



Penn West Petroleum Ltd.: Will This Troubled Company Be Able to Save Itself?

Description

It's safe to say that **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) has seen better days. Just in the past year, the oil producer's stock price has fallen more than 90% as declining oil prices put pressure on its balance sheet. At this point, many investors believe bankruptcy is the only way out.

But to Penn West's credit, the company has not stood still, and it has more plans in the works. Will it all bear fruit, or will the stock price go to zero?

Some dramatic steps

When oil prices cratered in late November, Penn West knew it had to act fast. The first step was quite obvious: it had to cut its enormous \$0.14 quarterly dividend. So, in December the payout was cut to \$0.03. Soon afterwards, the dividend was slashed again, this time to \$0.01. And the dividend was suspended entirely later in 2015.

Penn West also had to renegotiate its debt covenants in March. And throughout the process, the company has been selling assets, raising approximately \$600 million in 2015 alone. These asset sales have helped the company reduce its net debt to roughly \$2 billion, down from \$3.4 billion two years ago.

More recently, Penn West took even more drastic steps. The company announced further spending cuts and fired a third of its staff. If nothing else, Penn West's actions indicate the company takes its problems very seriously.

More plans on the way

Despite all these drastic steps, Penn West is still in a precarious position. It hopes to avoid bankruptcy by doing two things.

First of all, the company will spend no more on capex than its cash flow from operations. In other words, Penn West will be targeting a free cash flow of zero. Secondly, Penn West will be selling more non-core assets, which currently account for 30,000 boe/d of production.

Will it work?

The effectiveness of these strategies will depend on oil prices. If prices recover, then Penn West will have more cash to invest, and will have an easier time disposing of assets. But if prices fall much further, then the company won't have much cash to invest at all, and production will decline rapidly. That would undoubtedly lead to an inescapable death spiral.

To be blunt, the odds are not in Penn West's favour right now, and bankruptcy is the most likely outcome. But if oil prices recover, even slightly, then there is tremendous upside in this stock price. If you're willing to take a risk, or are confident about future oil prices, then this company may be worth a small wager.

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