



## Is Penn West Petroleum Actually Starting to Turn Around?

### Description

Canadian light-oil leader **Penn West Petroleum** (TSX: PWT)(NYSE: PWE) recently released its fourth-quarter and full-year results. Revenue for the quarter is down 23%, funds flow fell 27% and production was off 19% compared to the fourth quarter of 2012. Those aren't exactly appealing numbers. However, the company is just four months into its new vision, so let's take a closer look at the positives.

#### What went right

One of the most promising highlights is that Penn West spent just \$816 million of its planned \$900 million capital budget. Relentless cost control enabled the company to be at or within reach of its per well capital cost targets. This enabled the company to realize what it calls "game changing capital cost reductions across" at its key plays. Said another way, the company is able to drill all of its planned wells with less capital dollars being spent.

By spending less money, as well as through the sale of non-core assets, the company was also able to improve its balance sheet. Long-term debt has fallen 9% over the past year to \$2.5 billion. One example of this was the company's recently completed \$486 million non-core asset sale, which not only resulted in a \$356 million reduction in the company's net debt position, but also removed \$90 million in decommissioning liabilities.

After the quarter ended, Penn West announced another \$175 million in non-core asset sales, which is expected to close in March. This sale not only further enhances its liquidity, but by removing this natural gas-weighted asset the company further improves its production mix toward higher valued liquids.

#### What to keep an eye on this year

The Cardium area is a key area for investors to keep an eye on. Last year the company's drilling and completion costs fell 35%-40% when compared to 2012 spending. That's one reason why the company was able to spend less money on its capital spending plan. Looking to this year, Penn West plans to spend \$270 million to drill 67 wells. Continued cost reductions could see the company spending less money to drill those 67 wells, which would improve its overall returns as well as its balance sheet.

The company's other two core plays, Viking and Slave Point, will see \$150 million and \$145 million in 2014 capital spending respectively. Again, the key here is to see if the company is able to keep its spending less than that but still complete its drilling objectives.

In addition to the company's drilling activities, investors should keep an eye on the company's continued plans to sell non-core assets. Penn West sees up to \$1.5 billion in asset sales coming this year with its position in the promising Duvernay Shale likely to bring in a lot of cash.

The Duvernay, which is a core development field for peers like **Encana** (TSX: ECA)(NYSE: ECA) and **Talisman** (TSX: TLM)(NYSE: TLM) holds a lot of promise. Encana, which is commencing pad drilling operations in the Kaybob portion of the play and is expected to complete its appraisal of the Willesden Green portion, labels the Duvernay as one of its five core growth assets. It sees this massive resource as capable of producing 50,000 barrels of oil equivalent per day when it hits full production.

Meanwhile, Talisman is looking for a joint venture partner for part of its acreage and also sees this as a massive potential resource for the company. If there is one issue facing Penn West it's the fact that Encana already sold part of its acreage in a joint venture, while Talisman is looking to do the same, which reduces its options for potential buyers and could impact the prices it eventually receives for the asset.

### **Foolish bottom line**

Penn West is still in the early stages of its turn around. While most of its financial metrics are falling, that's mainly a result of its shrinking asset base. That base should continue to shrink this year as the company sells its position in the promising Duvernay. However, these moves are necessary in order to get the company back down to a size from where it can better focus on profitable growth.

### **CATEGORY**

1. Investing

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### **Date**

2025/08/26

### **Date Created**

2014/03/07

### **Author**

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