

Energy Sector – Market Volatility Leads to Opportunity for Aggressive Traders

OVERVIEW

Aggressive traders often look for levered ways to make a bet on a certain event or price action. This way they will magnify their returns if their prediction is correct. Several energy company stocks offer this type of opportunity to earn such magnified returns based on movement in the price of oil. In this report we will highlight four of these equities, providing a description of each of them.

The energy sector has been in an extended bear market driven by the steep drop in energy commodity prices. We can see the damage done in the energy sector driven by the drop in oil prices in the following chart which shows the performance of the NYSE Arca Oil Index versus the price of oil over the past year.



This extended downturn has led to speculation about potential bankruptcies this fall as banks reign in credit lines that were extended to energy companies when oil prices were more than double their recent levels. This speculation has turned the stocks of companies in this sector into levered vehicles to speculate on the short term movement in oil prices. As we saw oil prices spike this past week, we saw the prices of these levered stocks react with magnified moves as shown in the following charts of oil against Basic Energy Services (BAS), Energy XXI Ltd. (EXXI), Key Energy Services (KEG) and Magnum Hunter Resources Inc. (MHR).

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After seeing oil prices spike more than 10% in a week, it probably makes sense to look for a pullback as traders harvest some profits from last week's move. After a pullback, traders could look to find an entry point to trade these stocks as a way to speculate on the movement in the price of oil.

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BASIC ENERGY SERVICES, INC. (NYSE– BAS)

COMPANY DESCRIPTION:

Basic Energy Services provides well site services to oil and natural gas drilling and production companies. Those services include completion and remedial services, well servicing, fluid services and contract drilling.

For the 6 months ended June 30, 2015, the revenue breakdown was completion and remedial services (41%), fluid services (30%), well servicing (26%), and contract drilling (3%). Revenues declined 46% in the 2nd quarter versus the year ago period due to decreased customer demand following the drop in crude oil prices.

The company's balance sheet is levered with over \$850 million in long term debt against \$262 million in equity. Year to date the company has lost almost \$81 million, though much of this was driven by non-cash depreciation charges of \$121 million. Cash flow from operations over the same period was positive \$88 million. The company is highly levered with long term debt of \$4,596 million against just \$912 million in equity.

STOCK PERFORMANCE



Source: Big Charts

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Energy XXI Ltd. (NASDAQ – EXXI)

COMPANY DESCRIPTION:

Energy XXI Ltd is an independent oil and natural gas exploration and production company formed as an exempted company under the laws of Bermuda to serve as a vehicle for the acquisition of oil and gas reserves and related assets. The company is focused on the acquisition, development, operation and exploration of oil and gas properties onshore in Louisiana and Texas and in the Gulf of Mexico Shelf.

As of June 30, 2014, the company had total proved reserves of 246.2MMBOE. 75% of these reserves were oil. The company operates or has an interest in 984 gross producing wells and reported revenues of \$1,021 million, an increase of 13% versus the same period in the year ago period, for the nine months ended March 31, 2015. The company reported a loss of \$973 million which was driven by non-cash charges of \$740 million for impairment of oil and gas properties, goodwill impairment of \$329 million and \$528 million of depletion, depreciation and amortization. Cash flow from operation over the same period was \$160 million.

STOCK PERFORMANCE



Source: Big Charts

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Key Energy Services, Inc. (NYSE – KEG)

COMPANY DESCRIPTION:

Key Energy Services, Inc. provides a full range of well services to major oil companies, foreign national oil companies and independent oil and natural gas producers. The company offers rig-based and coiled tubing-based well maintenance and workover services, well completion and recompletion services, fluid management services, fishing and rental services, and other ancillary oilfield services. The company operates in the continental United States, Mexico, Columbia, Ecuador, the Middle East and Russia.

The company reported revenues of \$465 million, a decrease of 35% versus the same period a year ago, for the six months ended June 30 and a net loss of \$125 million. The loss was driven by non-cash charges of \$43 million for an impairment expense and \$93 million of depreciation and amortization. Operating cash flow was a loss of just over \$1 million over the same period. The company's balance sheet has lower leverage than some the other companies featured in this report with \$961 million of long term debt against \$937 million in equity.

STOCK PERFORMANCE



Source: Big Charts

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Magnum Hunter Resources Corporation (NYSE – MHR)

COMPANY DESCRIPTION:

Magnum Hunter is an independent oil and gas company engaged in the exploration, acquisition, development and production of natural gas and natural gas liquid resources in the United States primarily in the Marcellus Shale in West Virginia and Ohio and the Utica Shale in southeastern Ohio and western West Virginia.

For the six months ended June 30, 2015, revenues dropped 60% to \$95 million and the company lost \$145 million, \$80 million of which was attributable to non-cash depletion, depreciation, and amortization. The company did manage to generate \$52 million in cash flow from operation over the same period, though much of the cash was generated by some one time balance sheet maneuvers. The company has a fairly significant amount of balance sheet leverage with \$939 million of long term debt against \$321 million of equity.

STOCK PERFORMANCE



Source: Big Charts

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RISK FACTORS:

An investment in the common stock of a company is subject to a number of risks. A detailed list of the risk factors which may affect the company's fundamentals may be found in its most recent form 10-K located on the SEC's website, www.sec.gov. Investors should carefully consider these risk before making an investment decision. We assume no obligation to update or revise any such forward-looking statements to reflect events or circumstances that occur after such statements are made.

SOURCES:

<http://bigcharts.marketwatch.com/advchart/frames/frames.asp?show=&instttype=Future&symb=CRUDE+OIL+-+ELECTRONIC&time=8&startdate=1%2F4%2F1999&enddate=8%2F28%2F2015&freq=1&compidx=XOI&comtemptext=&comp=none&ma=0&maval=9&uf=0&lf=1&lf2=0&lf3=0&type=2&style=320&size=2&x=33&y=16&timeFrameToggle=false&compareToToggle=false&indicatorsToggle=false&chartStyleToggle=false&state=12>

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Basic Energy Services, Inc. Form 10-Q, August 3, 2015

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<http://bigcharts.marketwatch.com/quickchart/quickchart.asp?symb=bas&insttype=&freq=&show=>

Energy XXI, Ltd. Form 10-Q, May 8, 2015

<http://bigcharts.marketwatch.com/quickchart/quickchart.asp?symb=exxi&insttype=&freq=1&show=&time=8>

Key Energy Services, Inc. Form 10-Q, August 4, 2015

<http://bigcharts.marketwatch.com/quickchart/quickchart.asp?symb=keg&insttype=&freq=1&show=&time=8>

Magnum Hunter Resources Corporation Form 10-Q, August 7, 2015

<http://bigcharts.marketwatch.com/quickchart/quickchart.asp?symb=mhr&insttype=&freq=1&show=&time=8>

Disclosure: I, Michael McCord, CFA have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions. I have no business relationship with any company whose stock is mentioned in the article.

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