3 Reasons Why Penn West Petroleum Ltd. Has Tripled in the Past 5 Weeks

Description

At the end of September, shares of **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) reached a new low, closing at $0.60. But since then the stock has more than tripled.

So, why have Penn West shares performed so strongly in the past five weeks? We look at three reasons why below.

1. It's a perfect takeover candidate

In early October, **Suncor Energy Inc.** made a hostile $4.3 billion offer for the shares of **Canadian Oil Sands Ltd.** Investors then started looking for the next possible takeover target, and Penn West emerged as a perfect candidate.

There are a number of reasons why Penn West should be taken over. The company has struggled mightily to deal with its debt load and has been forced to sell assets into a buyer's market. Penn West also doesn't have enough capital to fully exploit its assets. And shareholders have lost confidence in the company's management team.

So, it's no coincidence that Penn West shares took off right after Suncor's offer. In fact, the stock gained more than 22% that very day.

2. Oil prices have ticked up

Penn West shares are especially sensitive to oil prices, and this should make perfect sense. Because the company has such a heavy debt load, oil prices will determine whether the company recovers or goes bankrupt. With such a wide difference between those two outcomes, even slight changes in oil prices can make a big difference.

Since the end of September, oil prices have ticked up slightly from roughly US$45 per barrel to nearly US$48. That has certainly been positive for the shares.

Interestingly, on the days that oil price decreases, Penn West shares haven't tanked like they used to, probably because the company is a takeover target anyways. But when oil prices increase, as they have been doing more recently, Penn West shares still take off.

3. The shares never should have fallen that low

Even at $2, Penn West isn't unreasonably expensive. After including debt, the company trades for less than $40,000 per daily barrel of production. That's far less than peers such as **Crescent Point Energy Corp.** and **MEG Energy Inc.** It's also much less than Penn West was able to get for its recent asset dispositions.

By now it should be clear that Penn West was ridiculously undervalued at $0.60 per share. Investors were certainly afraid the company would go bankrupt, and professional money managers didn't want such a black stain in their portfolios. Such factors drove Penn West's shares down to unreasonable levels.

Is it still a buy?

Unfortunately for bargain hunters, Penn West stock probably isn't worth the risk anymore. But if no takeover offers emerge, then the shares could easily fall back down. Only then should you pounce.

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