Penn West Petroleum Ltd. Still Might Not Have Done Enough

Description

In what has become a recurring theme, **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) sold yet another non-core asset. This time the company announced the sale of its non-operated 9.5% working interest in the Weyburn unit for $205 million. That sale follows a deal it reached to sell its assets in the Greater Mitsue area for $192.5 million.

However, despite the fact that this sale pushes it over the top of its non-core asset sale goal this year, analysts fear the company still hasn't done enough, and that a more painful sale will be on the horizon.

The latest asset to leave its portfolio

Before we get to that, let's explore what Penn West is selling this time. The Weyburn unit, which was located in southeast Saskatchewan, was a very small piece of Penn West's overall production, as it produced just 2,500 barrels per day. That's less than 3% of the company's current production, though it was 100% liquids, so it is a bit more of its overall cash flow.

However, like the Greater Mitsue sale, the company did get what looks like a very fair price for the asset as the sales price implies a 13 times normalized net operating income multiple. That's just slightly below the 14 times it received for Greater Mitsue.

Further, with the sale the company will have completed $810 million in total non-core asset sales this year, which exceeds its target of $650 million. That cash will also be used to pay down its debt as the company seeks to reduce its leverage and focus on its core operations.

Analysts are still worried that selling non-core assets alone won't be enough and the company will have to cut even deeper and sell one of its core assets to really reduce its leverage, so that it can survive the downturn.

One of the crown jewels could be on the table

These concerns were brought to light in a report in *Bloomberg* last week, which noted that a couple of analysts think that the company might need to sell one of its jewels, most likely its Viking field, before all is said and done. That field, which is one of its core assets, is a real jewel because it's a high-net back light oil asset that earns high drilling returns.

However, it might need to be on the table for a sale if Penn West really wants to be a dent in its debt because it would likely fetch the best value of all its assets as it could be worth upwards of $800 million.

The reason why such a sale is possible is because even with all its non-core asset sales over the past year, the company's debt metrics are still too high for the current oil price. Analysts believe the company's debt is still a significant headwind, as it's currently more than six times its cash flow, which is high enough that it could put the company in a position to violate a covenant on its debt early next year if it doesn't improve that number.

Moreover, analysts believe that the only way to make a meaningful improvement would be to bite the bullet and sell one of its more premiere assets.

Investor takeaway

Penn West still believes it has enough non-core assets to sell that it won't need to cut into its core to cover its debt. Analysts aren't so sure. They see the company being forced to sell one of its crown jewels before all is said and done, with its Viking assets being the most likely one to be sold. Suffice it to say, while the company is making progress and now has even more breathing room, there isn't yet a light at the end of the tunnel for Penn West investors.

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