



Is it Time to Buy the Penn West Turnaround?

Description

This past June, **Penn West Energy** (TSX:PWT, NYSE:PWE) announced a slew of changes including naming a new CEO, David Roberts from **Marathon Oil** ([NYSE:MRO](#)), as well as vowing to cut costs, slashing its dividend and deciding it was time to start exploring strategic alternatives. With the stock down nearly 58% over the past five years, it became obvious that the previous strategy simply wasn't working. While the company is very early in its turnaround process, let's take a quick look to see how things are going.

Slashing costs

So far the company has made good on its plan to strengthen its financial flexibility, as it has made some painful cuts. First on the chopping block was its dividend which was slashed from \$0.27 per share all the way down to \$0.14 per share. That still equates to a 4.65% yield meaning investors are still paid very well to wait as the company repositions. That wasn't the only deep cut the company made as it also announced that it has cut 10% of its staff in the past quarter. Finally, Penn West had been contemplating an additional \$300 million in capex spending to be added to its \$900 million capital budget this year. However, it has since decided not to increase its investment this year. Clearly, the company is making good on its promise to cut costs.

Improving margins

The impact of those cuts were felt almost immediately as the company's funds flow was actually 2% higher last quarter even as production dropped 14% year-over-year to 140,083 barrels of oil equivalent per day (BOE/d). In addition to the cost reductions, its margins were impacted as the company was able to get more for its oil as the spread between U.S. and Canadian oil prices tightened.

What investors also need to be reminded of is that the production drop in the quarter was due to asset sales last year which totaled \$1.35 billion and represented about 13,000 BOE/d of production. While these were liquids weighted assets, the assets were not core to Penn West's future growth plans. Given that the company is exploring strategic options, it's probably not the last time the company's production will be affected by assets sales.

Producing results?

Despite a plan to spend \$900 million this year, the company only expects to end the year with production of 135,000 to 145,000 BOE/d. That means production could be flat or even lower than last quarter, which isn't the direction investors want to see. This outlook could change dramatically if the company advances any plans to unlock the value of its assets as there is the potential for additional asset sales or joint ventures which would affect its production.

If there is one key consideration, it's that new CEO David Roberts' former employer Marathon is a company that has seen first-hand the value that can be created from strategically unlocking assets. The spinoff of its refinery arm **Marathon Petroleum** ([NYSE: MPC](#)) has nearly doubled in value which added a lot of value to investors' portfolios. A move by Penn West to unlock the value of its assets could have a similarly rewarding outcome for its investors.

Final Foolish thoughts

That being said, it is tough to really buy into the company's turnaround plan just yet because it's still very short on details. Right now Penn West is just another energy company, albeit one with an attractive dividend. So, while investors are paid very well to wait, long suffering investors know that the dividend isn't the company's top priority. That's why I'd be more cautious to buy into the turnaround just yet.

Fuel your portfolio with this instead

While there is clearly value at Penn West, you might want to consider how Canada has been stimulating the global shift to alternative energy. However, the big money *isn't* in natural gas and it might not be in Penn West's oil either. Instead, your portfolio could be best served by uranium – the key ingredient for nuclear power.

That is why the Motley Fool has prepared a Special **FREE** Report that will clue you into the two best uranium companies in Canada. It's called "[Fuel Your Portfolio With This Energetic Commodity](#)," and you can [receive a copy at no charge!](#)

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Date

2025/08/26

Date Created

2013/08/15

Author

mdilallo

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