Husky Energy Inc.'s Outlook Is Upgraded: Is Now the Time to Invest?

Description

Even after the sharp collapse in oil prices and growing uncertainty over their direction, analysts have upgraded their outlook for **Husky Energy Inc.** (TSX:HSE). This is because it has taken measures to ensure that it will continue to perform well despite the harsh operating environment. Let's take a closer look and determine whether now is the time for investors to take the plunge.

Now what?

One of Husky's key strengths is that it is an integrated energy major with both upstream (oil exploration and production) and downstream (refining) operations supported by a globally diverse asset base. This means that when oil prices are low, the margins its refining operations generate rise and it is able to boost throughput at those operations as a means of offsetting declining margins in its upstream business.

An important part of Husky's upstream business are its heavy oil assets, which generate over a third of Husky's total oil production. While analysts claim that oil sands are more likely to affected by stubbornly lower crude prices than shale because of high breakeven costs, this is not the case for Husky's existing oil sands projects.

You see, high breakeven costs only apply to new projects where the upfront cost of developing oil sands projects is extremely high. **Suncor Energy Inc.'s** Fort Hills project has breakeven costs of US$96 per barrel while Husky's own Sunrise project's breakeven costs are US$82 per barrel.

However, over time these costs will fall drastically and this is clear when we consider Husky's Lloydminster project, which has breakeven costs of a mere US$28 per barrel. Now, with WTI trading at US$59 per barrel, this project is clearly generating a decent margin for Husky.

More impressively, in an operating environment dominated by sharply lower oil prices, Husky managed to complete its Rush Lake thermal heavy oil project two months ahead of schedule. This now sees it commencing commercial operations and producing 10,000 barrels of crude daily. While it won't be profitable at current prices with its breakeven costs estimated to be at around US$80 per barrel, it will allow Husky to generate some return on the investment it has made and, more critically, boost cash flow in what is a cash intensive business.

Husky also has three other heavy oil projects that are set to come on line by the end of 2016, adding an additional 25,000 barrels of daily oil production. Rush Lake and these projects are of significant benefit to Husky because they are long-life projects that will produce heavy oil for a considerable period.

This will not only give Husky a solid production base but as their breakeven costs fall over their commercial life, they will boost Husky's profitably, particularly when oil prices rebound.

So what?

It is easy to see why Husky continues to attract the attention of analysts. Its solid portfolio of assets make it an attractive investment, particularly when it is considered that a number of projects will be completed over the next year boosting oil production and cash flow. Plus its juicy 5% dividend yield will reward investors for their patience as they wait for its share price to appreciate on the back of firmer oil prices.

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mattdsmith