Ignore Crude Prices and Embrace Husky Energy Inc.

Description

There are moments where the market doesn't recognize the positive things happening at a company. Case in point: Crude oil prices are way down near the $80.00 mark and a recovery appears to be a months away. Because of this, many oil and gas companies are seeing the same drop in value when it comes to their stock prices

Husky Energy Inc. (TSX: HSE) is one of those companies. Revenues and profits are up, capital projects are going forward, and yet because of the overall market, its stock has plummeted to a new 52-week low. This gives investors who understand the cycles of the market a rare window of opportunity to invest in Canada's third largest integrated oil company.

Third-quarter results

We should say right off the bat that this could be the last great quarter Husky experiences until next spring or summer. The collapse of oil prices are not fully reflected in this quarterly report, but the beginnings of the falling price was. As the average price of crude in Q3 2014 was $97.17 compared to $105.83 in Q3 2013.

Now on to the good news. It was a great quarter for Husky as net earnings jumped by 11.5%, coming in at $571 million ($0.58 per share), up from $512 million ($0.52 per share) a year prior. This brings Husky's year-to-date net earnings to $1.86 million, up from $1.65 billion by this time last year.

Cash flow from operations fell only by 1%, closing out a $1.34 billion. This drop comes from lower production netbacks, which fell to $43.05 in the quarter, down from $46.15. But for the year, Husky is ahead, with $46.15 in netbacks, up from $38.86.

Increased production despite the costs

Production is also up in the quarter, reaching 341,000 boe/day compared to 309,000 boe/day last year. Despite the drop in crude prices, Husky is still determined to spend up to $2.5 billion on infrastructureto maintain and grow its production numbers while some companies are abandoning some of theircapital projects

One of those projects is its joint venture with **BP PLC** called Sunrise, which remains scheduled be fully operational in 2015 despite its cost to develop rising from $2.8 billion to $3.2 billion. In turn, the project will add 60,000 boe/day of capacity to Husky in northern Alberta, with the first 30,000 boe/day of capacity expected to go online by the end of the year.

Embrace the crash

Husky has never truly recovered from the 2008 crash, and it still could take a long time for the stock to get back to the $50.00 range. But thanks to the low price of Husky's stock, there are opportunities for investors.

For much of the year, the average price target has been hovering between $35.00 to $40.00. The problem was that the stock itself was generally a dollar or two below those targets. But since April, that gap has been widening, Husky has already had two significant stock drops this year, with one in June when the stock crested at $36.93 and another after it climbed back up to $33.24 in September.

Now, the stock price is sitting at $27.28 and the average price target is at 36.70, with the most recent report from BMO Capital Markets lowering its target from $38.00 to $37.00. This is widest price-to-target gap the stock has seen in some time. When oil inevitably climbs back up to the $90.00 to $95.00 range next year, this moment could turn into a great return.

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