



Cash in on Canada's Next Big Oil Boom With Husky Energy Inc.

Description

Canada's offshore East Coast is fast shaping up as the next big oil boom. A range of global macro-economic and geopolitical issues continue to support higher crude prices despite U.S. crude production from the shale oil boom growing at an exponential rate.

Already the offshore East Coast has been assessed to have proven oil reserves of 1.5 billion barrels, and this is expected to grow exponentially over the next decade, with a range of discoveries continuing to be made.

What is the activity in the region?

Statoil ASA (NYSE: STO) and its partner **Husky Energy Inc.** (TSX: HSE) have made three significant light oil discoveries in the Flemish Pass basin. The massive Bay du Nord discovery is estimated to hold 300 million to 600 million barrels of recoverable crude, and the Mizzen discovery is estimated to hold 100 million to 200 million barrels of recoverable crude, while the Harpoon discovery is still under evaluation.

Husky and Statoil are currently in the process of evaluating the discoveries through seismic testing and a drilling program that is expected to commence in the third quarter 2014.

Activity among other major global players in the area is also heating up. **Suncor Energy Inc.** (TSX: SU)(NYSE: SU) holds interests in a range of projects in offshore East Coast including the Hebron project. This project is currently under development and is expected to yield first oil in 2017.

Suncor holds a 22.7% non-working interest in the project. The rest of the partners are operator **Exxon Mobil Corporation** (NYSE: XOM) with a 36% interest, **Chevron Corporation** (NYSE: CVX) with 26.7%, Statoil with 9.7%, and **Nalcor Energy** with 4.9%.

British energy giant **BP plc** (NYSE: BP) is conducting seismic surveys across its four blocks totaling 14,000 square kilometers located off the coast of Halifax.

More importantly, the relatively transparent and stable regulatory regime operating in eastern Canada

is an additional incentive for energy companies.

How can investors cash in on this impending boom?

One of the key advantages for companies active in the region is that the crude discovered thus far is higher-margin light crude, which trades at a premium to heavy crude and bitumen.

This crude typically finds its way to European refining markets where it is price benchmarked to Brent rather than West Texas Intermediate, which is the benchmark price for crude produced in Canada's onshore energy patch.

This gives operators in the East Coast an edge over their peers because Brent continues to trade at a premium to WTI, which at this time has widened to 9%. Brent is expected to continue trading at a premium to WTI with the U.S. shale oil boom continuing to flood North American refining markets with sweet light crude.

For Canadian investors, the best way to cash in on the impending East Coast oil boom is through either Suncor or Husky, as both companies have sizable operations in the area.

But it is Husky that offers considerable exposure. Besides partnering Statoil in the Flemish Pass basin, it is the operator and majority owner of the White Rose field and satellite extensions in Canada's offshore East Coast. Husky is the majority partner and operator and shares this project with minority partners Suncor and Nalcor.

By investing in Husky, investors not only gain considerable exposure to the upside which exists in offshore East Coast oil exploration and production, but also Husky's portfolio of globally diversified oil and gas assets. The successful development of these assets will significantly boost Husky's asset base along with its production, which will boost its underlying value along with cash flow and its bottom line. And patient investors will continue to be rewarded by Husky's juicy dividend yielding 3.7%.

Husky has developed a strong position in offshore East Coast Canada, with a range of world-class partners sharing the development risk. This leaves Husky well positioned to unlock value from those assets and benefit from the additional higher-margin premium crude to be produced.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

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