The Deal

Stone Energy Explores Restructuring, Sale and Financing Alternatives

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With a potential covenant breach on its debt looming, Stone Energy Corp. (SGY) is exploring strategic alternatives.

The Lafayette, La., oil and natural gas exploration and production company on Monday, Feb. 22, said in a fourth-quarter and year-end earnings release that it could exceed the total debt to Ebitda financial ratio covenant on its $900 million revolving credit facility at the end of the first quarter.

Total debt to Ebitda cannot be above 3.75-to-1, the statement said. Stone Energy has yet to file its Form 10-K with the Securities and Exchange Commission, but the debt to Ebitda ratio stood at 2.99-to-1 as of Sept. 30, when the covenant called for the same 3.75-to-1 maximum, SEC filings show.

The company, which had $1.1 billion in debt as of Dec. 31, said that it can't meet its covenants because of the current commodity price environment, which is bringing down its Ebitda.

Stone Energy said it is actively "reviewing various financings, asset sales and debt restructuring alternatives to provide additional and adequate longer-term liquidity" and to address the March 1, 2017, maturity of its $300 million in 1.75% convertible senior unsecured notes.

"We are currently in discussions with our banks regarding an amendment to our bank credit facility to address this potential covenant issue. If we are unable to reach an agreement with our banks or find acceptable alternative financing, it may lead to an event of default under our bank credit facility. If following an event of default, the banks were to accelerate repayment under the bank credit facility, it may result in an event of default and an acceleration under our other debt instruments," the company warned in Monday's statement.

According to Kim J. Brady, a senior managing director at advisory firm SOLIC Capital Management LLC, the company should be able to secure an amendment or waiver of its covenant on the revolver.

Brady expected the company would consider and review various financing alternatives to address the upcoming 2017 debt maturity, including drawing down on its revolver, asset sales, joint ventures and potentially an exchange offer. Brady said the company still has plenty of time but noted it will be more difficult to deal with the debt maturity than the covenant issue.

He said, however, that if oil and gas prices did not improve as Stone Energy gets closer to the 2017 maturity, the capital markets might not be open for the company to refinance its debt and Stone Energy would have to consider a more serious restructuring. He added that it might even look to do a debt-for-equity swap through a prepackaged Chapter 11 filing.

Stone Energy's secured revolving credit facility has a $500 million borrowing base and is due on July 1, 2019. The revolver is priced at Libor plus 150 basis points to 250 basis points.

The company had drawn $50 million on the revolver and had $19.2 million in outstanding letters of credit as of Dec. 31, giving it $431 million available to borrow. Bank of America NA is the administrative agent on the revolver.

Stone Energy warned that its borrowing base is set to be redetermined in May, and it expected it to be reduced then.

Stone Energy also has the 1.75% notes and $775 million in 7.5% senior unsecured notes due Nov. 15, 2022.

According to data provided by Finra's Trace, the 1.75% notes last traded at 55 on Tuesday and the 7.5% notes last traded at 28 on Monday.

In a Jan. 20 report, KDP Investment Advisors Inc. projected the company would have $184 million of Ebitda in 2016 and $101 million in negative free cash flow.

"Low oil and natural gas prices will drive down Stone's earnings and cash flows in 2016, sharply increasing financial leverage and weakening liquidity," Moody's Investors Service Inc. analyst Sajjad Alam said in a Jan. 7 report, which warned of a potential covenant breach in 2016.

Stone Energy reported a $1.09 billion net loss for the year ended Dec. 31.

The company had $1.41 billion in assets and $1.45 billion in liabilities as of Dec. 31. It had $23 million in cash on its balance sheet as of Feb. 22.

Stone Energy's primary producing assets are in the deepwater and the conventional shelf of the U.S. Gulf of Mexico and the Marcellus Shale in northern Appalachia.

In April, The Deal wrote that the company had suspended its operations in Appalachia for the rest of the year and that it could sell those assets, do a joint venture with another company or sell its part of its Amethyst discovery in the deepwater Gulf of Mexico to bring in cash.

The company's stock, which trades on the New York Stock Exchange, closed at $1.42 on Tuesday, down 23.2% from its $1.85 close on Monday.

Stone Energy CFO Kenneth H. Beer couldn't be reached for comment on Tuesday.

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