



Can the Earnings-Induced Rally in Husky Energy Inc. Be Sustained?

Description

Husky Energy Inc. (TSX:HSE), one of the largest integrated energy companies in Canada, released second-quarter earnings results on the morning of July 28, and its stock has responded by rising over 3%. Let's take a closer look at the results to determine if we should consider buying in to this rally, if we should wait for it to subside, or if we should look elsewhere in the industry for an investment instead.

The rally-igniting results

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

Metric	Q2 2015	Q2 2014
Earnings Per Share	\$0.10	\$0.63
Revenue, Net of Royalties	\$4.39 billion	\$6.31 billion

Source: Husky Energy Inc.

Husky's diluted earnings per share decreased 84.1% and its revenue, net of royalties, decreased 30.4% compared with the second quarter of fiscal 2014. These very weak results can be attributed to the steep decline in commodity prices over the last year, which led to the company's average realized selling price of crude oil and natural gas liquids decreasing 37.1% to \$56.79 per barrel and its average realized selling price of natural gas decreasing 5.1% to \$6.09 per thousand cubic feet.

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

1. Net income decreased 80.9% to \$120 million
2. Total production increased 1% to 336,900 barrels of oil equivalents per day
3. Production of crude oil and natural gas liquids decreased 7% to 216,600 barrels per day
4. Production of natural gas increased 19.5% to 721.6 million cubic feet per day
5. Refinery and upgrader throughput volume increased 3% to 313,000 barrels per day

6. Operating netback decreased 40.6% to \$28.93 per barrel of oil equivalent
7. Cash flow from operations decreased 21.7% to \$1.18 billion
8. Earnings from operating activities decreased 62.6% to \$360 million

Husky also announced that it will be maintaining its quarterly dividend of \$0.30 per share, and the next payment will come on October 1 to shareholders of record at the close of business on August 28.

Is the post-earnings pop warranted?

It was a weak quarter overall for Husky, so I do not think the large post-earnings pop in its stock is warranted. However, I do think the stock represents an attractive long-term investment opportunity.

First, I think commodity prices will recover over the next 12 months, including the price of oil moving back towards about US\$75 per barrel, and this will lead to higher sales and overall profitability for Husky.

Second, Husky's stock trades at 55.4 times fiscal 2015's estimated earnings per share of \$0.42, which seems a bit high, but it trades at just 22.6 times fiscal 2016's estimated earnings per share of \$1.03, which is inexpensive compared with its long-term growth potential.

Third, Husky pays an annual dividend of \$1.20 per share, which gives its stock a 5.2% yield at today's levels. There has been speculation that lower commodity prices could force energy companies like Husky to reduce its dividend, but it still generates ample cash flow from operations, including the aforementioned \$1.18 billion in the second quarter, so I think it is 100% safe 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 consider beginning to slowly scale in to positions over the next couple of weeks.

CATEGORY

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