



## Penn West Petroleum Ltd.: Another Great Oil Bet for 2017

### Description

**Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) has just come from the brink of collapse in 2015, and company management had to go on an asset sale drive to save the company; the disposal of the prized Saskatchewan Dodsland Viking light oil acreage topped the headlines. However, even with a smaller asset base and acutely lower production levels, analyst consensus is that the company is currently deeply undervalued due to its higher perceived risk.

Penn West has trailed behind its peers in the December 2016 rally that ensued after the positive OPEC deal news; peers such as **Baytex Energy Corp.** and **Surge Energy Inc.** have responded well to the bullish sentiment already. However, investors could see a huge rally in Penn West's stock this year.

Let me explain.

### What suppressed the stock price?

Asset fire sales by the company removed significant productive assets like the Saskatchewan Dodsland Viking off the balance sheet, sharply reducing the company's proven reserves on its remaining assets. This has depressed the net asset value (NAV) for Penn West.

The company is currently producing at nearly a quarter of the 2014 output levels. The stock market fears the entity may not significantly increase production going forward and therefore will fail to take advantage of higher oil prices in the near future.

Most noteworthy, the Ho Cheuk Fund Holdings (a Hong Kong-based hedge fund), a holder of about 32 million shares, has been selling at about a \$2.34 price point, and this has imposed significant selling pressure, limiting a rally.

### Potential for a rally in 2017

There has been no clear disclosure on the company's statements on the reserves in the Alberta Viking asset play, which is currently producing only 1,000 BOE/D. Expanded exploration on this potential diamond in 2017 could allow the company to convince the market that its Alberta Viking acreage is a

valuable asset — as great in potential as the disposed Saskatchewan Viking.

Penn West could also see significant improvement in production this year as it anticipates a 10% production in 2017 after increasing its capital expenditure budget by \$60 million to \$150 million for the year. This is to be funded from internally generated cash flows!

Better still, the company has reduced its breakeven oil price to under US\$40 at anticipated average oil price of US\$60 Western Texas Intermediate; we could see significant profitability and cash flow growth for Penn West this year — a possible catalyst for a 30-50% rally in the stock.

This year, there may be a return of bullish sentiment in the stock and in Canadian oil and gas in general as the Canadian dollar is expected to slightly depreciate. Investors in Penn West may see a rally this year. This could be a high-risk bet, but it's one that may be worthwhile with a possible catalyst being the disclosure of reserves on Alberta Viking.

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