



3 Things Husky Energy Inc. Wants You to Know

Description

Husky Energy Inc. (TSX: HSE) recently reported third-quarter results. The results were, of course, impacted by the dip in oil prices as earnings missed expectations. That being said, cash flow fell less than 1% over last year's third quarter so the quarter wasn't a complete wash. To help investors better understand third-quarter results, here are three key quotes from management's conference call discussing the quarter.

Stability through any storm

"During the third quarter our industry saw significant downward pressure on both WTI and Brent prices... In such volatile environment, we are focusing on what we are able to control and that's operational performance... Ultimately, prices will go up and down. Within all areas of our business, we are carefully staging our activities to provide the dependable cash flow and returns while continuing to fund the prudent balance of near, mid and long-term projects." – CEO Asim Ghosh

In leading off his prepared remarks, Ghosh wanted investors to know that the company expects volatility and therefore is prepared for it. As part of these preparations, Husky Energy does not operate in a growth at any cost mode, but instead stages its growth to provide dependable cash flow and returns for the long haul. This is why, despite weaker oil prices, the company's operations produced \$1.34 billion in cash flow this past quarter, which is roughly in line with the third quarter of last year.

Currency actually helped offset oil prices

"The average realized prices for our total upstream production were \$68.35 Canadian per BOE compared to \$72.13 in the third quarter of 2013. The declining value of the Canadian Dollar over the past quarter relative to the US Dollar has helped to mitigate the impact of lower US Dollar commodity prices." – Acting CFO Darren Andruko

There are a lot of moving parts when it comes to operating an international energy company. One moving part investors don't pay all that much attention to is currency, but it can have a noticeable impact on returns from quarter to quarter. This past quarter currency actually helped improve Husky Energy's results as it helped offset the impact of lower oil prices. One of the biggest benefits of

diversification is that it should help to offset weaknesses in other areas.

Overall, Husky Energy's diversification has helped to mitigate the impact of oil and gas prices on its business. This past quarter, the company only endured a 5% drop in realized oil prices when the price of oil actually dropped by about 14% in the quarter.

Getting ready to drill in the Atlantic

"We had a good run of exploration success in the Atlantic region, which was capped by the Bay du Nord discovery with our partners **Statoil** (NYSE: STO) last year. In the Flemish pass, we've wrapped 3D seismic program that we started in the last quarter. With that data in hand, we are now ready to begin our plan 18 months appraisal and exploration program." – COO Rob Peabody

Husky Energy has several long-term growth opportunities that it's pursuing, but one of the most compelling is its oil discoveries in the Atlantic about 500 kilometers offshore Newfoundland. Its Bay du Nord discovery in particular really turned heads as it could hold up to 600 million barrels of recoverable oil making it a real high impact oil discovery. Because of this, the company could see a lot of growth out of the region as early as the next decade.

However, before the company can turn these discoveries into production, it needs to drill some additional appraisal wells. Those wells are expected to be drilled over the next year and a half. If these appraisal wells confirm these resources and additional resources are found, it would prove that this will be a really big growth driver for Husky Energy over the next decade.

Investor takeaway

Husky Energy wants its investors to know that its prudent and balanced approach to growth generates a fairly stable and predictable business. Sure, it will be impacted by oil prices, but that impact won't be as large as it would be for a less diversified peer. Furthermore, despite this conservatism, the company has ample growth opportunities in the future, including a really intriguing position in the Atlantic. Because of this, Husky Energy offers long-term investors both security and upside.

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