



3 Important Details From Penn West Petroleum Ltd.'s Latest Results

Description

One-time deeply trouble upstream oil producer **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) released its third-quarter 2016 results earlier this month. Despite securing its future through a massive asset-divestment program that allowed it to shore up its balance sheet, there is still considerable doubt in the market as to whether or not it is a worthwhile investment.

You see, Penn West sold some of its best oil acreages, and this has caused both its oil reserves and production to fall substantially.

Now what?

While Penn West's shares have fallen sharply in recent days and is down by 16% for the month, there are signs that Penn West is making considerable progress in bolstering its operations and unlocking value for investors.

Firstly, costs continue to fall.

Since the slump in crude began, Penn West has worked hard to transform its oil production into some of the lowest-cost operations in Canada. For the third quarter, operating costs fell by an impressive 34% compared with the previous year to \$13.40 per barrel.

More importantly, those costs were even lower for crude produced from its core operating assets, which consists of its acreage in the Cardium, Alberta Viking, and Peace River plays.

In fact, average operating costs across all three plays came to an impressive \$9 per barrel, and this saw its core area of operations deliver a netback of \$21 per barrel. This is a remarkable achievement when considering that West Texas Intermediate averaged US\$44.95 per barrel over the course of the quarter.

Secondly, Penn West restarted drilling activities in its core area of operations.

Over the course of the quarter, it drilled 15 wells in its core positions with 11 of those in the Alberta

Viking acreage.

This is particularly important because this asset is being touted by management as being one of Penn West's best core positions. It is expected to have similar well dynamics, costs, and production rates to the Saskatchewan Viking play, which has proven to be one of Canada's most prolific light oil plays.

However, at this time it is unproven with Penn West's acreage only producing on average 1,000 barrels of crude daily for the first nine months of 2016.

Finally, Penn West remains focused on reducing debt.

Even after shoring up its balance sheet and ensuring it would survive, Penn West further progressed with its disposition and debt-reduction strategy. It closed a number of deals, earning \$75 million in proceeds that was directed to debt repayments.

As result, Penn West is now comfortably complying with its financial covenants as evidenced by its senior-debt-to-EBTIDA ratio of 1.95, which is less than half of the 4.5 times limit.

The ongoing focus on debt reduction also helps reduce Penn West's financing costs, which will help to boost margins as oil rebounds and production grows, generating further cash flow that can be invested in exploration and development.

So what?

There are growing signs that not only has Penn West left its problems behind, but that it is capable of unlocking considerable value for investors. This, however, is dependent on its position in the Alberta Viking play delivering the promised results. Nonetheless, its focused approach coupled with a solid balance sheet make it an appealing bet on higher oil prices.

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