



## Should Investors Follow This Billionaire Investor in to Pengrowth Energy Corp.?

### Description

The rebound in crude sparked by OPEC production cuts has triggered a surge of interest in beaten-down oil stocks. **Pengrowth Energy Corp.** (TSX:PGF)(NSYE:PGH), which was on the verge of failure because of the prolonged slump in crude and its weighty debt load, has been attracting considerable attention from billionaire energy investor Seymour Schulich. This is causing it to gain the attention of other investors looking for a contrarian play on the long-awaited recovery of oil.

### Now what?

Over the course of 2016 the Canadian billionaire progressively increased his investment in Pengrowth to now control roughly 19% of its total share float. This investment is worth in excess of \$179 million and makes him one of the largest investors in the company.

However, not everyone shares his positive sentiments regarding Pengrowth.

The company remains burdened with a heavy debt load which, at the end of the third quarter 2016, exceeded \$1 billion. It was only in early 2016 when Pengrowth flagged concerns about the possibility of it breaching its financial covenants and that it would no longer be capable of continuing as a going concern.

However, it avoided breaching those covenants; although, by the end of the third quarter 2016, the company was close to its limits, and this adds to the unfavourable light in which many analysts view the company. Then there are the looming July 2017 debt maturities totaling \$525 million, which have created further concern regarding Pengrowth's financial position.

Nevertheless, Schulich has a long track record of successful energy investments, and he would not risk such an amount if Pengrowth was clearly unable to survive.

There are signs that the outlook for the company is improving. Key among these are indications that global oil markets are rebalancing. Crude is US\$54 per barrel, or more than double the lows in February 2016. Pengrowth has also focused on reducing costs, and for the nine months ending September 30, 2016, operating expenses fell by 12% compared to a year earlier. Coupled with a

similar reduction in transportation costs, its operating netback, a key measure of profitability, grew by 13%.

Then there is Pengrowth's asset-divestment program; the company is focused on selling assets to generate sufficient cash to prepare for the impending debt maturities. In early January 2017, it raised \$250 million from the sale of a 4% royalty over its Lindbergh thermal assets. This caused its cash position to expand to \$530 million, or slightly more than the value of the debt maturing in July of that year.

More importantly, Pengrowth remains focused on making further asset sales so as to raise additional cash to bulk up its balance sheet.

While there is a lack of clarity regarding its 2017 guidance because of the planned sale of assets, Pengrowth is predicting that with West Texas Intermediate at US\$55 per barrel, it will be free cash flow positive. In fact, its flagship Lindbergh thermal project has a breakeven cost of US\$46 per barrel, and this cost continues to fall because of cost-cutting initiatives.

### **So what?**

Despite all of the negatives surrounding Pengrowth, it is not hard to see why Schulich made such a big bet on the company. There are increasingly positive signs that the company will survive the slump in crude. A stronger balance sheet, lower costs, and the progress being made in developing the Lindbergh project will allow Pengrowth to benefit from higher oil prices. For these reasons, Pengrowth is shaping up as a contrarian but risky bet on the recovery in crude.

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