



Penn West Petroleum Ltd.: A Buy Under \$2?

Description

Penn West Petroleum Ltd. (TSX:PWT)(NYSE:PWE) is down 20% in 2017, after staging a significant recovery in the back half of last year.

Let's take a look at the fallen star of the Canadian oil patch to see if it deserves to be in your portfolio today.

Long ride down

Penn West traded for \$37 per share a decade ago. Today, investors can pick up the stock for \$1.90.

What happened?

Bad acquisitions, too much debt, and accounting scandals had already put pressure on the stock before the oil rout began in the summer of 2014.

As oil tumbled from US\$100 per barrel to below US\$30 by early 2016, Penn West scrambled to find buyers for its assets. The company did a pretty good job considering the environment, but it wasn't enough to keep the wolves away from the door, and Penn West found itself on the brink by the end of May last year, despite the modest recovery in the oil market.

As the stock slipped below \$1 per share, Penn West secured a last-minute deal to sell its Saskatchewan oil assets for \$975 million.

This reduced debt significantly and gave the company a new lease on life, albeit as a much smaller producer.

How much smaller?

Penn West had daily production of 160,000 barrels of oil equivalent per day (boe/d) in 2012. The company finished Q1 2017 with average production of 30,334 boe/d.

Recovery mode

With the debt situation sorted out, Penn West has turned its focus on growing production from the remaining assets.

The company increased its capital plan and anticipates double-digit production growth by the end of the year compared to year-end 2016.

Long-term debt was \$384 million at the end of March, putting the company well within its covenants. Penn West has ample liquidity with a credit line of \$600 million, of which \$328 million was available at the end of the first quarter.

Should you buy?

Penn West's balance sheet is in decent shape, and the company is growing production.

Management is even planning to change the name to Obsidian Energy in an attempt to shake off the negative history associated with the Penn West name.

The stock's fate still depends on the price of oil, so you have to be an oil bull to be a buyer. If you fall in that camp, Penn West might be worth considering for a small contrarian position on further weakness.

The stock moved above \$2.60 per share earlier this year, so there is strong upside potential if oil prices can recover through the end of the 2017.

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