



## Can Husky Energy Inc. Survive With Oil Below \$40?

### Description

Most energy stocks have followed oil downward over the past 18 months, and **Husky Energy Inc.** (TSX:HSE) is no exception. Shares of the company fell by over 50% last year compared to a mere 14% decline for the TSX.

With oil closing at under \$40 a barrel, many investors are worried that numerous oil and gas companies will be unable to survive unless prices improve considerably. While capital expenditures and corporate costs are falling fast, there's only so far they can go. Many operators continue to operate at losses, hoping that selling prices improve over the next 12-24 months.

Will Husky survive?

### Lower for longer

Expectations for future oil prices have come down significantly over the past 18 months. In November 2014, it was predicted that oil prices would be around \$75 a barrel by 2020. In February 2015, it was predicted that oil would rise from its price of \$50 a barrel to \$70 a barrel by 2020. Today, oil is expected to take almost four years to rise to \$55 a barrel.

While expectations for oil prices have proven wrong time and time again, Husky has done a tremendous job lowering its cost profile; nearly all of its new projects having a minimum breakeven price of \$30 a barrel. This year the rest of the business will break even at an average \$40 a barrel. So, even with oil below \$40 a barrel, many projects should remain profitable. If oil improves, profitability will grow exponentially.

Another benefit of lowering the cost of production is that many of these projects require lower capital spending. So Husky can lower the risk of its portfolio all while saving billions in future expenses. For example, only 8% of production in 2010 could be classified as having a "low sustaining cost." Today that has increased to over 40% of projects. This is a driving force behind Husky boosting production this year while lowering capital spending by 15-20%.

So far, it looks like Husky is doing everything the market wants: it's decreasing breakeven prices,

lowering capital expenses, and increasing production.

### The balance sheet is comparatively healthy

This year management anticipates adding zero debt to the balance sheet—something few other operators can do. Being stringent with debt isn't because the company is incapable of taking on further leverage. Husky maintains an investment grade rating and has \$3.4 billion in unused credit facilities. It also has lower debt to capital levels than **Cenovus Energy Inc.**, **Imperial Oil Limited**, and **Suncor Energy Inc.** Some of those peers, however, trade at higher valuations.

So why aren't shares of Husky being respected more by the market? Perhaps it's an issue of size given that Husky is smaller than all three of the competitors listed above. Despite what the market says, Husky is well positioned to survive the current environment and thrive once oil prices pick up.

### CATEGORY

1. Energy Stocks
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1. Editor's Choice

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### Date

2025/08/26

### Date Created

2016/01/11

### Author

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