Will Canadian Oil Sands Ltd. Eliminate its Dividend Like Penn West Petroleum Ltd. Just Did?

Description

On Tuesday morning, **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) announced that it will be slashing its capital budget and its headcount. The company will also eliminate its dividend. None of this was particularly surprising, given what state Penn West is in right now.

Of course, Penn West isn't the only company in this kind of situation. For example, **Canadian Oil Sands Ltd.** (TSX:COS) has also been struggling mightily. So, will COS make a similar announcement and eliminate its dividend?

No other options for Penn West

It's safe to say that Penn West has been one of the hardest-hit companies in this oil price environment. The main problem the company faces is its debt load, which has been very high for a long time. At the end of last year the tally stood at nearly $2.2 billion, a number that became too much to handle when oil prices plummeted.

Even before yesterday's news, Penn West had been acting furiously to address its problems. The company renegotiated its debt covenants early this year. It slashed its capital budget in December and July. Over $400 million was raised through asset sales. The quarterly dividend was cut from $0.14 to $0.03, and then down to $0.01 soon afterwards.

But with oil prices falling this far, none of this was enough. In fact its debt load actually *increased* from January 1st to June 30th of this year. So, it was clear that more needed to be done, hence why Tuesday's announcement should not have been a shock.

Will Canadian Oil Sands be next?

COS has problems very similar Penn West's. The company ended last year with nearly $2 billion in net debt, and this became difficult to manage as oil prices declined. Once again, COS has been very active in dealing with its problems.

In the first six months of 2015, capital spending decreased by 58% year over year. Meanwhile, operating costs per barrel declined by 12%. The quarterly dividend was cut from $0.35 to $0.20, and then again down to $0.05, where it remains today.

But once again, these actions haven't been enough. In fact, COS's net debt has increased to $2.4 billion, not unlike what's happened at Penn West. So, COS is very likely to follow Penn West's lead and eliminate its dividend altogether. It's something you should be prepared for if you're a shareholder.

Are either of these companies worth buying?

Penn West and COS may look very cheap, but neither company is profitable—or even sustainable—in this kind of oil price environment. So, both of them remain essentially lottery tickets on higher oil prices. Thus, if you're not willing to risk losing your entire investment, you should avoid both companies. For a much better alternative, be sure to check out the free report below.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/07/22
Date Created
2015/09/01
Author
bensinclair