Will Penn West's Cuts Drive Future Profits?

Description

Penn West Exploration (TSX:PWT,NYSE: PWE), one of Canada's largest conventional oil producers, is cutting production guidance for 2014. It's another step in the company's plan to sell or shut in wells that aren't producing profits. Because of this, the company expects to produce between 101,000 and 106,000 barrels of oil equivalent per day, or BOE/d. That's down from its earlier estimates of 105,000 to 110,000 BOE/d for 2014.

Asset exodus continues
Penn West has been shedding assets in an effort to boost sagging profits. Its latest move has the company entering into a $175 million production sharing agreement on some natural gas weighted properties that are currently producing 6,700 BOE/d. That's just the first step in a plan that has the company looking to offload as much as $2 billion worth of assets it begins phase two of its divestiture strategy.

Coming up next, investors should expect to see the company sell its Peace River Oil Partnership in the oil sands, its natural gas heavy Cordova assets and its position in the emerging liquids-rich Duvernay. The asset that has the most intriguing potential is the Duvernay, which could fetch a nice sum for Penn West.

Producers like **Encana** (TSX:ECA)(NYSE:ECA) and **Talisman Energy** (TSX:TLM)(NYSE:TLM) see world class potential out of that play. Both companies are looking to sell assets elsewhere in order to invest in in the Duvernay to fuel growth. Penn West, on the other hand, has decided that its best course of action is to focus on conventional light oil assets like the Cardium and Viking, as that is where its expertise lies.

Focus on profits
In addition to selling assets to pay down debt, the company is also focusing on cutting its costs so that it can enhance profitability. That's why we are seeing the company actually take a step back by shutting down unprofitable production. That move has Penn West shutting in 3,200 BOE/d of production in 2014 as it simply cannot make any money from these wells.

Penn West has made a lot of painful cuts over the past year as it slashed the dividend and its workforce as part of its efforts to turn things around. Over the long term these moves should eventually pay off, however, there is still a lot of uncertainty in the short term as the company still has a long way to go.

Foolish bottom line
Penn West continues to take one step forward and two steps back on its production as its sheds assets, while at the same time investing to grow in its new focus areas. Because of this, investors might want to continue to watch this one from the sidelines for a while.

CATEGORY

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