



SemGroup weighs bankruptcy

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A subsidiary's stock price falls 51.75 percent to end at \$11 a share.

Tulsa-based SemGroup Energy Partners LP's stock price fell more than 50 percent Thursday before its parent company disclosed late in the day that it was considering filing for bankruptcy.

In a statement e-mailed to the press Thursday evening, SemGroup Energy said it was informed by SemGroup LP that the parent company "is experiencing liquidity issues and is exploring various alternatives, including raising additional equity, debt capital or the filing of a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code."

SemGroup Energy, which trades on the Nasdaq under the symbol SGLP, saw its stock finish as the top percentage decliner on the market, falling \$11.80, or 51.75 percent, to close at \$11 a share.

Much of the fall came before an afternoon announcement by Moody's Investors Service that it had downgraded SemGroup LP's default and unsecured debt ratings by several levels.

SemGroup Energy owns and operates a diversified portfolio of energy assets. It operates crude oil and liquid asphalt cement terminals and offers storage, crude-oil gathering and transportation. The general partner of SemGroup Energy is a subsidiary of privately held SemGroup LP.

"While SGLP's parent is experiencing liquidity challenges, SGLP's assets provide important terminaling and storage services to the energy industry," Kevin Foxx, SemGroup Energy's president and CEO, said in the e-mailed press release.

"We own valuable assets in strategic locations and remain positioned to provide midstream services. Until our parent advises us of their course of action, we cannot fully evaluate and are not yet prepared to comment on how any such action taken by our parent might affect SGLP."

SemGroup Energy derives a substantial amount of its revenues through various agreements with SemGroup LP and its subsidiaries, according to the statement.

The parent SemGroup was formed in 2000 and quickly grew to be one of the nation's largest private businesses.

As the company expanded — making more than 50 acquisitions — it also became a major corporate donor in Tulsa. Just one of the efforts it supports is the SemGroup Championship, an LPGA tournament held in Tulsa annually.

SemGroup also is a large employer. It has about 400 employees in Tulsa and 2,000 worldwide.

SemGroup Energy began trading as a public company on July 18, 2007. Its stock value rose as high as \$31 per share during its first year on the market, according to Bloomberg data.

The stock opened at more than \$22 a share Thursday but went into a freefall soon after, dropping as low as \$10.16 per share. By the end of the day, SemGroup Energy had lost hundreds of millions of dollars in market value.

"Despite high energy prices, a lot of master limited partnerships are not experiencing growth. They are more susceptible to credit issues from acquiring assets, and they pay out a lot of profits in distributions to shareholders. Their assets are not the sexiest ones on the books," Jake Dollarhide, CEO of Longbow Asset Management Co. in Tulsa, said Thursday night in a telephone interview.

"Credit is tight all around now; banks are struggling. As a result, if an energy company comes upon hard times, they don't have a ready financial partner."

Dollarhide said his information indicates that the public SemGroup entity derives 89 percent of its revenues from its parent, "so the public company's livelihood depends on the private company."

Some national analysts contacted by the Tulsa World early Thursday reported hearing rumors about debt problems with SemGroup LP. By Thursday afternoon, Moody's released its report announcing SemGroup's downgrading on several key ratings.

The investor service adjusted the parent company's corporate family and probability of default ratings from Ba3, or medium grade, to B2, or "lacks characteristics of a desirable investment," according to Moody's definitions. The ratings also affected debt at two subsidiaries, SemCams Holding Co. and SemCrude LC.

SemGroup's senior unsecured rating plummeted from B1 to Caa1, or "bonds of poor standing," according to the company's terms.

"These rating actions also reflect Moody's concern for SemGroup's ability to meet its bank covenant tests at a time when higher oil prices had already driven major increases in borrowing requirements," the Moody's report states. The service also placed SemGroup's new ratings under review for further downgrade.

A bank covenant test can involve looking at the ratio of a company's debt to its earnings, Dollarhide explained. Banks also may examine the amount of interest being paid on debt.

SemGroup may not have enough cash on hand to pay margins for oil contracts it tries to buy in the future, some analysts said. One national investment professional said the parent company's cash-flow problems may pose significant problems to SemGroup Energy.

"They may not be able to get out of this," said Kevin Starke, a Stamford, Conn.-based fixed-income analyst.

"I'd be worried if I was an equity holder in the publicly traded company," Starke added.

SemGroup Energy Partners also has added a lot of debt in the past year, according to reports. Its debt load ranged from about \$89.5 million as of December 2007 up to \$295 million by March 31.

The Moody's report indicates that all of SemGroup's \$1.5 billion in fixed assets was tied up as security for bank loans.

"This story about SemGroup was almost too good to be true," Fred Russell, CEO of Fredric E. Russell Investment Management Co., said of the original company's meteoric rise. SemGroup's fast pace of acquisitions apparently added debt along the way, he said.

"Debt can go both ways," Russell pointed out. "It's very unusual for any company to rise three to four times faster than other companies. When you add debt, you add something very dangerous."

In May, SemGroup Energy posted first-quarter net income of \$9.8 million, or 31 cents per diluted share, on revenue of \$40.2 million.

By Thursday morning, however, something dramatic happened as a stock that typically traded at a volume of about 68,000 shares daily was transacted more than 5 million times. Much of that drop happened in the morning, several hours before the Moody's report was released.

Investor ratings services typically communicate questions to the companies they are looking at to make sure they are not missing important factors, Russell noted. He speculated that company officials could have been aware of the impending Moody's report.

Russell said he was not suggesting anyone inside or outside the company violated securities laws, but the analyst said he thought the Securities and Exchange Commission or Nasdaq likely would investigate the huge early day trading volumes.

SemGroup Energy's total market capitalization — its stock price multiplied by number of shares — dropped to \$372 million from a total value of more than \$700 million at the day's start.

The freefall hit stockholders hard. SemGroup Energy's co-founder and director, Tom Kivisto, for instance, owns about 295,000 shares, according to Yahoo Finance, and would have lost about \$3.25 million on Thursday alone.

Swank Energy Income Advisors LP is one of SemGroup Energy Partner's largest institutional holders at 4.24 million shares, or 12.6 percent of the company, according to Yahoo. Its one-day loss totaled close to \$45 million — on paper, anyway.

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