Penn West Petroleum Ltd.: a Reminder of the Risk of Debt

Description

There's no doubt about it. The past year has been rough on Canadian oil companies. However, it has been much tougher on weaker companies as their stocks have been absolutely pummeled, while better-run companies haven't been hit quite as hard. That's abundantly clear by taking a look at the following chart.

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Three of Canada's biggest oil companies, **Husky Energy Inc.**, **Suncor Energy Inc.**, and **Canadian Natural Resources Ltd.**, are all down between 25% to 30% over the past year. While that's bad, it's nowhere near as bad as the stocks of either **Enerplus Corp.** or **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE), which have been hammered over the past year. The reason these two companies have performed so poorly is a direct result of the amount of debt the pair have taken on in order to fund growth.

It's all relative

We can see the weight debt had on the pair by analyzing this next chart.

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canadian oil debt

As we can see from that chart, Canadian Natural Resources has the most debt on its balance sheet at more than $15.6 billion. However, its debt isn't all that much of a burden as it's not an outsized number for a company of its size. In fact, debt as a percentage of its enterprise value is just 29%. While that's a lot higher than either Suncor at 16% and Husky Energy at 19%, it's nowhere close to being a concern.

A number that would be a concern is Penn West Petroleum's debt as a percentage of its enterprise value. As the chart noted, it currently has $2.4 billion in debt, which is a lot for a company with an enterprise value of just $3.5 billion. In fact, that puts its debt as a percentage of enterprise value at a very worrisome 69%. That's nearly double the size of the debt of Enerplus, which is almost the same exact size. It fact, the reason why Enerplus's stock price isn't down quite as much as Penn West Petroleum's is because it has a lot less debt as a percentage of its enterprise value.

Investor takeaway

Debt has really impacted Penn West Petroleum's business as sinking oil prices really took a bite out of its cash flow, making it really tough for the company to manage. It's why its banks are now forcing the company to sell $600 million in assets in order to pay down debt to strengthen its balance sheet. It's a situation the company could have avoided by simply not taking on so much debt.

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Author
mdilallo