



## Is Penn West Petroleum Ltd. Going Under?

### Description

This week, **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) revealed that it is in danger of defaulting on some of its debts by the end of June. While it's working with its lenders to make sure that doesn't happen, it would likely need to sell major assets or dilute current shareholders to do so.

With its share price at historic lows and the debt markets hesitating to support troubled oil producers, bankruptcy is a real threat. Is Penn West going under?

### A difficult road

"If the current low commodity price environment continues, the company anticipates it will not be in compliance with certain of its existing financial covenants by the end of the second quarter of 2016," the company said. "The company is engaged in negotiations with its lenders to amend these financial covenants prior to the end of the second quarter of 2016, which if successful will mitigate the risk of default in 2016 and further into the future at prevailing commodity price levels."

While debt levels have fallen to \$1.8 billion from a 2013 high of \$3.4 billion, a major transformation is still necessary. Unfortunately, the company may not have much room left for asset disposition. Last quarter, Penn West posted a loss of \$100 million, while production was only 77,000 barrels per day, down from 94,000 barrels per day last year. This year, output will only average about 62,000 barrels per day.

Production losses mainly stem from \$2.1 billion in asset sales since 2013, gutting the company of major properties. For example, in March, the company agreed to sell its properties in the Slave Point area of northern Alberta for \$148 million. That property was considered a "core asset" and its sale reduced output by nearly 4,000 barrels per day.

Reports are that another company is eyeing Penn West's Viking light oil development in Saskatchewan, another core asset. According to Raging River Exploration's CEO Neil Roszell, Penn West will be pushed to divest the properties this year.

Image Source: Penn West Corporate Presentation

*Image source: Penn West corporate presentation*

## Survival trumps shareholder value

With limited ability to sell additional assets or raise capital, Penn West is in a difficult position. In June the company's debt covenants should be breached, and lenders have little incentive to grant the company more time. Penn West still has roughly \$700 million in undrawn credit facilities, but that will likely dry up before the end of the year. Other than that, options are few, making bankruptcy a legitimate possibility.

At the minimum, Penn West can only be consider a call option on oil prices. Even its management team has said that it's now focused on "economics rather than production." If oil prices don't rapidly improve, you may lose your entire investment.

### 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

2016/05/17

### Author

rvanzo

default watermark

default watermark