Penn West Petroleum Ltd.: The Year in Review for 2015

Description

Needless to say, it has been a rough year for **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE). The company has struggled with low oil prices even more than its peers have, and the future looks very ominous.

We take a closer look below.

January-April: a mad scramble

As the new year began, Penn West was in terrible shape. The company had ended 2014 with over $2 billion in net debt, and a collapsed oil price meant that this debt would be difficult to service.

To Penn West's credit, it did not stand still. The company cut its quarterly dividend from $0.03 to $0.01 and renegotiated its debt covenants. Then in April, Penn West raised over $300 million from royalty sales and, of course, used the proceeds to reduce debt.

By this time, the oil market was starting to recover, with the WTI oil price even reaching US$60 per barrel. In response, Penn West's share price skyrocketed by more than 70% from mid-March to mid-April.

The excitement was short-lived.

May-September: more pain

From the end of April to the end of September, oil prices declined by roughly 25%, plunging Penn West deeper into the abyss. Once again, the company responded the only way it could: by suspending the dividend and selling more assets.

Of course, this wasn't enough to save the company's stock price, which fell by 80% over this stretch. By the end of September, Penn West was trading for $0.60 per share, and bankruptcy was looking like the only way out.

October-December: a new way out

In early October, **Suncor Energy Inc.** made an unsolicited $4.3 billion offer for the shares of **Canadian Oil Sands Ltd.** The bid prompted analysts and investors to speculate about which company would be targeted next. Penn West was cited as a top candidate. At the same time, oil experienced a modest recovery. Penn West’s stock price came roaring back as a result–by November 3, the shares were trading for $1.99.

Since then, the stock has fallen on lower oil prices, but still trades well above the levels seen in late September. Without a doubt, the share price is partially driven by takeover speculation.

Looking forward: an oil bet on steroids

At this point, Penn West is a very high-risk bet on the oil price. So if oil increases, or if Penn West is taken out, then investors will win big. On the other hand, if oil falls and the company can’t find a suitor, then the stock could easily fall to zero.

So if you’re looking to make an oil bet, and are willing to accept some big risks, then Penn West may be worthy of a small investment. Just don’t say you weren’t warned.

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