Why the Worst Isn’t Over Yet for Penn West Petroleum Ltd.

Description

At the **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) annual meeting on Wednesday, the mood was not good. The company’s share price has fallen by over 70% in the past 12 months, and the dividend has been slashed, too. Low oil prices have been the main catalyst, but the company also has some serious self-inflicted wounds.

With that in mind, below are the three biggest takeaways from the annual meeting.

1. Still not done selling assets

Even before oil prices started plunging, Penn West was struggling with a heavy debt load, and was selling assets to deal with the problem.

Now that oil prices are so low, the company’s balance sheet has become that much more of an issue. To illustrate, total debt now stands at $2.4 billion, a very high number for a company with only $112 million of funds flow last quarter.

Predictably, Penn West says it still wants to sell assets. Unfortunately, that will not be easy. There are other companies with balance sheet issues, and they are looking to sell assets too. As a result, this is clearly a buyer’s market, meaning Penn West will struggle to get a fair price. Making matters worse, many of Penn West’s for-sale properties are non-producing—an even tougher sale in this environment.

2. Still dealing with scandals

As mentioned, Penn West has some self-inflicted wounds. Perhaps the biggest one is an accounting scandal that broke last July, forcing the company to increase total operating expenses by nearly $400 million.

Unfortunately, Penn West is not done dealing with this problem: there are a total of seven lawsuits relating to the scandal, all of which Penn West vows to defend vigorously.

This isn’t the first time Penn West has had these kinds of problems. According to an internal probe, the company manipulated its stock option compensation between June 2005 and August 2006. This action only came to light recently, and like the other scandal, is the subject of an ongoing legal dispute.

As an investor, these are not the kinds of things I like to see.

3. Shareholders are unhappy with pay

In 2014 Penn West's shares declined by over 70%, and this wasn't just due to low oil prices. Besides the aforementioned accounting scandal, Penn West sold some assets for a bargain price early in the year. Worse still, operating costs per barrel were 35% above target.

Yet when calculating the total compensation for CEO Dave Roberts, he earned an "individual score" of 185%. As a result, his total compensation for the year totaled roughly $3.5 million. That's a 25% pay cut from 2013, but many shareholders thought (rightfully so, in my opinion) this was too much. Approximately 73% voted in favour of the compensation plan, which is low by most standards.

Clearly, this is a company that still has plenty of issues, and the annual meeting provided yet another reminder. I would avoid this stock for the time being.

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1. Editor's Choice

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