



## What Is Husky Energy Inc. Going to Do Now?

### Description

Last week **Husky Energy Inc.'s** (TSX:HSE) offshore drilling partner, **Seadrill Ltd.** ([NYSE:SDRL](#)), announced that it had canceled its order for the West Mira ultra-deepwater drilling rig. That announcement puts Husky Energy in an interesting position as it was expecting to receive the rig early next year to begin work offshore Canada and Greenland as part of a five-year contract.

However, now the company either needs to accept a different rig, or abandon its exploration plans in the region for the time being.

### Timing is everything

Seadrill originally ordered the West Mira in 2012 and the rig was supposed to be delivered two years later. However, construction delays pushed back the time frame by two more years. Those delays initially forced Seadrill to reduce the day rate it would be charging Husky Energy to compensate for the lost time.

However, given the steep drop in oil prices and the significant slowdown in the offshore drilling market, Seadrill is now taking advantage of a clause in its contract to terminate the purchase of the rig.

That leaves Husky Energy in a bit of a bind as it was counting on the West Mira for exploration activities in the Atlantic, which is one of the company's three growth pillars. In fact, the rig was being custom-built to fit its needs in that frontier region. Because of that, it will now need to find an alternative solution with Seadrill to meet its drilling requirements.

### Time to press pause

Given the slowdown in the offshore drilling market, there is no shortage of available rigs that Seadrill, or another offshore service contractor, could lease to Husky Energy for its Atlantic explorations.

Having said that, Husky Energy could simply decide to halt its exploration plans for the moment. Exploration drilling is very expensive and risky, and with where oil prices are right now, it might not be worth the risk to drill in the region at the moment.

Husky certainly wouldn't be the first company to do so; several oil producers have delayed or canceled drilling projects in order to reduce capex costs. It's an easy area to cut because these projects won't deliver any oil production for years.

In fact, Husky has already made three discoveries in the Atlantic region that it doesn't plan on developing until at least 2020. Further, the company has five discoveries in Indonesia that wouldn't be developed until the start of the next decade. So, Husky Energy doesn't necessarily need any more resources at the moment.

### Investor takeaway

While exploration is the lifeblood of an oil and gas company, given the current oil price, it's the first area that gets cut. That's why it wouldn't be a surprise to see Husky Energy pause its plans to explore the Atlantic region further now that it won't be getting the Seadrill rig that it had leased. Instead, the company can save the money it was intending to spend while it waits for a better oil price before venturing into the unknown.

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