



## Is Penn West Petroleum Ltd. a Turnaround Play, or Is it Headed Towards Bankruptcy?

### Description

**Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE), one of the largest conventional oil and natural gas producers in Canada, announced second-quarter earnings results before the market opened on July 30, and its stock has responded by falling over 2%. Let's take a closer look at the results to determine if its stock is a turnaround play, or if we should avoid it indefinitely.

### Lower commodity prices lead to a very weak performance

Here's a summary of Penn West's second-quarter earnings results compared with its results in the same period a year ago.

Metric	Q2 2015	Q2 2014
Earnings Per Share	(\$0.06)	\$0.29
Gross Revenues	\$360 million	\$656 million

*Source: Penn West Petroleum Ltd.*

In the second quarter of fiscal 2015 Penn West reported a net loss of \$28 million, or \$0.06 per share, compared to a net profit of \$143 million, or \$0.29 per share, in the year-ago period, as its gross revenues decreased 45.1% to \$360 million.

These very weak results can be attributed to the steep decline in commodity prices compared with the year-ago period, which led to the company's average realized selling price of light oil and natural gas liquids decreasing 39% to \$58.05 per barrel, its average realized selling price of heavy oil decreasing 41.6% to \$46.44 per barrel, and its average realized selling price of natural gas decreasing 44% to \$2.78 per thousand cubic feet.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Total production decreased 14.6% to 91,164 barrels of oil equivalents per day
2. Production of light oil and natural gas liquids decreased 8.1% to 51,275 barrels per day
3. Production of heavy oil decreased 12.3% to 11,947 barrels per day
4. Production of natural gas decreased 25% to 168 million cubic feet per day
5. Revenue from the sale of light oil and natural gas liquids decreased 42.7% to \$266 million
6. Revenue from the sale of heavy oil decreased 48.5% to \$51 million
7. Revenue from the sale of natural gas decreased 53.8% to \$43 million
8. Funds flow from operations decreased 73.6% to \$79 million
9. Funds flow decreased 84.2% to \$47 million
10. Long-term debt at the end of the period totaled \$2.21 billion, a decrease of 1.3% from the end of the year-ago period

Penn West also announced that it will be maintaining its dividend of \$0.01 per share in the third quarter, and it will be paid out on October 15 to shareholders of record at the close of business on September 30.

### **What should you do with Penn West's stock today?**

It was a terrible quarter for Penn West, so I think the post-earnings drop in its stock was warranted. I also think the stock will head significantly lower from here because there are little to no catalysts of growth for the company going forward, and because commodity prices remain under pressure. In fact, I would go as far to say the company is more likely to go bankrupt than it is to ever see its stock above \$5 without the use of a stock split.

With all of the information above in mind, I think Foolish investors should avoid investing in Penn West Petroleum indefinitely.

### **CATEGORY**

1. Energy Stocks
2. Investing

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