



## Why This Could Be an Important Week for Penn West Petroleum Ltd.

### Description

Wednesday looks like it will be an important day for **Penn West Petroleum Ltd** (TSX: PWT)(NYSE: PWE) investors. That's the day the company is expected to announce third-quarter results and provide investors with an early look into the future by providing its 2015 capital budget. After all the company has been through this year, including a restatement of some of its financial results and a sell-off that has taken the stock down more than 46% this year, investors need some good news on Wednesday.

### What investors want to see in the third-quarter

Given all the issues Penn West Petroleum has had in its recent past, investors want to see the company have a positive announcement this quarter. That starts with production, which is expected to average about 100,000 barrels of oil equivalent per day, or BOE/d in the quarter. That's actually a bit less than it produced last quarter as well as under the company's full-year guidance of 101,000-106,000 BOE/d. However, that's because Penn West had a high level of planned turnaround activities scheduled in the quarter as well as several capital projects that weren't projected to be finished until closer to the end of the quarter.

Ideally, investors would like to see that the company completed its turnaround activities and capital projects sooner than expected leading to better than expected production. This actually wouldn't be a stretch because the company did note in a recent press release announcing a non-core asset sale that it sees production this year coming in above the mid-point of the range. This gives investors some hope that the company's operations were strong in the third quarter. It would be good news to investors, who haven't had much to celebrate this year.

### What investors want to see in 2015 guidance

The other important area to watch is 2015 guidance for capex. Given the recent weakness in oil prices, investors should expect Penn West to cut back its capex for 2015. Investors will still want the company to maintain a strong enough financial position so that it can weather the current storm in crude oil prices, even if that means growth is limited. Solvency and liquidity are more important than growth at this point.

What Penn West might announce is a base capex budget that's under the \$820 million it expects to spend in 2014 along with an additional discretionary amount that it could spend if either oil and gas prices rise substantially or it completes a large asset sale. By being flexible the company will assure investors that it can meet its obligations, including maintaining the dividend, without increasing its debt levels that it has worked so hard to reduce.

This is an important week for Penn West investors given its announcements on Wednesday. The hope is that the third-quarter results can exceed expectations despite the weakness in oil prices last quarter as there is the potential for stronger than expected production. Further, the company will also be setting its direction for 2015, which needs to be conservative enough so that it doesn't worry investors and yet adequate enough to still provide meaningful future growth.

#### **CATEGORY**

1. Energy Stocks
2. Investing

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