



## Husky Energy Inc. Is in a Rush to Boost Production Despite Weak Oil Prices

### Description

One of the biggest problems to have plagued oil companies over the past few years, other than oil prices, is delays in completing major projects on time and on budget. That's why it's a pleasant surprise to see **Husky Energy Inc.'s** (TSX:HSE) Rush Lake heavy oil project actually begin commercial operations two months ahead of schedule. It is a project that Husky Energy could have pushed back due to weak oil prices, but chose to push forward and finish ahead of schedule as it continues its quest to boost heavy oil production despite weak prices.

### It's not easy to finish on time

While the 10,000 barrel a day Rush Lake project isn't quite as large as other oil projects in western Canada, it is still good to see that the project was finished ahead of schedule. Project efficiency is key to keeping costs from spiraling out of control, which can wreck a project's economics even in a high oil-price environment.

The industry saw this first hand at the Kearl oil sands project by **Exxon Mobil Corporation** and **Imperial Oil Ltd.** This was one of the more notable projects to have been plagued by delays from the weather and trucking issues. These delays added billions to the project's costs, pushing the final budget up by \$2 billion to \$12.9 billion, which was 20% higher than the previous estimate. Those higher costs weakened the return that Exxon Mobil and Imperial Oil will be able to earn on the project even before oil prices took their cut.

### More oil on the way

Because project delays typically lead to cost overruns, Husky Energy continues to push to deliver its projects on time. It has two more heavy oil projects, Edam East and Vawn, both scheduled to come online in the second half of next year, and both projects are expected to produce 10,000 barrels per day. While Husky Energy initially pushed back Edam East's start date by three months this past December, that delay is due to the fact that the company now has a better handle on the start date as it got further along in the project, so this delay shouldn't impact costs.

In addition to those projects, Husky Energy has an optimization program at Edam West to boost its

production by 1,000 barrels a day by the end of next year. Once online the project will produce 4,500 barrels per day. Combined, all of these projects are expected to boost the company's heavy oil production from 44,000 barrels per day to 78,500 barrels per day, or by 80%, over an 18-month time frame.

That's a lot of new oil coming online in such a short amount of time, especially amid low oil prices. However, by bringing the projects online now instead of delaying on purpose, the company is able to turn idle capital into cash flow at a faster rate, which helps to offset some of the weakness in oil prices.

Further, because these are very long-life projects, they should be producing at steady rates well into the future, at which time oil prices are expected to have recovered a bit more. The long-life nature of these projects drives their solid returns, which is why Husky expects a 20% internal rate of return from its heavy oil projects even if they come online when prices are weak.

### Investor takeaway

By completing its Rush Lake project early, Husky Energy is able to turn its investments into cash flow a bit sooner than planned. It also ensures that it doesn't spend more on the project than it initially budgeted. This efficiency helps to offset some of the cash flow lost by weak oil prices, which is something investors really like to see these days.

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