These Oil Companies Are Bracing for a Rough 2015

Description

As 2014 draws to a close, energy companies around the world are making preparations for the year ahead. One thing that's being considered are drilling budgets, which due to the uncertainty in the oil markets are being reduced rather dramatically. We're seeing some of the biggest cuts come from Canadian oil companies as these oil companies brace for what looks like a rough 2015.

Cutting costs but keeping dividends

Husky Energy Inc (TSX: HSE) is a prime example of this trend. It's cutting $1.7 billion out of its spending plan for 2015. That's about a third less than the company spent in 2014. Meanwhile, the biggest budget line being cut is spending on projects in Western Canada as the company is cutting that budget by 42%. Husky Energy still expects to deliver production growth next year while also leaving its dividend intact. So, as bad as the cut sounds, it's not a signal that the company is in any danger of falling apart due to the drop in oil prices.

We see similar stories at **Enerplus Corp** (TSX: ERF)(NYSE: ERF) and **Cenovus Energy Inc** (TSX: CVE)(NYSE: CVE). Both companies are cutting spending, with Cenovus cutting its budget by 15% while Enerplus' budget drops by 23%. However, both companies are still delivering production growth and maintaining their dividend. In both cases these companies are cutting spending and using that savings to keep dividends stable as neither has any near-term debt worries.

Making even deeper cuts

Not all of Canada's oil-fueled dividends are remaining in place next year. Both **Canadian Oil Sands** and **Penn West Petroleum Ltd** (TSX: PWT)(NYSE: PWE) are slashing capital spending and their dividends heading into 2015. In Canadian Oil Sands' case, its capex is dropping 39%, while itsdividend is being cut 43%. We're seeing an even more dramatic dividend cut at Penn West as itspayout is being slashed by 79%. The company is also cutting capex spending by 26%. In both casesthese oil companies were weaker heading into the downturn due to heavier debt loads, which is whythese companies are cutting both spending and dividends in order to stay afloat in case the current oilprice crisis persists for a year or more.

What Penn West has found is that the current downturn is turning out to be worse than any probability model projected. In commenting on its cuts, CEO Dave Roberts noted, "Penn West's business model assumes a conservative long run-term commodity price, however, the recent downturn falls outside our lowest probabilistic expectations." Because the industry never expected oil prices to fall this low it was caught off guard. This is forcing some companies to make really deep cuts because just as no one saw the downturn coming, no one knows how long it will last.

Oil companies in Canada are bracing for a really rough year. Given the dour outlook heading into the year, companies are making deep spending cuts. In addition to capital cuts some companies are taking things a step further and slashing dividends in order to keep from weighing down their balance sheets with even more debt. However, these moves are being made to ensure that oil companies can come out of the current downturn intact instead of being overcome by debt before it ends.

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