ARE THESE 4 WIDELY-HELD ENERGY STOCKS IN THE DANGER ZONE?
Are These Four Widely-Held Energy Stocks in the Danger Zone?

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There are several companies that are deeply affected by the 44% decline in energy prices over the past year. This pain has been especially concentrated in energy stocks trading under $10. This group contains some of the more highly-levered names that had made big bets on the continued growth of domestic exploration and production.

With that in mind, we’re going to take a look at four names today and help readers gauge which of these could be oversold and due for a bounce, compared with which ones might not survive an extended period of low energy prices.

**HK**

First up is Halcon Resources (HK), which is down about 41% year-to-date through May and 82% over the past year, currently changing hands around $1.05. About 80% of the company’s production is leveraged to oil, where management has hedged more than 88% of its exposure for 2015.

Halcon posted lower-than-expected first quarter results on May 5. The company lost $0.04 a share, as revenue fell 50% from the previous year, to $136.2 million. In the meantime, the company has piled up a lot of debt on its balance sheet. At the end of the latest quarter, the company’s net debt stood at a sizable 2.9x of total equity.

Despite management’s hedging strategy Halcon has above-average risk because of its hefty debt load. In a period of sustained lower energy prices, the company’s financial health would be considerably stressed and we would avoid the shares at current levels.

**MHR**

Next is Magnum Hunter (MHR), which is trading around $1.85 and has lost 41% year-to-date through May and 74% over the past year. About 75% of the company’s production is natural gas (which is also down 37% over the past year) and management targets hedging about 50% of its forward commodity exposure.

The company announced lower-than-expected quarterly results on May 11. Magnum Hunter lost $0.38 a share in the first quarter, as revenue fell 51% year-over-year, to $55.4 million. The company’s net debt stands at 2.2x of total equity and management had just $21 million of liquidity at its disposal when it announced quarterly results.

In recent weeks, Magnum Hunter has been selling assets to meet commitments for its first lien credit facility. While not the most leveraged company on this list to lower oil prices, we maintain the stock is only suitable for the most speculative traders.
SD

Next is SandRidge (SD:NYSE), which is a holding in the Stocks Under $10 portfolio. The stock has not escaped the energy sell-off, losing 34% year-to-date through May, 81% over the past year and recently changing hands around $41.19.

That said, the company stacks up relatively well against its peers in a couple of key metrics. First, management has hedged all of its remaining oil exposure for 2015, which is the highest of these four names. SandRidge's production is currently about half oil and half natural gas, of which management has hedged less than 30% of its 2015 exposure.

Also, while the company has its fair share of debt, the net value is just 1.7x total equity, which is again relatively low in comparison to some of its peers. CEO James Bennett has been at the helm just under two years and since he’s been there, the focus has been on growing production while cutting costs.

The company appears better positioned than most of its peers to handle the downturn in energy prices. If the environment does stabilize and management continues to execute its strategy, we believe the stock can move back up toward $3 over time.

XCO

Finally, there’s Exco Resources (XCO:NYSE), which trades around $1.56 and has lost 28% of its value year-to-date through May and 70% over the past year. Management announced mixed quarterly results on April 28. The company lost $0.07 a share in the first quarter, as revenue fell 56% from the previous year to $86.3 million.

About 90% of Exco’s production is natural gas and management had hedged about 65% of expected 2015 production. The company also has a sizable debt load, with the net amount equal to 7.5x of total equity.

It’s been a busy couple of months for Exco, which eliminated its dividend last December and announced some major strategic changes on March 31. On that day, Harold Hickey was promoted from chief operating officer to chief executive officer. In addition, the company retainer Bluescape Resources for four years of strategic advisory services.

Exco’s strategic changes may prove to be too little and have come too late. With its relatively low commodity hedges and outsized debt load, we believe that investors should avoid shares at current levels.
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