Is Husky Energy Inc. a Buy After Falling 12% in a Day?

Description

Husky Energy Inc. (TSX:HSE) is taking action, so it can grow profitability while the WTI oil price is at US$40 and the Canadian AECO gas price is at $3. However, this means short-term pain for shareholders. On October 30 its share price fell over 12% to under $18 per share from the previous day's close of over $20 per share.

Dividend change

Husky Energy is continuing to pay out a dividend of 30 cents per common share for the period that ended on September 30, 2015. However, it will be issued in the form of common shares instead of cash. Specifically, the dividend will be issued as common shares on January 11, 2016 to shareholders of record at the close of business on November 27, 2015.

This action allows the company to maintain its dividend and retain cash flow to increase Husky Energy's financial flexibility. Of course, this didn't sit well with shareholders who expected to receive cash.

However, this method is better than cutting the dividend, which would achieve the same result of retaining cash flow and increasing financial flexibility for the company.

Improving efficiency

Improving efficiency implies lower costs. First, the company is on track for lower capital spending of $3.1 billion in 2015, a reduction of 38% from 2014. Second, Husky Energy is transitioning to more lower-sustaining capital projects, which should free up capital for higher-value projects that are more resilient to low oil prices.

Further, Husky Energy started an efficiency and cost-savings program five years ago. At the end of 2014 it achieved cumulative savings of $1.3 billion. This program continues to realize savings this year.

Unfortunately, when businesses navigate through harsh environments, they're forced to cut down their workforce. Husky Energy has cut 1,400 positions as of the end of the third quarter. Roughly 80% were contractors and 20% were full-time employees.

Husky Energy is not the first company to cut its workforce to reduce costs and improve efficiency. For example, **MEG Energy Corp.** and **Suncor Energy Inc.**, among others, have cut their workforce during this period of low oil prices.

In conclusion

Husky Energy intends to maintain a strong investment-grade credit rating. Currently, its S&P credit rating is BBB+.

At the same time, it’s implementing strategies to improve efficiency and reduce costs. One cost reduction is that the next dividend is going to be paid out as common shares. Shareholders obviously didn’t like that, as can be seen from the price action on October 30 when shares fell over 12%.

However, if Husky Energy achieves its goal of growing profitably in the low commodity-price environment, the drop in the share price would be an opportunity to buy its shares. If you’re buying shares today, you’re betting on Husky Energy’s ability to achieve that goal.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/08/27
Date Created
2015/11/02
Author
kayng