Husky Energy Inc. Embraces the New Reality of Sub-$40 Oil

Description

In the wake of collapsing oil prices and the weakened loonie, companies in the oil and gas industry have been forced to reduce spending and cut expenses as much as possible. Included in some of these cuts are the slashing and, in some cases, the elimination of dividends.

Last week, **Husky Energy Inc.** (TSX:HSE) introduced additional cost cuts and suspended dividend payments.

Let's take a look at what these cuts mean for Husky going forward.

Cost-cutting measures

As part of the cuts, Husky slashed capital spending, which is now forecasted to be in the $2.1-2.3 billion range. This is down considerably from the $2.9-3.1 billion range that the company had released in an initial 2016 budget last month.

The cost cuts will hit operations as well. Husky will defer some drilling activity in the west and the mobilization of an offshore rig in the Atlantic, likely the Hibernia formation off the coast of Newfoundland.

On the production side, Husky had initially forecasted that 2016 production would be in the 330,000-360,000 barrels-per-day range. As a result of the cost cuts, this figure is now more in line with the 315,000-345,000 barrels per-day-range.

Company dividends are typically one of the last measures a company can take to rein in costs when the cuts in other areas are not deep enough. Husky, like many peers in the oil industry, announced that it would be suspending dividend payments. This is in contrast to an earlier decision by the company during the last quarter to pay out dividends in stock instead of cash.

Quarterly results are around the corner

In the most recent quarter Husky reported a massive $4 billion loss that also led to it cutting 1,400 jobs to reduce costs.

Husky will be reporting fourth-quarter results in February, and these announcements may be just the beginning of additional cuts in what could be another difficult quarter for the company.

Husky also stressed that it would be divesting some of its assets in an effort to reduce debt loads. Depending on the extent of the assets that are sold, some estimates have the amount the company could bring in at $2 billion. Bids for the assets are expected to be received by mid-March.

From Husky's perspective, the cost cuts and sales are about focus and survival. The company can consolidate the myriad of projects down to a select set, particularly the heavy oil and oil sands projects.

Survival is about getting the company finances in order to cope with the new reality of sub-$40 oil. When the market finally picks up and crude prices start to appreciate, the cuts and fiscal discipline that Husky has undergone will reap significant revenues for the company and returns for investors.

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