



Recent Weakness Makes Husky Energy Inc. a Contrarian Bet on a Rebound in Crude

Description

Integrated energy company **Husky Energy Inc.** (TSX:HSE) continues to take firm measures to improve the sustainability of its operations and improve its ability to survive the oil rout. Due to these measures, its attractive valuation, and its share price down by 15% since the oil rout began six months ago, I believe now is the time to acquire Husky.

Now what?

This attractive valuation is underscored by Husky's enterprise-value that is a mere eight times forecast 2015 EBITDA, despite soft oil prices driving down forecast earnings.

However, this valuation isn't the only reason to add Husky to your portfolio.

As part of the turnaround strategy implemented five years ago, the company has focused on building a high quality productive portfolio of oil and gas assets. This has allowed Husky to progressively grow oil production, which for the full year 2014 was 9% higher than 2013. It has also been able to steadily grow its operating margin, or netback, per barrel of crude produced. For 2014 its netback was \$42.63 per barrel, a 13% increase over 2013, and this is despite weak oil prices during the final quarter of the year.

I expect Husky to continue to grow production over the long term because the Sunrise heavy oil project commenced production earlier this month. The project is expected to reach full production of 60,000 barrels of crude daily by the end of 2016. Meanwhile, production at the Liwan gas project in the South China Sea is expected to grow, with more wells set to progressively come online.

Husky has also strengthened its balance sheet. It recently completed the offer of \$750 million of 10-year notes set to mature in March 2025. It also has completed a preferred shares offering that raised \$200 million for the company. Both of these measures have significantly boosted Husky's liquidity, and leave it well positioned to continue funding the development of its diversified portfolio of conventional and non-conventional oil and gas projects. This bodes well for Husky's ability to weather the oil rout,

even if oil prices remain weak for a sustained period.

Husky has a globally diversified portfolio of oil assets, with oil reserves of 2.6 billion barrels that have been independently assessed to have a value of \$21.5 billion, or \$22 per share. This doesn't include the value of Husky's downstream or refining business, which is an important asset in the current environment. Its downstream business gives it the ability to successfully manage soft crude prices, with its profitability growing as crude prices fall. The increased revenue from this business and improved refining margins will help to offset declining earnings from its upstream business.

So what?

Clearly, investing in the energy patch comes with considerable risk at this time. However, given Husky's attractive valuation, its refining business and solid balance sheet, coupled with a diversified portfolio of oil producing assets, I believe now is the time for investors to make a contrarian bet by investing in Husky.

CATEGORY

1. Energy Stocks
2. Investing

Category

1. Energy Stocks
2. Investing

Date

2025/10/02

Date Created

2015/03/26

Author

mattsmith

default watermark

default watermark