A Look at Husky Energy’s Third Quarter Earnings

Description

Husky Energy (TSX: HSE) is out with its third quarter earnings and Canada’s third largest integrated oil producer delivered solid results that met analyst estimates.

Drilling into the numbers

Husky Energy delivered net income of C$512 million or C$0.52 per share. That’s actually C$14 million or a penny per share less than last year’s third quarter. However, after adjusting for one-time items, earnings were actually up 6% over
last year, which is exactly what analysts were expecting. Husky also delivered cash flow of C$1.35 billion, which is up 6% from last year as well.

If there was one area of weakness it was in Husky’s refining business. Here the drop in the crack spread, or the difference between the price of crude oil and the refined product, put some pressure on Husky’s earnings. That however is to be expected from an integrated oil company as the refining business tends to be a natural hedge against slumping oil prices, or in this case a headwind when prices rise.

A closer look at production
Total production for the quarter averaged 309,000 barrels of oil equivalent per day (BOE/d). That’s up more than 8% over last year. Production however was actually down about 1,000 BOE/d from last quarter as the company had some production shutdowns due to equipment tie-ins, infrastructure outages and maintenance.

Husky’s heavy oil business continued to do the heavy lifting. The company uses a number of enhanced oil recovery techniques to recover this oil and is very good at what it does. This past quarter the company’s heavy oil business delivered 123,000 barrels per day, up just about 7% over last year.

On the light oil side, Husky continued to drill in light oil locales like the Bakken, Viking and Cardium plays. The Viking and Cardium plays are two that **PennWest** (TSX: PWT) (NYSE: PWE), for example, is paying much more attention to these days. PennWest has reallocated 10% more of its capital budget to turn these two plays into core growth areas. Bottom line is that light oil will continue to make incremental gains for Canadian producers like Husky and PennWest.

A look ahead

Husky Energy has three pillars of growth to keep oil production both flowing and growing. In the Asia Pacific region, Husky is nearing completion of the Liwan Gas Project in the South China Sea. Investors should start seeing projection
from this project fueling results in the coming quarters.

By the end of 2014 Husky should begin to deliver initial production from its Sunrise Energy Project. The first phase of this oil sands project, which it has partnered with **BP** (NYSE: BP) to develop, is about 80% complete. The initial phase will add 30,000 barrels per day net to Husky, with the other 30,000 barrels per day net to BP.

Finally, Husky is expected to deliver future growth from its Atlantic region. One of the highlights of the quarter was the announcement of a significant oil discovery at its Bay du Nord prospect with its partner **Statoil** (NYSE: STO). Bay du Nord is just one of three discoveries for Husky and Statoil 500 kilometers northeast of St. John's, Newfoundland. Current estimates suggest that Husky's 35% interest in the discoveries means it is sitting on 400 million barrels of oil. Needless to say, Husky will be very busy as it continues to develop its operations in the Atlantic region, which already include its White Rose satellite fields.

Investor takeaway
Husky Energy delivered a solid quarter. Even better, its future looks bright as the Sunrise Energy project will begin to add to its production later this year while its offshore oil projects fuel future growth.

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