Is it Finally Time to Buy Husky Energy Inc.?

Description

Husky Energy Inc. (TSX:HSE), one of the largest integrated energy companies in Canada, released first-quarter earnings results before the market opened on May 6, and its stock responded by falling about 1.5% in the trading session that followed. The stock now sits more than 30% below its 52-week high, so let's take a closer look at the results to determine if now is finally the time to begin scaling in to long-term positions.

Lower commodity prices lead to a weak quarter

Here's a summary of Husky Energy's first-quarter earnings results compared with its results in the same period a year ago.

Metric	**Q1 2015**	**Q1 2014**
Earnings Per Share	$0.17	$0.66
Gross Revenues	$4.02 billion	$5.91 billion
Revenue, Net of Royalties	$3.96 billion	$5.65 billion

Source: Husky Energy Inc.

Husky's diluted earnings per share decreased 74.2%, its gross revenues decreased 32%, and its revenue, net of royalties, decreased 30% compared with the first quarter of fiscal 2014. The company noted that these very weak results could be attributed to "lower realized crude oil prices and North American natural gas prices, along with lower U.S. refining and marketing margins resulting from a drop in market crack spreads."

Here's a breakdown of 12 other notable statistics from the report compared with the year-ago period:

1. Net earnings decreased 71.1% to $191 million
2. Total production increased 9.2% to 356,000 barrels per day
3. Production of crude oil and natural gas liquids decreased 2.1% to 236,500 barrels per day
4. Production of natural gas increased 41.7% to 717 million cubic feet per day

5. Revenues, net of royalties, decreased 28.7% to $1.73 billion in its U.S. Refining & Marketing segment
6. Revenues, net of royalties, decreased 35.3% to $1.23 billion in its Exploration & Production segment
7. Revenues, net of royalties, decreased 36% to $601 million in its Canadian Refined Products segment
8. Revenues, net of royalties, decreased 11.8% to $435 million in its Infrastructure & Marketing segment
9. Revenues, net of royalties, decreased 39.4% to $347 million in its Upgrading segment
10. Cash flow from operating activities decreased 35.3% to $864 million
11. Ended the quarter with $169 million in cash and cash equivalents, a decrease of 86.7% from the beginning of the quarter
12. Weighted average number of diluted common shares outstanding decreased 0.2% to 984 million

Husky also announced that it will be maintaining its quarterly dividend of $0.30 per share, and the next payment will come on July 2 to shareholders of record at the close of business on June 5.

Should you start buying shares of Husky Energy today?

I think the post-earnings decline in Husky Energy's stock is warranted, but I also think it represents a very attractive long-term buying opportunity.

First, I think commodity prices will continue to recover in the next 12 months, with the price of oil moving back towards about $75 per barrel, and this will lead to increased sales and profitability for Husky.

Second, Husky's stock trades at just 26.4 times next year's estimated earnings per share of $0.98, which is very inexpensive compared with its long-term growth potential. I think the company's stock could consistently command a fair multiple of at least 30, which would place its shares upwards of $29 by the conclusion of fiscal 2016, representing upside of more than 12% from current levels.

Third, Husky pays an annual dividend of $1.20 per share, giving its stock a 4.6% yield and making it one of the top dividend plays in the industry today.

With all of the information provided above in mind, I think Husky Energy represents one of the best long-term investment opportunities in the energy sector today. Foolish investors should take a closer look and consider beginning to scale in to long-term positions.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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