



Investors: Is it Finally Time to Drop Penn West Petroleum Ltd.?

Description

Penn West Petroleum Ltd. (TSX:PWT)(NYSE:PWE) has so far survived the odds in the crash and then rally of oil prices. When the price of crude rallied, pundits were quick to point out the benefits of the company and the untapped (pun intended) potential that Penn West represents.

The flip side of the coin is when crude comes crashing back down, the risks with a company like Penn West become all too obvious.

Here's a look at Penn West's current position and whether or not the company is still a viable investment option.

How's Penn West doing?

In the past year, the stock has dropped by over 30%, currently settling at \$0.80. The company has been in a free fall for nearly five years, tumbling an astonishing 96%. With each micro-rally in crude, the stock does bounce back, but the trajectory for the stock is set.

Penn West reported Q1 results this week. Earnings for the quarter came in at \$47 million, a significant drop of 39% from the \$77 million reported for the same quarter last year.

Earnings per share came in at \$0.09, nearly half of the \$0.15 posted for the same quarter last year, representing a 40% decline year over year. Revenues for the company were only slightly better but still down, coming in at \$231 million, or 32.1% lower than the \$340 million posted last year.

What's next for Penn West?

Despite the disappointing results, the company maintains the annual production guidance of 60,000-64,000 barrels per day. Penn West is also maintaining expenditures guidance of \$70 million for the year.

Precisely how long the company can maintain itself at this level is something that many analysts and investors have been wondering about. Cracks were revealed when Penn West noted that it was not in

default on any financial covenants with any lenders on March 31, but there is still a risk that the company could be in trouble by the end of the second quarter in a little over a month from now.

Penn West did state that it is now actively considering selling assets and raising capital to pay down debts and remain in business. Penn West is already in negotiations with lenders to make whatever adjustments necessary to reduce or remove the chance of defaulting this year.

Lowering expenses and reducing the debt have been the focus of the company for some time now. Penn West currently has \$1.86 billion in debt, which is approximately four times the market cap of the company.

Earlier this year the company announced a 90% budget cut to spending and has been shutting wells and reducing expenses wherever possible. How much further the company can cut is arguable, and asset sales are the most likely avenue forward for the company, short of a complete buy out.

Penn West remains an extremely risky investment, and, in my opinion, there are far safer options on the market and in the energy sector that will provide better results over both the short and long term than Penn West.

CATEGORY

1. Energy Stocks
2. Investing

Category

1. Energy Stocks
2. Investing

Date

2025/08/01

Date Created

2016/05/18

Author

dafxentiou

default watermark

default watermark