

Fitch: Poor Unsecured Recoveries Expected for Walter Energy

July 15, 2015 04:15 PM Eastern Daylight Time

NEW YORK--([BUSINESS WIRE](#))--Poor unsecured bond recoveries are expected following Walter Energy Inc.'s filing bankruptcy under Chapter 11 today, according to Fitch Ratings. The coal miner, along with the rest of the industry, has been struggling with depressed coal prices for several years.

Walter's bankruptcy was driven by a market oversupply of metallurgical coal in addition to an untenable debt load stemming from the company's acquisition of Western Coal Corp., which occurred during a period of peak coal prices. Lower prices caused Walter to curtail much of the acquired capacity and eroded cash flows to levels insufficient to sustain the highly levered capital structure.

Three of Walter's outstanding bond issues trade at bid prices that range from approximately 1% to 5% of the combined \$1.1 billion face value amount. The deeply discounted issues include 11% second lien PIK toggle notes as well as 9.875% and 8.5% senior unsecured notes.

These low prices reflect the market's expectations of poor recovery rates on the bonds, which rank junior in seniority to Walter's first lien term loan and bond debt and which together total approximately \$2 billion. Junior creditors receive bankruptcy plan distributions only if the reorganization enterprise value is sufficient to fully repay first lien debtholders as per the absolute rule of priority or as a result of a consensual settlement agreement.

Walter's bankruptcy filing propels the beleaguered US metal and mining sector's total twelve month high-yield default rate up to 7.2% from 5.1% at the end of June 2015. The rate is anticipated to rise further if Arch Coal defaults via a distressed debt exchange that is currently being offered to certain debtholders.

Walter was one of 21 US energy and mining high-yield bond issuers identified by Fitch as having high default risk in a low bond price screening process completed for the "Energy, Power and Commodities Bankruptcy Enterprise Value and Creditor Recoveries" report published April 27, 2015.

Fitch expects Walter to reorganize as a going concern and to use the bankruptcy process to restructure pre-petition debts totaling more than \$3 billion down to a level more appropriate relative to sustainable future cash flows. The filing is the result of a pre-negotiated agreement with certain senior lenders to convert all of the senior debt to equity.

Additional information is available on www.fitchratings.com.

The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article, which may include hyperlinks to companies and current ratings, can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

Related Research

Energy, Power and Commodities Bankruptcy Enterprise Value and Creditor Recoveries (Fitch Case Studies -- Edition VII)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=862547

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS

LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN

ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE

'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES.

FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN

BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Contacts

Fitch Ratings

Sharon Bonelli

Senior Director

Leveraged Finance

Fitch Ratings

+1 212-908-0581

33 Whitehall St.

New York, NY 10004

or

Eric Rosenthal

Senior Director

Leveraged Finance

Fitch Ratings

+1 212-908-0624

or

Gregory Fodell

Associate Director

Corporates

Fitch Ratings

70 W. Madison Street

Chicago, IL

+1 312-368-3117

or

Kellie Geressy-Nilsen

Senior Director

FitchWire

+1 212-908-9123

or

Media Relations:

Alyssa Castelli, +1 212-908-0540

alyssa.castelli@fitchratings.com

