Why Penn West Petroleum Ltd. Popped 12%

Description

Crude rallied again on Monday after the Organization of the Petroleum Exporting Countries (OPEC) raised its oil price forecast for the rest of 2015. This was a welcomed reprieve for troubled oil driller **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE), which saw its shares rally 12% in morning trading.

So what?

In its monthly report, OPEC said the falling price of oil is crimping international production, forcing the cartel to hike its forecast price for the rest of the year.

According to the report, U.S. onshore drilling activity declined by 288 rigs from a peak of 1,551 in early October to 1,263 rigs in January. In kind, the cartel slashed its forecast for non-OPEC oil supply to average 850,000 barrels per day (bpd) in 2015. This was down 420,000 bpd on last month's forecast, and is attributed almost entirely to the slowdown in the U.S. shale oil boom.

Meanwhile, the report also noted the impact that low oil prices are having on energy demand. The cartel forecasts that demand for its crude oil will increase to 29.1 million bpd in 2015, up by around 430,000 on its previous estimate.

"Crude oil prices started 2015 at a near six-year low, amid plentiful global oil supplies that have pushed oil prices down by almost 60% since June 2014, with oil demand growth yet to show signs of accelerating," OPEC said.

However, the report added, "This time the sharp fall in prices has been mainly driven by excess supply. As a result, lower prices are likely to help to accelerate the pace of oil demand growth this time."

Oil prices rose following the report, with Brent crude climbing 0.7% to US$58.20 per barrel. U.S. oil benchmark West Texas Intermediate did even better, soaring over 3% to trade at US$53.20 per barrel.

This rally was a welcomed reprieve for Penn West. The company has no hedges in place with respect to oil prices. As a result, this extra cash flow will provide much needed income to pay down debt and fund its now-lowered distribution.

Now what?

Penn West Petroleum is highly leveraged, not only because of wild swings in oil prices but also because of the debt it's carrying. That leverage is going to cause a lot of volatility when energy prices make a big move. But needless to say, a continued rally in energy prices would mean an enormous amount of upside for shareholders.

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2. Investing

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