



## Penn West Petroleum Ltd. Cashes In to Secure its Survival

### Description

**Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) was in a race against the clock, facing an end-of-month deadline to address its debt to avoid being in default of a key covenant. That time crunch forced the company to take actions it otherwise likely wouldn't have considered, which in this case meant marketing one of its core assets. It's an action that actually paid off handsomely. The company announced a stunning \$1.1 billion in asset sales, which blew past analysts' expectations.

### Cashing in on Viking

Rumours [started to surface](#) earlier this month that Penn West Petroleum had decided to part with its core Dodsland Viking position in a last-ditch effort to address its looming debt deadline. At the time analysts thought the company would fetch at least \$400 million for these assets given their high-margin netbacks and strong growth opportunities. At that price the company would buy itself some valuable time, though it wasn't expected to solve all of its problems.

That perception changed when the company announced that it was able to seal a deal for its Dodsland Viking assets at the surprising valuation of \$975 million. That price was not only more than double the initial expectations, but it was meaningfully above recent transactions in the area. Further, it only included the company's Saskatchewan Viking assets, not its emerging position on the Albertan side of the border, which has a lot of upside potential.

### A big sigh of relief

Penn West Petroleum not only fetched a premium price for its Dodsland Viking assets, but it was also able to find buyers for some of its non-core assets in Alberta. Those sales generated \$140 million in additional proceeds for the company, which brought its total cash haul up to more than \$1.1 billion.

Penn West Petroleum plans to use that cash to meaningfully reduce its debt, which is expected to be down to \$600 million following the transactions. That's well below the \$2.1 billion where the company started the year. Further, that debt level will ensure that the company will be comfortably in compliance with all of its financial covenants not only as of the end of the current quarter, but for the remainder of the year.

It's a position that's expected to continue to improve given that the company is still in the process of marketing a number of additional non-core assets with these packages expected to fetch between \$100 million and \$200 million.

### **A new way forward**

Once the final asset sales are completed, Penn West plans to rebuild the company upon its Cardium position in Alberta. Currently, the company estimates that it has two decades of drilling opportunities in the play, which can drive 10% annual production growth for the company over the next decade.

In addition to that the company held on to its Albertan Viking assets, which it believes is an asset where it could replicate its Dodsland success in the future. It estimates that it has over 500 drilling locations in the region.

Finally, the company plans to hold on to its stake in the Peace River oil partnership, which is a joint venture with a Chinese company. It's an asset that provides stable production and cash flow during the current oil price environment, but with a lot of upside when prices improve.

### **Investor takeaway**

Penn West Petroleum not only won its race against time, but it secured its financial future. With the company's debt position now at a much more comfortable level, it can refocus its attention on growing from its new core. This is a clear turning point for the company. It's about to embark on a new chapter that looks to be much more exciting for investors than the last one.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **Category**

1. Energy Stocks
2. Investing

### **Date**

2025/08/17

### **Date Created**

2016/06/14

### **Author**

mdilallo

default watermark