Which Is a Better Turnaround Bet: Penn West Petroleum Ltd. or Barrick Gold Corp.?

Description

Even though one company mines gold and the other produces oil, **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) and **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) have much in common. Both companies got carried away during the boom years, making big acquisitions to fuel growth. Since then, both have suffered from operational problems and declining commodity prices, and each company has seen their share price plunge.

Along the way, management teams have not done shareholders any favours. At Penn West, about $400 million worth of investments had to be restated as expenses. Meanwhile, at Barrick executives continue to get paid handsome salaries, despite continued underperformance.

Fast forward to today, and the path to recovery for the two companies is also similar. Balance sheets must be repaired and asset sales are part of the plan. But this will be difficult in a buyer's market.

That said, each of these stocks could take off assuming all goes well. So, which is a better bet? Below we take a closer look.

The case for Barrick Gold

The case for Barrick Gold (over Penn West) is very simple: there's less downside if the turnaround is unsuccessful. There are a few reasons for this.

First of all, gold prices have held remarkably steady over the last couple of years after dropping to US$1,200 per ounce. It's quite possible that a bottom has been reached, which has been argued by **Goldcorp Inc.** CEO Chuck Jeannes. And the metal's fall since 2011 has been less severe than oil's plunge in the past 12 months. So, Barrick is less likely than Penn West to be destroyed by a further rout in commodity prices.

Secondly, Barrick's debt, while scary high, is almost entirely long term. The company has plenty of time to turn around before big debt payments are due.

Finally, Barrick is a bigger company than Penn West. If the turnaround doesn't go as planned, it should have an easier time raising cash. In fact, the miner has already gone this route—it raised US$3 billion in equity just over a year ago. In a worst-case scenario, this option should be available again. With Penn West, I'm not so sure.

The case for Penn West

While the risks with Penn West are probably greater, there's much more reward if things go right. Allow me to explain.

As mentioned, oil prices are very volatile and could rebound very easily. If this happens, Penn West's beaten-up share price is well below the value of its assets. If you don't believe me, just look at what's happened over the past month. Since March 16th the oil price is up just over 25%, and Penn West shares are up more than 60%!

I also have concerns about Barrick's growth plans, which involve some difficult geological work in Nevada. Macquarie analyst Ron Stewart has called these plans "complex and risky." I have no such concerns with Penn West.

Remember, both of these companies are extremely risky, so be very careful. We all know what can happen if things go wrong.

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1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

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