



3 Reasons to Buy Penn West Petroleum Ltd.

Description

Over the past year **Penn West Petroleum Ltd.'s** (TSX:PWT)(NYSE:PWE) stock is down a disheartening 77%. The stock price, however, has stabilized so far in 2015 and is basically flat. Here are three reasons why the stock price might have bottomed — giving investors a chance to buy ahead of what could be a turnaround in the company's stock price.

1. Debt situation has stabilized

Penn West's turnaround plan is built on three pillars, the first of which is debt reduction. This past May the company took a key step forward on this plan by giving itself more flexibility on its debt by finalizing agreements to amend its debt covenants.

By loosening the financial covenants Penn West has more time to get its debt situation under control by using asset sales to pay down a portion of its outstanding borrowings. As part of that plan, the company has committed to pay down \$650 million from asset sales through 2017, which will reduce its total leverage. Given that it has already sold \$415 million in assets this year, it has certainly shown that it has the capacity to sell assets in the current environment.

2. Plan in place to deliver profitable growth

The second step in Penn West's turnaround plan is to focus its capital dollars on developing its core plays to drive profitable growth, even if volume growth is limited. This year that plan calls for the company to spend \$565 million in development capital, 80% of which will be spent on its core plays.

One play that it is focused on developing is the Viking play, which is expected to provide free cash flow for the company. The play's economics are the strongest in its portfolio due to low royalty rates and operating expenses, which yield strong per barrel margins even in a weak oil price environment. That cash flow gives the company the money it needs to support its debt, while it works to fix its balance sheet.

3. Eye on the future

The third reason an investor might consider investing in Penn West's stock now is because the company is continuing to invest with the future in mind. While the company is focusing most of its capital on plays that drive current cash flow generation, Penn West is also refining its exploitation methods for the Slave Point play, which is still in the initial development phase. The company sees this play as having strong development potential in a higher commodity price environment as it can drive future growth in three to five years at which time the company's Viking play, for example, is expected to see its growth rate begin to decline.

Investor takeaway

An investment in Penn West Petroleum isn't for the faint of heart as this stock is expected to be very volatile over the next year or so. However, the company appears to have its debt situation under control and is focused on delivering growing cash flow in a weak oil price environment. Further, the company has upside should commodity prices improve as it's investing in the up-and-coming Slave Point play, which could potentially fuel future growth.

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