The 3 Most Likely Outcomes for Penn West Petroleum Ltd.

Description

For **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE), the future is very uncertain, and the company will likely go through some big changes in the next 12 months.

So, what's the most likely outcome? We take a look at the top three outcomes below, starting with the least likely and finishing with the most probable scenario.

3. A recovery

Unfortunately for Penn West shareholders, this is the least likely outcome. It essentially relies on oil prices returning to the US$60+ range, something that seems very improbable in today's environment. After all, international production remains strong, demand remains sluggish, and American producers have been cutting costs furiously.

But here's the good news: if oil prices do recover, there's some very high upside for Penn West's shares. To be more specific, if the WTI oil price recovers to US$60 per barrel, you should expect to see Penn West shares reach at least $3. Larger oil companies simply don't have that kind of upside.

2. Bankruptcy

At this point, it's looking like oil prices will remain below US$50 per barrel for the foreseeable future. And that would be bad news for Penn West. Even after all the asset sales, the company still has $1.8 billion in net debt, which is far too much for a company worth less than $1 billion.

So, if oil prices decline any further (say, to US$40 per barrel), this debt load will become a real burden, and assets will be harder to sell. Raising more capital would also be a challenge.

Thus, it's important to remember this is still a stock that can go to zero. If you're thinking of buying shares, make sure you're investing no more than you're willing to lose.

1. A takeout

There are a number of reasons why Penn West should be taken out. The company's share price has gotten crushed in the current oil environment, making its shares look like a bargain to any potential acquirer.

Furthermore, Penn West does not have enough capital to fully exploit its reserves, meaning the producer is likely worth more in another company's hands.

If Penn West gets taken out, it doesn't necessarily mean that shareholders will see big gains. To illustrate, if the stock price falls by 50%, then gets taken out at a 50% premium, then current shareholders will still be down 25%.

Besides, a similar argument could have been made back when Penn West was trading for $3. And there's a very clear lesson here: you shouldn't buy a stock just because you think it will get taken out. So, your best bet is to put your money in something other than Penn West shares.

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Date
2025/07/20
Date Created
2015/11/08
Author
bensinclair