Liquidity Screen

Given an expected ~30% default rate across B/CCC HY energy per DB's strategist, liquidity gives us a reasonable measure of distance to default. Looking at 2016, allows for a reasonable analysis of how credits would perform FCF-wise though roughly 2/3 of the cycle. This analysis clearly favors E&Ps that have recently termed out RBL balances ahead of the oil downturn or have cash on the balance sheet from recently completed asset sales. Looking at the top quartile, three out of seven top ranking E&Ps in the liquidity screen have recently completed asset sales, namely Chesapeake (CHK), Newfield (NFX) and QEP Resources (QEP). Interestingly, looking at the bottom quartile, there are several credits that have recently completed liquidity enhancing activities relatively recently like asset sales (SD, MHR, SAIVST), IPOs (SEVGEN) and capital raises (MHR). Despite this, these companies remain in the lower quartile on a liquidity-basis due to significant FCF burn over the next two years at current crude prices ($50-60/bbl cases).