Penn West Petroleum Ltd.: Is This Beat-Up Producer Roaring Back to Life?

Description

At this point, **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) is fighting for its very survival.

The energy producer has been struggling for years, and low oil prices have put serious pressure on its balance sheet. Management has responded forcefully, eliminating the company's dividend, cutting staff, and renegotiating debt covenants.

Most significantly, Penn West has sold numerous assets, which isn't an easy thing to do in this environment. And it's clear that more needs to be done on this front.

So, what exactly are the company's chances?

Two big sales

In its latest corporate presentation, Penn West lists seven different "non-core" asset areas, which together produce 34,000 barrels of oil equivalent per day (boe/d).

And in the past three weeks, two of these have been sold off. First came the Mitsue assets, which were sold in mid-September for nearly $200 million, or nearly $43,000 per boe/d of production.

Then on Thursday, Penn West announced the sale of its working interest in its Weyburn properties. Again the price tag was roughly $200 million, but Weyburn is a much smaller asset. Thus the sale price equals just over $80,000 per boe/d.

This doesn't mean all of Penn West's assets can be sold for such a steep multiple. Weyburn is located in Saskatchewan, which tends to have much better economics for oil producers than Alberta does. And practically all of Penn West's remaining properties (both core and non-core) are located in Alberta.

Yet these asset sales are still a very hopeful sign. Penn West's shares jumped on the news, something that was certainly warranted.

Will this be enough?

The transactions should bring Penn West's net debt down to about $1.8 billion, still a very big number for a company worth $337 million.

If the company were to sell its remaining properties for $40,000 per boe/d, this would reduce its net debt by a further $1.1 billion. That would still leave the company with more than twice as much debt as market value.

And Penn West may not get such a good price for its non-core assets, especially if oil prices continue to languish. So for now, the odds are against the company.

But if oil prices turn the right way, then the sky is the limit for Penn West and its stock price. At under $0.70 per share, the company trades for well under $40,000 per boe/d, even after factoring in all that debt. Thus if you're confident about oil prices, or are looking to spice up your portfolio, you may want to consider a small stake in Penn West.

CATEGORY

1. Investing

Category

1. Investing

Date
2025/07/21
Date Created
2015/10/01
Author
bensinclair