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Circling The Drain: 7 Oil Sector Stocks Headed For Trouble



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Introduction:

Anyone who regularly watches the stock market or invests in it has surely been concerned with the recent plunge of 2016. In general, the stock market has fallen nearly 10% since the beginning of the year. However, other indexes have been more significantly impacted, losing over 10% in January alone. Yet, looking further at individual stocks many of them have dropped well over 20% and are now trading in bear market territory. One statistic recently expressed is that less than 15% of all stocks on the market have been keeping the S&P and other indexes alive. If not for the small group of stocks, the market itself would be in or near bear territory.

While there are many reasons for this downturn, one that is universal among all of the experts is the decrease in oil prices. Oil as a whole has decreased in the last year from \$100, down to under \$30 a barrel. This decrease of 70% would easily mean that the oil market is now in bearish territory. The more disconcerting news is that many of the experts believe that oil may be down in this territory for a long and sustained period of time. In fact, some have even suggested it could be under \$30 a barrel for the next decade.

While all commodities and stocks will trade upon a large number of issues, oil itself does face several obstacles or challenges to overcome before it could again appreciate in value. While the downturn in 2008 – 2009 in oil was caused by decreasing demand, now the challenge for the oil market is the increase in production. The supply coming on the market is keeping prices depressed and may do so for some time to come. Currently, most experts suggest that the world is producing 1 million barrels of oil per day over usage. That would mean the world would have a glut of 365 million barrels at the end of this year. Added to this situation is that the country of Iran is now able to sell more of its oil on the world market. This could mean an extra 700,000 barrels per day to 1 million barrels per day. Also, the country has about 36 million barrels of oil, which can be sold on the market immediately. All of this glut of oil will continue to depressed prices.

What does this mean for oil and gas companies? It is highly likely that the estimates of earnings for these companies will decrease. Additionally, companies,

which overextended themselves during the recent boom years, may find that they have done so at their own peril. It is possible that many companies who have not weathered a downturn in the price of oil may go out of business or at the very least suffer from a lack of revenue.

This report will be looking at several of these companies that may continue to lose in their stock price or potentially cease operations. It must be pointed out that this is speculation and that these companies may be able to weather the price downturn in oil. Therefore, if you consider selling any of these companies short you may want to examine your own particular circumstances to carry that much risk in investment. Shorts by their very nature are a risky enterprise and should only be carried out by those who can manage risk appropriately in their investment portfolios. Additionally, some of the stocks may be too low to short at this point. There have been changes in the shorting rules of the stock market and some companies now can be shorted when they are trading under five dollars per share.

All of the companies presented in this report have seen a tremendous decrease in their price values over the last year or longer. However, if oil remains below \$30 or even \$35 per barrel these companies will more than likely lose on their earnings. Thus, they may be appropriate companies to short.

EVEP- EV Energy Partners

Current Stock Price	2.70
52 week Price Range	1.60- 20.02
Cash per share	0.82
Book Value	22.58
Dividend	4.39
Total Debt on the book	499 Million
Estimated Earnings Consensus	-1.23

EV Energy Partners is an oil drilling company. The company was founded in 2006 and is headquartered in Houston, Texas. EV Energy Partners is an oil and gas exploration company drilling for oil in various places throughout the country and North America. While the company has a high book value, when compared to its current trading price, the book value is \$22.58, which is about 10 times the

current stock trading price. Much of this differential comes from the fact that the company has a relatively high amount of debt on its books. With a debt load of \$499 million, the company may be concerned about having too much debt. Additionally, when looking at the amount of cash per share, of \$.82, it is apparent that the company may face a debt crisis in the future.

One problem that many of these businesses face is that they had to go out and buy new oil and drilling equipment during the heyday of high oil prices. Like many of the other companies out there, EV Energy Partners has a large amount of book value that comes from this expensive equipment. Yet, in a financial crisis situation, the value of this equipment will more than likely be substantially less than its current book value. This is one of the main issues that oil and gas companies face. They spent billions of dollars on new equipment only to have the value of oil decrease substantially. As was seen in the financial meltdown of 2008 this could be a major peril for businesses.

Another issue that EV Energy Partners face is that it is a relatively young company. Since it was founded in 2006, the company's management has not gone through a long-term and substantial decrease in the price of oil. Therefore, EV Energy Partners could potentially be a targeted short company. The potential of the company losing more value in its share price is relatively high at this point. Although, it must also be pointed out that the stock price has lost nearly 90% of its value. Thus, it is possible that this company may stabilize in this area of sub \$5 in price for some time to come. As a potential short, you may want to watch the stock and short it as it approaches \$5, covering the stock, as it gets closer to its current price range.

Nabors industry

Current Stock Price	7.36
52 week Price Range	4.93 - 16.99
Cash per share	0.84
Book Value	15.88
Dividends	0.24
Total Debt on the book	3.75 billion
Estimated Earnings Consensus	-0.49

Nabors Industry is another oil and gas exploration company. However, this company focuses on the actual drilling and operation of drilling rigs. Thus, what Nabors does is they contract out there drilling rigs to other partners and manages those operations for those other companies. The company was founded in 1968 and is headquartered in Hamilton, Bermuda. Thus, the company does have an experienced management team, which has been through several boom and bust cycles in the oil Industry.

One of the main issues facing Nabors is that many experts believe there are too many oil rigs operating currently in the US and North America. Even with the downturn in oil prices the amount or number of rigs, which have been shut down during this downturn in oil works out to one oilrig. This is a significant point, for all of the hundreds of oilrigs that were put into operation since 2000, only one has been shut down of recent. This would tend to lend credence to the idea that more supply is going to further dampen oil prices.

Nabors' financials indicate that the company does face significant challenges. Currently the company has \$3.75 billion in debt on its books. While this may be a significant amount, it may be properly managed by a company that has longevity in the Industry. However, with expected negative earnings of \$.49 for the current year and \$.84 of cash available the company may be hard-pressed to make future payments. This does not mean that the company will have trouble making its payments just that the possibility exists. Therefore, the company may be a potential short candidate, especially if oil prices continue to decrease. However, the largest issue for NBR is the number of rigs currently producing oil on the market. If companies hope to weather the oil price downturn, they will need less rigs and have to shut down current producing rigs. This will put a damper on Nabors' revenues, and the main reason that the company is a targeted short.

UNT- Unit Corp

Current Stock Price	10.43
52 week Price Range	5.79 - 36.23
Cash per share	0.02
Book Value	32.09
Estimated Earnings	-.92

Total Debt on the book	931 million
Dividends	0

Unit Corporation is a pure contract driller, which means that they will only drill for companies that need their services. Headquartered in Tulsa Oklahoma and founded in 1963 the company has been through several boom and bust cycles in the oil patch. However, this does not mean that it is immune to issues in this industry. As has been discussed with an oversupply situation, one that is expected to last for some time, the number of rigs will more than likely decrease. In this situation, the company that usually has its rigs shut down first is a contract driller. Thus, Unit Corporation is a company that is at significant risk for losing revenue in this downturn.

One of the specific issues that Unit faces is that it has very little cash on its balance sheet, coming in at only two cents per share. While the company notes a book value of \$32.09 per share, much of this is in the form of equipment, which would remain idle in an oil production slowdown. Therefore, its revenue potential would not be enough to pay for its entire debt load. Additionally, the company currently has just under \$1 billion in debts on its balance sheet. These two issues are some of the main challenges facing Unit Corp.

As a potential short target, Unit Corp. is in a decent position to be considered as a short. The company is currently trading at \$10 and change per-share and has recently had a lower price, which is \$5 below its current market value. Thus, the shares are primed to be shorted at this point. Analysts currently believe that this company will lose money in the coming year, on the order of about \$.92 per share. If the company's prime customers do believe that the only way to weather the storm is decrease the production of oil, then this loss could be much greater than is projected currently. Thus, with little money in the bank and in losses compiling, the company may have to face desperate circumstances to weather the storm. This is one of the prime reasons why it is a potential short target.

WLL- Whiting Petroleum

Current Stock Price	7.35
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52 week Price Range	4.01 - 41.57
Cash per share	0.19
Book Value	23.72
Estimated Earnings	-1.20
Total Debt on the book	5.25 billion
Dividend	0

Whiting petroleum is another independent producer of oil and gas. The company was founded in 1980 and is headquartered out of Denver, Colorado. However, even though the company has been around for some time, its debt load is relatively high when compared to other companies in its industry. Currently the company has over \$5 billion in debt on its books. Adding to this is the simple fact that analysts believe the company will lose money for the coming year. It is understandable that Whiting is facing significant challenges.

As has been pointed out with other similar companies, Whiting has a large amount of equipment as assets on its books. In good times, this equipment would be a helpful situation to the company, as it increases the overall value or book value of the company. However, when the industry begins to face significant challenges like the oil and gas industry currently is, then it is understandable that these assets, because they have been financed, become liabilities. Whiting is expected to lose money for the foreseeable future according to most analysts, with current year's losses measuring a \$1.20 per share. Compounding the situation is the fact that Whiting currently has less than \$.20 of cash per-share. This could put the company in a difficult situation of having to pay debt with little revenue to support it and one of the prime reasons that this company should be considered a potential short target.

WTI- W&T Offshore

Current Stock Price	1.95
52 week Price Range	1.23 - 7.18

Cash per share	0.10
Book Value	-6.27
Estimated Earnings	-3.20
Total Debt on the book	1.47 billion
Dividend	0

W and T offshore is another independent oil drilling company. However, this one focuses on offshore drilling and enterprises. Founded in 1983 and headquartered out of Houston, Texas the company has been through several ups and downs in the oil patch. W and T has an added issue when compared to other oil and drilling companies. Since this company specializes in offshore drilling, which is among the most expensive type of drilling in the world, its expenses and equipment is more expensive. Thus, while other companies may be able to weather a storm in the oil and gas industry, W and T may be at a disadvantage because of greater expenses, requiring higher revenues to sustain itself.

Out of the companies presented in this report, *W and T is the one that probably faces the most significant challenges*. First, the company specializes in the most expensive form of oil exploration and drilling. Added to the situation is the fact that the company has only \$.10 of cash on its balance sheet. Finally, the company has a negative book value of \$6.27, which would tend to support the idea that the company has major financial situations in front of it. This is the primary reason that this company is currently trading under \$2 a share. Looking at the company's debt load of over \$1 billion, it is quite apparent that W and T may have to consider bankruptcy or other measure to save itself. This is the primary reason that it is a short target. However, please note that the price under \$2 per share and may not be available for shorting at this time.

PAA- Plains All-American Pipeline

Current Stock Price	21.11
52 week Price Range	16.42 - 52.70
Cash per share	0.06
Book Value	19.61
Estimated Earnings	1.60

Total Debt on the book	10.71 billion
Dividend	2.78

Plains All-American Pipeline is a transporter of oil and natural gas across the US and North America. The company is actually a master limited partnership, rather than a straight or pure stock. Because of this financial situation, the company has a relatively high dividend, as master partnerships payout most of their revenues as distributions to collaborators. As will be pointed out this is a significant situation that this company faces. The partnership was founded in 1999 and is based out of Houston, Texas. Like many businesses in this industry, the company has not seen or weathered a significant downturn that has lasted for a long time in the oil patch.

Plains All-American faces a few major challenges. You might recall that a pipeline in California ruptured last summer, contaminating several beaches around Malibu, California. The owner of this pipeline was Plains All-American. Additionally, even though the leak was stopped and repaired, it did cause significant environmental damage to the area. Because of this damage, Plains All-American is currently facing several lawsuits from this leak. Anyone who is familiar with litigation and business will realize that it will take years for this to be settled; however, it will be a dark shadow hanging over the company for some time to come.

This is not the main issue facing Plains All-American. Plains All-American has a high dividend payout, which management wants to secure and keep in place. Most investors who buy into master limited partnerships, such as pipeline operations, do so with the intention of receiving a steady and high dividend payout. This is what Plains All-American offers to its investors. However, with the recent downturn in oil prices the company's revenues have been negatively impacted. Thus, the company is facing the need to maintain its payout when revenues are shrinking. The company in an effort to secure this payout recently sold private equity bonds to investors. Thus, the company was able to raise \$1.5 billion in cash, but all of this money is expected to be paid out over the next two years as dividends to investors. This is the issue the company faces, why would it increase its debt load to payout dividends. In essence, all that Plains All-American

has done is kicked its financial situation down the road. Thus, the reason that it is a short target is because it is using future debt to pay for current payouts.

WMB- Williams Companies

Current Stock Price	19.30
52 week Price Range	12.77 - 61.38
Cash per share	0.17
Book Value	9.86
Estimated Earnings	1.09
Total Debt on the book	23.71 billion
Dividend	2.56

Williams Companies is another oil and gas pipeline distribution company. Founded in 1908 and headquartered in Tulsa, Oklahoma, the company has weathered several boom and bust cycles in the oil industry. However, its business structure has changed several times in that time frame. At one point, this company was involved in electrical distribution and trading, much the same way that the former Enron Company operated.

Williams has a significant debt load on its book registering at just under \$24 billion. Adding in the \$.17 per share of cash that the company has and it is easy to see why this company may face some significant challenges in this current oil downturn. Recall, that master limited partnerships or oil pipeline distribution companies often have higher dividends, which is the main reason investors purchase these investments. Thus, like other companies, Williams will want to maintain its current dividend of \$2.56 per share. However, with estimated income of a \$1.09 per share, the company may be hard-pressed to meet this payout rate. What Williams has been trying to do is sell itself to another oil and gas pipeline distribution company. This would free up the management team from having to deal with the current downturn in the oil and gas industries. However, because of the issues faced by businesses in the oil and gas industry, there is much speculation that this business deal will not go through. Thus, Williams companies will be facing a situation in which it has little revenue and high payouts along with

a high debt burden. This the prime reason that this company is a potential short target.

Conclusion:

All 7 of these companies are in serious trouble if oil prices do not meaningfully recover into the 2nd half of 2016, and perhaps even before then. Some interesting takeaways from this report are that EVEP is the “new kid on the block”...and that management has not had much experience in weathering a big trough cycle in crude prices. Also, PAA likely has many enemies in the media and in the left wing of our political system, since their pipelines caused significant damage in California. So, a politician could potentially make a name for him/herself by grandstanding at the expense of PAA. Similar scenarios are playing out now in the biotech sector.

From a trading standpoint, the most liquid stocks appear to be NBR and WLL. Shorting any stock involves risk. But these companies are facing big problems this year and there is a good chance that some of the names in this report will be bankrupt in 12 months or less, in my opinion. It should be noted that this report was published in February 2016.

Keep note of how each of these stocks do, some will likely survive the downturn but there will also likely be a few that bite the dust.

In closing, here are the charts of each of these stocks as of Feb. 2016:

EVEP EV Energy Partners, L.P. Nasdaq GM

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Energy / Exploration & Production

Friday 5-Feb-2016 10:29 am

Open: 2.47	Ask: 2.38	P/E: -2.35	Options: yes	▼ -6.75%
High: 2.47	Ask Size: 5	EPS: -1.00	Annual Dividend: 0.3	Chg: -0.17
Low: 2.31	Bid: 2.34	Last Size: ↓100 shrs	Yield: 12.77%	Last: 2.35
Prev Close: 2.52	Bid Size: 1	VWAP: 2.36	SCTR:	Volume: 70,666



NBR Nabors Industries, Inc. NYSE

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Energy / Oil Equipment & Services

Friday 5-Feb-2016 10:30 am

Open:	7.24	Ask:	7.31	P/E:	-2.05	Options:	yes	▼	-0.68%
High:	7.49	Ask Size:	7	EPS:	-3.56	Annual Dividend:	0.24	Chg:	-0.05
Low:	7.11	Bid:	7.30	Last Size:	100 shrs	Yield:	3.28%	Last:	7.31
Prev Close:	7.36	Bid Size:	27	VWAP:	7.32	SCTR (Large):	12.8	Volume:	1,399,414



UNT Unit Corp. NYSE

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Energy / Oil Equipment & Services

Friday 5-Feb-2016 10:31 am

Open: 11.00	Ask: 11.33	P/E: -0.72	Options: yes	▼ -0.18%
High: 11.69	Ask Size: 5	EPS: -15.70	Annual Dividend: N/A	Chg: -0.02
Low: 10.73	Bid: 11.30	Last Size: 100 shrs	Yield: N/A	Last: 11.32
Prev Close: 11.34	Bid Size: 1	VWAP: 11.22	SCTR (Small): 38.2	Volume: 247,236



WLL Whiting Petroleum Corp NYSE

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Energy / Exploration & Production

Friday 5-Feb-2016 10:32 am

Open: 6.93	Ask: 6.63	P/E: -0.47	Options: yes	▼ -7.51%
High: 6.96	Ask Size: 14	EPS: -13.96	Annual Dividend: N/A	Chg: -0.54
Low: 6.55	Bid: 6.62	Last Size: ↑500 shrs	Yield: N/A	Last: 6.62
Prev Close: 7.16	Bid Size: 7	VWAP: 6.72	SCTR (Mid): 2.0	Volume: 5,069,316



WTI W&T Offshore Inc. NYSE

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Energy / Exploration & Production

Friday 5-Feb-2016 10:33 am

Open: 1.800	Ask: 1.740	P/E: -0.13	Options: yes	▼ -3.89%
High: 1.830	Ask Size: 2	EPS: -13.52	Annual Dividend: N/A	Chg: -0.070
Low: 1.710	Bid: 1.730	Last Size: 100 shrs	Yield: N/A	Last: 1.730
Prev Close: 1.800	Bid Size: 14	VWAP: 1.757	SCTR (Small): 9.0	Volume: 170,280



PAA Plains All American Pipeline, LP NYSE

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Energy / Pipelines

Friday 5-Feb-2016 10:34 am

Open:	20.73	Ask:	21.00	P/E:	17.31	Options:	yes	▼	-1.13%
High:	21.28	Ask Size:	3	EPS:	1.21	Annual Dividend:	2.8	Chg:	-0.24
Low:	20.51	Bid:	20.94	Last Size:	↓385 shrs	Yield:	13.37%	Last:	20.94
Prev Close:	21.18	Bid Size:	2	VWAP:	20.88	SCTR:		Volume:	343,655



WMB Williams Cos., Inc. NYSE

© StockCharts.com

Energy / Pipelines

Friday 5-Feb-2016 10:35 am

Open: **18.51** Ask: **18.03** P/E: **-10.67**▼ **-3.87%**High: **18.57** Ask Size: **7** EPS: **-1.69**Chg: **-0.73**Low: **17.83** Bid: **18.02** Last Size: **200 shrs**Last: **18.02**Prev Close: **18.75** Bid Size: **1** VWP: **18.11**Volume: **1,630,447**

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