Penn West Petroleum Ltd. Takes 1 More Step Away From the Brink

Description

The past year has been a rough one for **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE). It was caught flat footed when oil prices turned south as the last of its oil hedges rolled off, leaving it totally unprotected. This put the company in a real bind, as it was hoping to cash in on higher oil prices to fuel its turnaround plan. Now, it has had to be creative in order to shed debt and turn around its troubled business.

Halfway there

That creativity was on display last week after Penn West brought in $321 million in cash by selling royalties on some of its oil and gas properties. Under the terms of the deal, the company is selling an 8.5% gross overriding royalty in its working interests in parts of its Viking resource play in Saskatchewan, as well as some existing royalties and mineral title lands in Western Canada. Because of the royalty structure, the deal won't meaningfully impact the company's production or its cash flow.

Penn West plans to use the cash to pay down debt. In fact, it represents nearly half of the $650 million in dispositions that the company had planned for the year. If it can meet that goal, it would bring its debt down by 31% from its current level of $2.1 billion.

Slowly turning

Reducing its debt is just one part of Penn West's turnaround plan. All things considered, the company actually has had a lot of success so far, even if oil prices have forced the company to make additional changes. In fact, last year the company either met or exceeded five of the seven points of its turnaround plan.

Where the company has had the most success in the past year is in cutting its costs, while still maintaining production. Penn West took a two-pronged approach to costs, as it's working to shave $200 million from its operating capex, which it expects to achieve this year. Moreover, despite the capex cut, Penn West still was able to deliver average production in the mid-point of its guidance.

The only place where the company has fallen short of its turnaround plan is in reducing its leverage, as its goal is to drop its leverage ratio from 2.1 times to 1.1-1.5 times. To get there, it plans to sell more assets, even after it sold $1 billion dollars in producing assets last year. However, its new target is to sell non-producing assets, as those won't impact its production or its cash flow as.

The company estimates that it has up to $2 billion in non-producing assets that could be sold, including its position in the Duvernay. Its goal is to unload some of these assets by the first part of next year, which would put the company in a position to accomplish all seven of its turnaround goals.

Investor takeaway

Penn West continues to slowly make progress in its turnaround plan. It has worked hard to cut costs and sell assets without giving up too much of its production so that it can repair its balance sheet. While it still has a ways to go, it's no longer as close to the brink as it had been at the end of last year.

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