This Oil Stock Continues to Fall Behind

Description

The oil market continues to show signs of improvement. Among the most notable is the dramatic spending increases by producers, many of which are gearing up to return to growth mode this year. That said, not all producers are in a position where they can start growing again at current prices.

That is certainly the case at **Pengrowth Energy Corp.** (TSX:PGF)(NYSE:PGH), which recently released its 2017 capital budget and production estimates. Those plans show that the Canadian heavy oil producer still has plenty of work to do before it can start catching up to its peers.

Putting a placeholder in place

Last week, Pengrowth Energy released an interim capital budget, setting spending at $125 million. On the one hand, that is a huge improvement from last year, when the company set a $60-70 million capex range. On the other hand, despite planning to spend nearly twice as much money, which will allow it to start drilling wells again, the spending level will only support production in a range of 50,000-52,000 barrels of oil equivalent per day (BOE/d) this year. At the midpoint, that is down 10.5% from last year’s production guidance range of 56,000-58,000 BOE/d.

That said, Pengrowth made it clear that this was an interim budget, which will allow the company to ramp up activities at its Lindberg project while it works on dual efforts to strengthen its financial position. These initiatives include a process to sell additional assets as well as to work with creditors to enhance its financial flexibility and reduce debt. The company hopes to adjust its spending level upward upon completion of those initiatives.

At current commodity prices, Pengrowth would have an additional $70 million to spend given the expectation that it will generate $195 million in funds flow this year.

Hitting the accelerator

While Pengrowth remains hard at work, looking for a solution to address its financial problems, many of its rivals are already working hard to ramp up production. For example, **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) recently increased its 2017 budget. After spending $90 million last year, Penn

West Petroleum initially planned to spend $150 million this year. However, it boosted that spending plan up to $180 million, or twice last year's level, which is enough capital to fuel 15% production growth by the end of this year.

Further, Penn West Petroleum plans to deliver that growth while only spending 80% of projected funds flow at current commodity prices, which means it will generate excess cash that it can use to accelerate production growth even further should commodity prices rally.

Meanwhile, **Crescent Point Energy Corp.'s** (TSX:CPG)(NYSE:CPG) 2017 capex budget of $1.45 billion represents a 31% increase over last year's level. That is enough capital to grow its production 10% by year-end, which is above its initial estimate of 5-8% growth for 2017. Further, Crescent Point Energy can fund that capex and its $200 million dividend comfortably within funds flow.

Meanwhile, for every $1 per barrel that crude averages above the company's $52 per barrel budget, it will generate $50 million in excess funds flow. As such, rising oil prices would put the company in the position to accelerate production growth further.

Investor takeaway

While Pengrowth Energy's 2017 budget is an improvement, it is still not enough capital to keep the company's production from sliding. That is causing the company to fall even further behind rivals, which are in the position to deliver double-digit growth in 2017 with room to spare. That is a place Pengrowth hopes to be in before the year is over, which is why it is working to improve its balance sheet to a more sustainable level, so it can invest its excess cash flow on production instead of on whittling down its massive debt load.

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