These Energy Stocks Have Both Fallen by 37% This Year. Is There Any Relief in Sight?

Description

In the first half of 2014, when oil prices and energy stocks were rising, not every company participated in the rally. Some were having difficulties with overleveraged balance sheets, and were desperately trying to sell assets (while still getting a fair price).

Unfortunately for these companies, they have fully participated in the energy downturn. And as a result, their stock prices have done very poorly this year. Is there any relief in sight?

After all, if these companies are able to turn themselves around, then the shares could skyrocket. In the meantime, many of them have big dividend yields. Below, we take a look at two examples.

Penn West: Can the news get any worse?

The struggles of **Penn West Petroleum Ltd.** (TSX: PWT)(NYSE: PWE) are well documented. The company expanded far too quickly at the wrong time, and as a result was overstretched. Since then, it has done its best to scale back. Its biggest blunder was the 2008 acquisition of Canetic Resources Trust. Production has fallen every year since then.

This year has been no better. Penn West got off to a bad start when it sold assets for a bargain price. Later on, the company uncovered $400 million in accounting misstatements. And finally, falling oil prices have hurt profitability. The stock price has fallen by 37% so far this year.

So the news can't get any worse, right? Actually, it can. Due to the falling oil price, Penn West's finances could come under serious pressure. The company still has over $2.2 billion in debt, quite a bit for a company with a $2.7 billion market capitalization. And Penn West also will likely have to cut its dividend (the 10% yield indicates that the market believes this will happen).

Granted, the company could rebound, and if it does, the shares could easily double. But this will surely require a rebound in oil prices, and maybe some luck too. Until then, the stock is far too risky for any portfolio.

Talisman: What does the future hold?

Talisman Energy Inc. (TSX: TLM)(NYSE: TLM) has a story very similar to that of Penn West. It expanded too quickly and at the wrong time, and now must deal with the consequences. The company has also had trouble selling off assets, and, of course, the falling oil price has not helped. It’s no coincidence that Talisman’s shares have fallen by 37% this year, almost exactly equal to Penn West.

So while Talisman has a lot in common with Penn West, there are some differences. For one, Talisman has no accounting irregularities, and also has the backing of billionaire activist investor Carl Icahn. For those reasons alone, it’s probably a better bet than Penn West.

But Talisman has another big problem: Its far-flung assets, particularly in the North Sea, seem to be more of a liability than an asset. Most notably, some assets come with a five-year requirement to spend $2.5 billion, putting a serious strain on Talisman. These assets also make the company more complex, making it less attractive to a buyer.

So, at this point, you should probably avoid Talisman as well. There are better options in the energy patch, one of which is The Motley Fool’s top stock pick for 2014. You can read all about it in the free report below.

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