



## Penn West Petroleum Ltd.: This Risky Stock Could Be a Huge Winner

### Description

This latest decline in crude has not been good for **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE).

Shares of the beleaguered energy producer are down some 90% over the last 52 weeks as the market becomes more and more bearish on the company. Between the company's large amount of debt, the weak price of crude, and its inability to afford much in the way of capital spending, many investors are convinced the company is on a death spiral that will only end when the common shares are worth zero.

Now that shares have been pushed down to under \$1 each, Penn West is facing another pressing issue. The New York Stock Exchange has informed the company it has six months to get the price of its U.S.-listed shares back above \$1, or else face the risk of getting delisted from North America's largest stock exchange.

This is important for one big reason. If Penn West chooses to issue equity in order to shore up the balance sheet without a listing on the NYSE, it'll have no direct route to get capital from U.S. investors. Shutting out the world's largest economy is not something Penn West wants to do.

It's obvious Penn West has some serious issues. But if the company can solve those issues, there's also some serious upside.

### Fixing its problems

With oil at less than \$45 per barrel, there's the argument to be made that Penn West isn't worth much.

Glancing at the numbers, that much is obvious. Over the first six months of the year, it generated a mere \$89 million in cash from operations, while spending \$255 million on capital expenditures. That's not sustainable for a company with a pristine balance sheet, never mind one that's as tarnished as Penn West.

But the second half of the year should be better. Capital expenditures should be down, and cutting the dividend to nothing will save \$10 million. The company also announced a massive set of layoffs, letting

go approximately 35% of its workforce. These cuts will save about \$45 million per year.

There's also the possibility of the company continuing to sell some of its assets and using the proceeds to pay down debt. It did just that in the second quarter, announcing a \$321 million deal to sell assets to **Freehold Royalties**. Penn West has more than \$9 billion worth of assets on the balance sheet, so there's plenty more left to sell.

Penn West has also instituted a hedging program, locking in prices of more than \$60 per barrel for a portion of its remaining 2015 production. It's not an earth-shattering change by any means, but it's a positive move for a company more sensitive to the price of crude than most.

### What's it worth?

There's a huge disconnect between Penn West's share price and its book value. Book value is still more than \$10 per share, while the common shares trade at just 72 cents.

It's obvious Penn West isn't worth anywhere near book value, at least not in today's environment. The company needs oil to recover to between \$70-80 per barrel before it's worth anything close to that. But if crude recovers to between \$60-70, the company is easily worth between \$3-5 per share, since it traded at that level back in the fall, when oil first started its free fall.

At this point, investors are betting on Penn West's survival. It negotiated about a year's worth of additional time earlier this year when it got lenders to agree to loosen its debt covenants temporarily. It has an additional \$1.2 billion in liquidity still available. And the cuts should help conserve cash. All it needs now is for the price of crude to recover.

If crude does recover, Penn West shares will likely go much higher. If it doesn't, Penn West will face bankruptcy sometime in 2016, or perhaps it will hold out until 2017. It's a risky bet, but if the commodity recovers, Penn West shareholders will be very happy.

### CATEGORY

1. Energy Stocks
2. Investing

### POST TAG

1. Editor's Choice

### Category

1. Energy Stocks
2. Investing

### Tags

1. Editor's Choice

### Date

2025/09/12

### Date Created

2015/09/10  
**Author**  
nelsonpsmith

default watermark

default watermark