More Cuts for Oil Companies: When Will Prices Rebound?

Description

Oil crept up ever so slightly up last week, causing what seemed like a collective sigh of relief from just about everyone in Alberta. Unfortunately, it was short-lived and oil prices remain at historic lows not seen in years.

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Prices are hovering around US$30 per barrel, which spells bad news for companies in the oil and gas sector. This latest drop as well as a number of earnings reports have forced the hand of several companies to introduce more cuts, slashing budgets that, in some cases, were revised downwards just a few weeks ago.

Since the epic collapse of oil prices, upwards of 140,000 jobs have been lost in Alberta alone according to the Canadian Association of Petroleum Producers. With no end in sight, this figure is likely to increase further as companies continue to tighten belts and reduce spending considerably.

Here's a look at some of the companies that have made the difficult decision to institute cuts recently.

Imperial Oil

Imperial Oil Limited (TSX:IMO)(NYSE:IMO), unlike most other oil companies, did manage post a profit for the quarter, albeit a much smaller one than in previous years. The company posted a $102 million profit, which is considerably lower than the $671 million posted for the same quarter last year. The profit came amid a boost in production to 400,000 barrels per day, which is up from 315,000 barrels per day in the prior year.

Imperial now forecasts that spending for the year will come in at $1.8 billion, which is a near 50% decrease over the $3.6 billion spent in 2015. Efficiency plays a major role in downturns, and Imperial noted that cash costs per barrel are down 25%, which helped shave $1.5 billion of capital costs last year.

Imperial Oil currently trades at $42.33, which is down over 10% over the past 12 months.

Penn West Petroleum

Penn west Petroleum Ltd. (TSX:PWT)(NYSE:PWE) announced last week that it would be reducing spending by an astonishing 90%. This comes after the company eliminated 560 jobs last year, which was more than the previously announced 400. Overall, the company reduced staffing levels by 50% during 2015.

To put the 90% figure into perspective, the company spent $480 million in 2015 and plans to spend only $50 million this year. The cuts are significant and could result in as much as a 22% decrease in output.

Penn West currently trades at just over $1, which is down approximately 44% over the past 12 months. At the current price the company is ripe for a takeover.

While prices still remain low, there is a consensus among analysts that oil prices will start to appreciate later on this year. For these oil producers, survival is of the utmost importance, and that means streamlining operational costs, selling less productive assets, and making existing production more efficient.

Once oil prices start to rebound, Penn West, Imperial and other producers will once again report higher revenues. Until then, investors can take advantage of the depressed prices that these and other oil-producing stocks are currently trading at.

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TICKERS GLOBAL

1. NYSEMKT:IMO (Imperial Oil Limited)
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