3 Beaten-Up Energy Stocks That Could Get Taken Out

Description

As oil prices continue to languish, squeezed producers are starting to run out of options. As a result, we've started to see a flurry of deals in the energy patch.

In late May **Crescent Point Energy Corp.** agreed to buy **Legacy Oil Plus Gas Inc.** in a $1.5 billion deal. Days earlier, **Pacific Rubiales Energy Corp.** accepted a bid for $1.7 billion. Both companies had struggled with big debt loads.

So, that begs the question: who's next? We take a look at three possibilities below.

1. Penn West

Not much has gone right for **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) over the past few years. The company's problems started with its big acquisition of Canetic Resources Trust in 2008. Operational problems ensued, followed by a $400 million worth of accounting restatements.

And just when it seemed the company's problems were behind it, oil prices crashed. What followed next was a dividend cut, a crashing stock price, and renegotiations with creditors.

Now, Penn West is in trouble. It is saddled with $2.4 billion of debt, and much of its for-sale properties don't produce any oil. It looks like its only way out is an acquisition.

2. Lightstream Resources

Lightstream Resources Ltd. (TSX:LTS) is in a very similar position as Penn West. It has over $1.7 billion of debt on its balance sheet, a big number for a company worth $190 million. In response it slashed its dividend in January and renegotiated its debt covenants in May. All the while its stock price has declined by 89% in the last year.

Lightstream intends to sell all its oil-producing properties in the Bakken formation, but unfortunately this is a buyer's market. Unsurprisingly, the company is having trouble finding acceptable offers.

So, Lightstream is caught in an impossible position, one that may not get any better. This fact is not lost on potential acquirers.

3. Trilogy

Unfortunately, these stories are all too common in Canada's energy patch. **Trilogy Energy Corp.** (TSX:TET) is yet another example. The company is stuck with more debt than its total market capitalization, and its stock price has declined by more than 80%. It was one of the first Canadian energy companies to cut its dividend during the price crash when the payout was halted in early December.

The verdict

There are plenty of other such companies. But that leaves the all-important question unanswered: should you buy any of these stocks? Their stocks are certainly beaten up, and most make very attractive takeout candidates. Still, these are incredibly risky names, and you shouldn't devote more than a small portion of your portfolio to them. Tread carefully.

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