quarter impairment. January 14, 2020.
16 The Wall Street Journal. Chevron, facing fossil fuels glut, takes $10 billion charge. December 10, 2019.
17 Pittsburgh Business Times. Chevron plans to divest Appalachian business. December 10, 2019.

Appalachian producers are now facing a wave of debt, which will be nearly impossible for them to repay with gas prices below $2.00/MMBtu. Their cash flows had already been negative[18] even with much higher gas prices. IHS Markit sent shock waves through the market in September 2019 by suggesting that gas prices would continue to plummet, reaching levels not seen since the 1970s.[19]

Just eight E&P companies with a significant presence in Appalachia[20] face $29.95 billion in long-term debt. Their market cap, as of January 24, 2020, is just $12.4 billion. (See Figure 1.)

Figure 1: Long-Term Debt Facing 8 Fracking-Focused Companies in Appalachia (in millions)



Sources: Company Filings

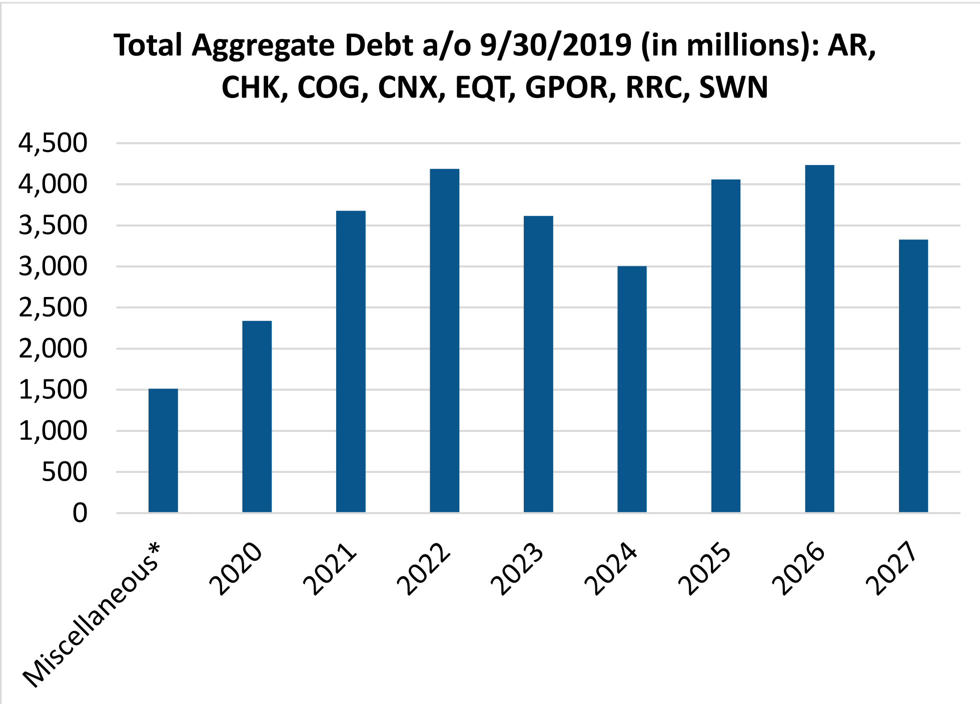
As of September 30, 2019, the long-term debt of those eight frackers will mature between 2021 and 2027, with more than $4 billion maturing in 2022 (see Figure 2.)

[18] IEEFA. Mounting negative cash flows highlight struggles of Appalachian fracked gas producers. November 2019

[19] IHS Markit. U.S. natural gas price will fall to levels not seen since 1970s. September 12, 2019.

[20] Antero Resources, CNX Resource, Cabot Oil & Gas, Gulfport Energy, Chesapeake Energy, Range Resources, EQT, and Southwestern Energy.

Figure 2: Year When 8 Fracking Companies' Long-Term Debt is Due



Sources: Company Filings
**L-Term Debt, including bank financing, credit facilities with unspecified maturities*

Conclusion

The significant uptick in bankruptcy filings in the E&P and oil services sectors in 2019 illustrates the increasingly speculative character of the industry as its financial rationale of high risk and high reward deteriorates. High risk is now producing chronic value destruction. Bankruptcies among U.S. frackers accelerated in 2019, with 42 companies filing for bankruptcy, affecting $25.8 billion in debt – nearly double 2018 levels. The oilfield services sector, which relies on revenues from E&P companies, also saw bankruptcy filings double in 2019.

The inability of the sector to adapt to a low-priced oil and gas environment has now produced decade-long negative cash flows among oil and gas producers, resulting in increasing numbers of bankruptcies as both lenders and equity investors have largely abandoned the sector.[21]

Given the massive wave of debt facing E&P companies, more bankruptcies are all but certain. The global glut of gas and oil is expected to continue. Natural gas prices are dipping to levels not seen since the 1970s. And even political tensions and outright attacks in the Middle East don't cause oil price spikes to last more than a few days.

In this environment, it is difficult to see a financial pathway forward for oil and gas producers.

[21] The Wall Street Journal. Frackers scrounge for cash as Wall Street closes its doors. June 7, 2019.

About IEEFA

The Institute for Energy Economics and Financial Analysis conducts research and analyses on financial and economic issues related to energy and the environment. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. www.ieefa.org

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Kathy Hipple, a financial analyst at IEEFA, teaches the finance sequence at Bard's MBA in Sustainability and is the founding partner of Noosphere Marketing. Hipple has written extensively about sustainable, responsible and impact finance and investing. As Vice President at Merrill Lynch for 10 years, she placed fixed income securities with international institutional clients, and advised international life insurance companies and pension funds. She later founded Ambassador Media, a local search firm in New York City, and served as its CEO. She has served on several boards, including the national Local Search Association and Bennington County's Meals on Wheels.