



2 Companies in the Patch Experiencing Significant Insider Buying: Should You Buy, Too?

Description

Softer crude prices have hit companies in Canada's oil patch hard with many seeing their shares heavily sold off as investors flee crude. This now sees many oil producers now trading at new 52-week lows.

While many investors now only see doom and gloom in the patch, many of these companies still remain profitable even at current crude prices. As a result we are now seeing significant insider buying, with senior management in a number smaller oil producers snapping up shares at bargain basement prices.

Two companies that have recently seen significant insider buying are **Lightstream Resources Ltd.** (TSX: LTS) and **Penn West Petroleum Ltd.** (TSX: PWT)(NYSE: PWE). This is typically perceived by the market to be a positive sign as insiders have intimate knowledge of a company's operations and its future outlook.

Should investors follow in these insiders' footsteps and start buying up shares in these companies?

Lightstream Resources Ltd.

The last year has been a painful one for investors in intermediate oil producer Lightstream Resources. Its share price plunged 54% over that period primarily because of its weak balance sheet, softer crude prices, and management's decision to slash its dividend by 50%.

In recent days insiders have acquired over \$500,000 worth of shares and there are signs this buying activity will continue, with its share price hitting new 52-week lows.

I am surprised the market has taken such a negative view of Lightstream and can see why insiders have taken the plunge. The company has successfully made over its balance sheet during the last year, completing \$729 million in asset sales well ahead of schedule. The proceeds of which have been used to pay down its pile of debt, which now totals \$1.6 billion and is 31% lower at the end of the third quarter than it was at the end of 2013. This has created \$25 million in annual cash interest savings and

reduced leverage to a manageable level with net debt now 2.4 times operating cash flow.

More importantly, Lightstream stills holds a portfolio of high quality light and medium oil assets, which continue to generate a healthy operating margin, with a third-quarter netback of \$48.67 per barrel. This will help the company to remain profitable even if crude prices fall further and keep it well positioned to profit from any rebound in crude prices over the longer term.

Lightstream is fast shaping up as a contrarian long-term value play, but I must emphasize this is a speculative play given its debt situation and history of overpromising and underdelivering.

Penn West Petroleum Ltd.

It's tough being a shareholder in Penn West with almost 51% wiped off the company's share price over the last year. This was on the back of a range of internal problems which have beset the company, including an accounting scandal and the failure of its much vaunted turnaround program to gain significant traction.

This has led me in the past to recommend [investors avoid](#) the company.

But after losing so much of its value, its current share price even after taking into account significantly lower crude prices offers considerable potential upside for investors. This is a key reason for management insiders snapping up \$469,000 of shares in recent days.

It is clear the company is still struggling to successfully implement its turnaround strategy. Crude production is still heavily weighted to natural gas, which for the third quarter of 2014 made up 36% of its total production. In combination with lower crude prices, that is impacting its operating margin with a third quarter netback of \$32.51 per barrel. This leaves little margin to absorb lower crude prices before operating cash flow and profitability is significantly impacted.

But with net debt now only two times operating cash flow and the accounting scandal successfully resolved, the company does offer some upside based on its current valuation. I believe this makes Penn West a speculative play for contrarian investors willing to bet on a rebound in crude prices over the longer term.

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1. Energy Stocks
2. Investing

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