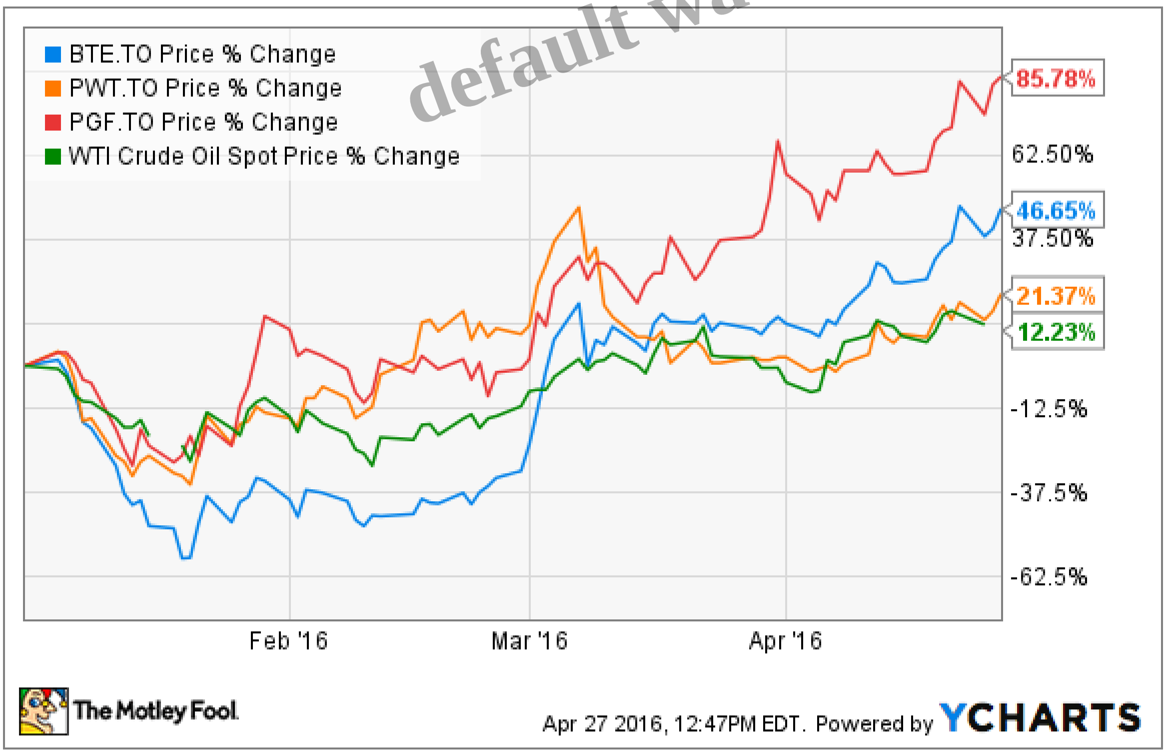
3 Oil Stocks I Still Wouldn't Touch Despite Crude's Recent Rally

Description

Oil has rallied sharply over the past couple of months, recently surging past $40 a barrel and touching a 2016 high. That has fueled huge rallies in oil stocks with **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE), **Pengrowth Energy Corp.** (TSX:PGF)(NYSE:PGH), and **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) up significantly:



BTE data by YCharts

However, despite rallying, these troubled oil stocks aren't out of the woods just yet, which is why I wouldn't invest in any one of them right now.

Unprofitable pumps

All three companies are facing a common problem: oil is so low right now that some of their oil pumps are unprofitable. Baytex Energy, for example, had to shut in 7,500 barrels of oil equivalent per day (BOE/d) during the first quarter because the production wasn't profitable. For perspective, that's 8.8% of the company's total production based on last year's average rate.

Likewise, Penn West Petroleum had to shut in a number of uneconomic wells during the first quarter, leading to 4,000 BOE/d of production coming offline. Further, because of the company's weak finances, it wasn't planning to invest the capital needed for repair and replacement projects at some of its non-core fields, which was expected to cause another 2,500 BOE/d of production coming offline this year. Add it up, and 7.5% of Penn West Petroleum's production was expected to be shut off due to weak oil prices.

Even Pengrowth was feeling some pain at the pump. The company shut in roughly 1,000 BOE/d of production due to weak economics. That production, however, was only 1.4% of its total output.

No money to drill

In addition to the large number of wells that are uneconomic at current prices, the wells that are still economic are no longer producing enough cash flow for these companies to have the capital needed to maintain their production rate. That's why all three have made substantial cuts to their capex budgets.

For example, after spending more than $500 million in 2015, Baytex Energy is only expecting to spend $225-265 million this year due to low oil prices. That's nowhere near enough cash to enable the company to maintain its production, which is expected to fall from an average of 84,648 BOE/d in 2015 to just 68,000-72,000 BOE/d in 2016.

Not only does the company not have the cash resources to invest in enough wells to offset its legacy production decline, but wells in two of the company's core areas, Lloydminster and Peace River, simply aren't profitable to drill right now as both need oil in the mid-$40-a-barrel range in order to break even.

Both Penn West Petroleum and Pengrowth Energy are experiencing similarly weak cash flow. That has forced both companies to cut spending back to the bare bones and neither plan to drill any new wells at all this year. While weak well economics are playing a role in that decision, the bigger issue for both companies is their balance sheets, which are weighed down with debt. It's forcing both to try and generate as much cash flow as they can in order to whittle down that debt.

Investor takeaway

Baytex Energy, Pengrowth Energy, and Penn West Petroleum are struggling to survive at current oil prices. Because of that, all three need to see oil go much higher in order to be in a better position financially. Given that no one knows when oil might improve to a more sustainable level for these three, I'd steer clear of them for now.

CATEGORY

1. Energy Stocks

2. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

Category

1. Energy Stocks
2. Investing

Date
2025/08/16
Date Created
2016/04/28
Author
mdilallo