



Is Pengrowth Energy Corp. Coming Back From the Dead?

Description

After oil prices started collapsing in 2014, shares of **Pengrowth Energy Corp.** (TSX:PGF)(NYSE:PGH) slowly sifted downwards from \$8 to a low of just \$0.66 in January. Lately, however, the company has shown signs of life with shares jumping to \$1.40 this week.

With a market cap approaching \$1 billion, is this the start of a massive turnaround story?

pengrowth chart unknown

All-out capital-preservation mode

With a net debt of \$1.4 billion, management has been forced to focus on servicing interest payments over growing the underlying business. It completely suspended its dividend in February (saving \$250 million annually), while reducing 2015 capital expenditures to just \$184 million, down considerably from \$904 million a year earlier.

“Given the current operating environment characterized by low crude oil and natural gas prices, we have elected to pursue a very conservative 2016 budget as well as suspending the dividend,” said CEO Derek Evans.

Many of these cost-cutting initiatives should permanently reduce the company’s operating expenses. Unfortunately, the focus on conserving cash has come before growing production. This year capital expenditures should fall again to just \$60-70 million. That’s down over 90% from 2014 levels. It’s also planning to divest \$300 million in assets this year in what looks to be a weak market.

All of this has started to erode Pengrowth’s business. Production this year is expected to be roughly 60,000 boe a day. This is in comparison to production in 2015, which was 71,409 boe per day—and that’s already down from 2014 levels of 73,288 boe per day. Management touts its 252 million boe of reserves, but that won’t help pad cash flows if it’s stuck in the ground.

A disappearing lifeline

The key to Pengrowth surviving this long has been its strong hedging program. In 2015 the company's commodity hedges netted \$327 million in gains, offsetting weakness in the rest of the business. This year it still has 74% of oil production hedged at \$88.57, a significant advantage with oil still below \$40 a barrel.

Image Source: Pengrowth Corporate Presentation

default watermark

Image not found or type unknown

Image Source: Pengrowth Corporate Presentation

By 2017, however, the hedging program will be reduced to just 17-18% of production. That's an important turning point, considering the company faces \$537 million in debt maturities next year. In its current state, there's no way for the company to fulfill that obligation without big asset sales or a refinancing.

However, it's this risk that could add significant upside to shares. Every \$10 per barrel increase in the price of oil adds \$65 million to Pengrowth's cash flows. Hedges should keep the company alive until 2017, but unless oil stages a significant and sustained rebound, Pengrowth may face a restructuring within 12 months.

Judging by other defaults in the space last year, it's very likely that equity owners will wind up with almost nothing.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

Category

1. Energy Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/08/26

Date Created

2016/03/29

Author

rvanzo

default watermark

default watermark