TRADERS NEWS SOURCE

Vanguard Natural Resources LLC: sustaining the tough times

Vanguard Natural Resources LLC (NASDAQ: VNR), once well known for stable dividend payout, has suffered a decline dictated by crude oil and gas prices. From its peak market capitalization of $4 billion in 2014, it has lost 98% and today is a $91 million company.

Vanguard could have joined its peers on the bankruptcy path, had it not negotiated favorable repayment of loans. However, its future success lies in successfully navigating debt issues, optimal allocation of funds to lucrative fields and cost controls. A rise in natural gas and oil prices would go a long way toward helping Vanguard resolve some financial issues.

<u>Description</u>

Vanguard Natural Resources, LLC based out of Houston, Texas is focused on the acquisition and development of mature, long-lived oil and natural gas properties in the United States. The Company owns properties and oil and natural gas reserves primarily located in over 10 operating basins: the Green River Basin in Wyoming; the Permian Basin in West Texas and New Mexico; the Gulf Coast Basin in Texas, Louisiana, Mississippi and Alabama; the Anadarko Basin in Oklahoma and North Texas; the Piceance Basin in Colorado; the Big Horn Basin in Wyoming and Montana; the Arkoma Basin in Arkansas and Oklahoma; the Williston Basin in North Dakota and Montana; the Wind River Basin in Wyoming, and the Powder River Basin in Wyoming.

As of September 30, 2016, total estimated proved reserves were 1,898 tcfe, of which 67% were natural gas, 17% were oil reserves and 16% were NGL reserves. Of these total estimated proved reserves, approximately 70%, or 1,338 bcfe were classified as proved developed. Vanguard has over 2.8 Tcfe of low-risk proved drilling opportunities, primarily in Pinedale, Piceance and Arkoma Woodford which provides visibility in terms of future cash flows. The company owned working interest in 13,787 gross (4,480 net) production wells which constitutes 56% of total estimated proved reserves.

Vanguard's senior management has rich experience of over 30 years in oil and gas industry. In the past, team has successfully navigated challenges of low-price cycles and extracted value from mature assets.

Over last decade, company spent $5 billion to own 25 strategic assets to become geographically diversified oil and gas producer. In 2015, the company acquired two rival MLPs, Eagle Rock Energy Partners and LRR Energy in unit-for-unit exchanges. In 2016, it sold key assets to cut debt to get leniency from banks to avoid bankruptcy.

<u>Financials</u>

<u>Operational metrics</u>

Vanguard reported average daily production volume of 424 million cubic feet equivalent for third quarter of 2016, 10% up from 387 million cubic feet equivalent for third quarter of previous year but 4% lower than 445 million cubic feet equivalent in second quarter of 2016. In terms of Mcfe basis, crude oil, natural gas and NGLs accounted for 18%, 68% and 14% of production respectively.

<u>Income statement</u>

For the nine-months ended on September 30, 2016, VNR posted EBITDA of $300mn, an increase of 13.5% on $264mn over same period last year. In terms of distributable cash flows, the company totaled $151mn for nine-month ended September 2016 against $8mn for nine-month ended September 2015 due to higher depreciation & amortization and impairment, and lower capital expenditures. However, the board of directors has elected to suspend cash distributions to the holders of common and class B units and cumulative preferred units effective from February 2016 distribution due to liquidity issues.

<u>Balance sheet</u>

Based on management estimates of EBITDA (December FYE) of $382mn for 2016, VNR has high leverage in terms of net debt (as on September 30, 2016) to EBITDA of 4.8x. The company is unable to hedge more volumes as many of its counterparties are unwilling to take on more credit exposure until the company's borrowing base deficiency is cured.

<u>Cash flow</u>

Vanguard incurred capital expenditures of $14mn for third quarter of 2016 ($49mn for nine-months of 2016), primarily in drilling and completion activities in the Pinedale field which will be focus area in remaining Capex plan for 2016. For the fourth quarter, the company expects capex budget of $15-16 millions, i.e. $64-$65 million for the full year.

<u>Management outlook</u>

Vanguard has hedged approximately 58% of anticipated natural gas production for the balance of 2016 and 50% in 2017 at weighted average floor prices of $4.13 per mmbtu in 2016 and $3.46 per mmbtu in 2017. For oil, it has hedged approximately 54% of anticipated crude production for the balance of 2016 and 14% in 2017 at weighted average floor prices of $62.83 per barrel in 2016 and $83.98 per barrel in 2017. On the natural gas liquids side, approximately 24% of remaining 2016 production is hedged at a weighted average price of $30.99 per barrel. The company has not hedged natural gas liquids production in 2017.

The company is achieving 20%+ return on 2016 capital program and has sufficient inventory of repeatable projects for coming years that are still economic in today's commodity price environment. Based on forecasted improvement in gas prices for 2017, returns are expected to only get better.

Vanguard is planning to spend money on Piceance Basin (Expects 20% return even at gas price of $2.5/mmbtu), East Haynesville (acquired in 2014) and the Arkoma Woodford (completed geologic study) from mid-2017.

<u>Debt recast plan</u>

As management highlighted in recent conference call, banks re-determine the value of reserves and borrowing base every six months, based on their own price tags which reduces as commodity prices fall. On November 3, borrowing base was lowered from $1.325 billion to $1.1 billion and it needs to pay five equal monthly installments of $37.5 million, beginning in January 2017, to remain in compliance under the credit agreement. According to covenant in the bank credit agreement, trailing debt to EBITDA will be reduced from the current 5.25 times to 4.5 times for 2017. In third quarter of 2016, it was 4.6 times.

Bank credit facility expires in April 2018, which means all amounts due under the facility will become current obligations in April 2017, unless company is able to negotiate a maturity extension with the banks.

Management anticipate that forecasted excess cash flow from normal operations will not be sufficient to pay the remaining borrowing base deficiency for which it needs assets sales and/or new financing sources to satisfy this requirement.

Key Stock drivers

Some key drives that might govern future stock price performance include:

- Movement in WTI crude price / Henry Hub gas price
- Company's ability to reduce leverage (mainly through asset sale) and renegotiate extension with banks
- Hedging strategy
- Control over SG&A costs

On Friday, December 30, 2016, VNR shares closed at $0.74 (52 week range 0.46-3.16) per share with a volume of 1.6 million shares exchanging hands. Current, market capitalization is $94 million. Based on management estimates of EBITDA of $382mn for 2016, VNR trades at EV to EBITDA of 6.1x and has LTM debt to EBITDA of 4.6 times. The current RSI is 23.7.

***Receive updates and real time small cap stock profiles from Traders News Source. Send a text from your mobile phone to the number **"25-827"** with the word **"Traders".** Opt out anytime by replying "Stop"

Disclaimer

Traders News Source is a wholly owned subsidiary of Traders News Source LLC, herein referred to as TNS LLC.

Traders News Source has not been compensated for this report by anyone and the opinions if any are that of the author Nadia Noorani, CFA. **Author's Disclosure:** I 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.

This web site, published by TNS LLC, and is an investment newsletter that is built on the premise of assisting individual investors in learning about investing. Our goal as publishers of financial information is to provide research and analysis of investments to our subscribers. TNS LLC does not give buy or sell recommendations. We do purchase distribution rights from analyst, financial writers and bloggers for a fee that may be licensed to issue price targets and recommendations. Furthermore, we encourage you to speak to a licensed professional prior to making an investment in any type of publicly traded security.

We do sell advertising to other companies including brokerage firms, web sites, publicly traded issuers, investor relations firms, and investment publications, among others. TNS LLC makes no warranty as to the policies of these organizations, and in no way endorses their offers, services, or the content of their advertisements.

When an advertiser is a publicly traded company or a third party acting on behalf of a public company, we fully disclose all compensation in the email advertisement. Such disclosure is included in a disclosure statement in each of the advertisements sent via email.

17B Disclosure

Our reports/releases are a commercial advertisement and are for general information purposes ONLY. We are engaged in the business of marketing and advertising companies for monetary compensation. Never invest in any stock featured on our site or emails unless you can afford to lose your entire investment. The disclaimer is to be read and fully understood before using our services, joining our site or our email/blog list as well as any social networking platforms we may use.

PLEASE NOTE WELL: TNS LLC and its employees are not a Registered Investment Advisor, Broker Dealer or a member of any association for other research providers in any jurisdiction whatsoever.

Release of Liability: Through use of this website viewing or using you agree to hold TNS LLC, its operator's owners and employees harmless and to completely release them from any and all liability due to any and all loss (monetary or otherwise), damage (monetary or otherwise), or injury (monetary or otherwise) that you may incur. The information contained herein is based on sources which we believe to be reliable but is not guaranteed by us as being accurate and does not purport to be a complete statement or summary of the available data. TNS LLC encourages readers and investors to supplement the information in these reports with independent research and other professional advice. All information on featured companies is provided by the companies profiled, or is available from public sources and TNS LLC makes no representations, warranties or guarantees as to the accuracy or completeness of the disclosure by the profiled companies. None of the materials or advertisements herein constitute offers or solicitations to purchase or sell securities of the companies profiled herein and any decision to invest in any such company or other financial decisions should not be made based upon the information provide herein. Instead TNS LLC strongly urges you conduct a complete and independent investigation of the respective companies and consideration of all pertinent risks. Readers are advised to review SEC periodic reports: Forms 10-Q, 10K, Form 8-K, insider reports, Forms 3, 4, 5 Schedule 13D.

TNS LLC is compliant with the Can Spam Act of 2003. TNS LLC does not offer such advice or analysis, and TNS LLC further urges you to consult your own independent tax, business, financial and investment advisors.

Investing in micro-cap and growth securities is highly speculative and carries an extremely high degree of risk. It is possible that an investor's investment may be lost or impaired due to the speculative nature of the companies profiled.

The Private Securities Litigation Reform Act of 1995 provides investors a 'safe harbor' in regard to forward-looking statements. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, goals, assumptions or future events or performance are not statements of historical fact may be "forward looking statements". Forward looking statements are based on expectations, estimates, and projections at the time the statements are made that involve a number of risks and uncertainties which could cause actual results or events to differ materially from those presently anticipated. Forward looking statements in this action may be identified through use of words such as "projects", "foresee", "expects", "will", "anticipates", "estimates", "believes", "understands", or that by statements indicating certain actions & quote; "may", "could", or "might" occur.

Understand there is no guarantee past performance will be indicative of future results. In preparing this publication, TNS LLC has relied upon information supplied by its customers, publicly available information and press releases which it believes to be reliable; however, such reliability cannot be guaranteed. Investors should not rely on the information contained in this website. Rather, investors should use the information contained in this website as a starting point for doing additional independent research on the featured companies. The advertisements in this website are believed to be reliable, however, TNS LLC and its owners, affiliates, subsidiaries, officers, directors, representatives and agents disclaim any liability as to the completeness or accuracy of the information contained in any advertisement and for any omissions of materials facts from such advertisement. TNS LLC is not responsible for any claims made by the companies advertised herein, nor is TNS LLC responsible for any other promotional firm, its program or its structure.