



## Inside Penn West Petroleum Ltd.'s Stunning Month

### Description

Shares of **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) have been on an unbelievable run since October began. From the first of the month through the end of trading on October 9, the stock is up a breathtaking 132.8%, while the U.S.-traded shares are even higher.

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Fueling this stunning rally was a trifecta of positive catalysts: oil prices surged, Penn West completed another non-core asset sale, and rumours surfaced that it could now be a takeout target.

### Oil bounces higher

After falling more than 24% in the third quarter and 8% in September, the price of the U.S. crude oil benchmark surged in October, going up more 9% last week alone. Fueling the surge was a whole lot of bullish comments from key market participants, all of which point to a looming drop in U.S. oil production as a key to ending the oil glut.

This impacts Penn West because its cash flow as well as the value of its assets are tied to the price of oil. So, when oil moves, so does its stock price. However, while oil was a key catalyst behind last week's move, it was far from the only one.

### M&A movement

Last week was a big one on the M&A front. Penn West completed another important non-core asset sale as it found a taker for its interest in the Weyburn unit. The deal brought in \$205 million in cash, which the company plans to use to pay down more of its debt. Further, the deal marked a milestone as the company has now exceeded its non-core asset-sales target for the year, showing that the company did indeed have valuable assets that could be sold to reduce its debt.

That being said, not all analysts are convinced that it has done enough. Some are saying that the company might need to sell one of its crown jewel assets to really make a meaningful reduction in its debt. Having said that, others see Penn West itself as an acquisition target, especially in light of the

fact that we're starting to see a thaw in M&A activity in the oil patch.

Because of the renewed interest in deal making, Penn West was mentioned in a *Financial Post* article as one of the companies with a stretched balance sheet that has been so beaten up by the market that it would make an interesting target for a suitor. The possibility of a buyout not only enticed buyers this month, but it also forced Penn West's short-sellers to flee the stock; more than 25 million shares were sold short as of the end of September.

### Investor takeaway

Despite more than doubling last week, Penn West's stock price is still down more than 75% over the past year. That shows just how badly beaten the stock has been by low oil prices and its debt-laden balance sheet. Clearly, the company has a lot of upside if oil continues to rally, or if it does draw the eye of an acquirer.

Having said that, it is not a sure bet as another downdraft in the oil price could quickly evaporate last week's massive gains. In other words, buyers beware.

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