3 Things Husky Energy Inc.’s Management Team Wants You to Know

Description

One of the best ways to understand how a company is doing is to listen to its management team. Few investors, however, have the hour to spare each quarter to listen to management as it discusses results on the quarterly conference call. I’ve made it easier for you by pulling out the three most important things **Husky Energy Inc.** (TSX: HSE) wanted its investors to know on last quarter’s conference call.

1. The importance of heavy oil

Husky Energy’s CEO, Asim Ghosh, spent the first part of his remarks on a quick overview of the company’s financial results. After that, he began to review each section within the company’s portfolio. He started with the company’s heavy oil business, which he called “the bedrock of our foundation”. Heavy oil is so important to the company because these are the “projects that underpin the rest of our portfolio by providing a steady production base and more predictable cash flow” according to Ghosh.

In the oil and gas sector, the natural decline rates of wells can be tough to overcome in order to actually grow production. That’s why low-decline assets like heavy oil are foundational, as their low decline rates mean less of the production from a new well is needed to offset declining production from a legacy well.

2. The importance of downstream

Ghosh spent a good portion of his time on the call talking about the progress of Husky Energy’s growth plan when it came to upstream production. However, the comment that really stood out was when he started to talk about the company’s downstream business. He said the following:

> “Our task there has been two-fold: to support our upstream business in western Canada to make sure every one of our barrels ultimately gets Brent-like pricing. In light of that strategy of focused integration, we are continuing to build out our midstream and downstream infrastructure with projects that aim for the sweet spot in terms of returns, and that is all designed to further improve the flexibility of our feedstocks, our product range, and market

> access."

Many U.S. energy companies shed their downstream assets in recent years to focus on growing production from shale. However, their peers in Canada have found that remaining integrated is a better model, because downstream earnings have acted as a natural hedge against weaker Canadian oil prices. Thus, because Brent-priced crude oil trades at a premium to oil in western Canada, the closer Husky Energy can get to Brent pricing through its downstream operations, the more money it will make on each barrel of oil.

3. The importance of taking big projects in small bites

In concluding the question and answer session of the call Ghosh said the following:

> "… our balanced growth strategies continue to… deliver higher-quality returns and more predictable results for our shareholders. Across the board, we are focused on reliable, repeatable performance and that the important part of that is we will keep working to make big projects smaller through staged, modular development. We remain on pace to meet our targets."

Ghosh noted that Husky Energy likes to break its big projects up into smaller pieces. That's why, for example, its Sunrise Energy Project will see only its first phase come online later this year, which should produce up to 60,000 barrels per day. However, the company has the regulatory approvals in place for up to 200,000 barrels per day, which it plans to work towards as it begins engineering work on the project's second phase. By developing the project in stages, the company and its partner have been able to remain on pace to deliver first oil this year, while a larger project could have been bogged down and caused delays.

Investor takeaway

Husky Energy's investors need to know three important things. First, it's a company built on a solid foundation of heavy oil. Second, its integrated operations really help it realize the best prices for its oil. Finally, its measured approach to growth has the company on pace to hit its targets.

CATEGORY

1. Investing

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Date
2025/09/07
Date Created
2014/08/23
Author
mdilallo