



Should You Sell Penn West Petroleum?

Description

Beaten-down Canadian intermediate oil explorer and producer **Penn West Petroleum** (TSX:PWT)(NYSE:PWE) continues to disappoint investors, with its share price plunging 30% over the last year.

This significant decline is being driven by management consistently over-promising and under-delivering, coupled with the company's history of engaging in questionable acquisitions and capital projects. In late 2013 the company completed a strategic review, which saw it implement a turnaround strategy aimed at unlocking shareholder value.

But it appears that with Penn West's share price continuing to slide, the market hasn't taken this plan seriously and investors have run out of patience, indicating that perhaps this plan is too little, too late. It is important for investors to get a feel for where the company is headed and whether it can successfully execute its turnaround strategy and create value for shareholders.

Operational and financial performance continues to disappoint

Penn West is scheduled to report its fourth quarter and full year 2013 results on March 7, 2014. But in a recent fourth quarter operational update, the outlook is far from positive, and the company is expected to report a less-than-satisfactory financial performance.

Third-quarter production declined, falling by almost 5% in comparison to the second quarter 2013 and 17% year over year. Penn West estimates that fourth quarter 2013 production will be between 124,000 and 135,000 barrels of oil daily, with the lower range of that estimate representing a 7% decline in production volumes in comparison to the third quarter.

Obviously this declining production does not bode well for Penn West's bottom line and has meant that Penn West has been unable to capitalize on the spike in crude prices since August 2013.

The continuous decline in oil production can be explained in part by the company's divestment plans. In December 2013 alone the company divested itself of assets that accounted for production of almost 11,000 barrels of oil daily. Another reason is that Penn West decided to not reinstate interrupted

production of over 3,000 barrels of oil daily on the basis that it was uneconomic to do so.

Clearly this declining production is having an impact on Penn West's financial performance. Third quarter 2013 revenue was down by almost 1% year over year despite higher crude prices during that period. For the same period, earnings were six cents per share and analysts expect this to decline to minus seven cents per share for the fourth quarter.

What is clear is that until the turnaround strategy has gained sufficient traction, Penn West will continue to bleed red ink and disappoint investors.

Can the turnaround still succeed?

Management has implemented a turnaround strategy that is slated to return Penn West to growth and eventually profitability in 2016. The key planks of the strategy are to complete around \$2 billion in asset sales by 2015, reduce debt to around 1.5 times funds flow and reduce operating costs so as to grow operating netbacks per barrel. Penn West has secured the sale of \$175 million in assets, but it may be difficult for it to achieve the projected asset sales in the time frame it has set.

This is because already the market is awash with Canadian oil assets for sale. A number of oil companies, including **Lightstream Resources** and **Talisman**, are attempting to sell Canadian oil assets as they restructure their operations.

Foolish bottom line

Penn West's move to restructure, divest itself of non-performing assets and reduce debt bodes well for its long-term future. But for the short to medium-term it is unlikely that shareholders will find any relief for some time to come.

CATEGORY

1. Investing

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Date

2025/10/02

Date Created

2014/01/28

Author

mattsmith

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