



Husky Energy Inc. Is Preparing for \$30 Oil

Description

Calgary-based **Husky Energy Inc.** (TSX:HSE) is one of the largest integrated energy companies in the country. Husky, like much of the entire oil segment of the economy, has been struggling with decreasing prices, which have forced the company to take some drastic cost-cutting measures over the past year.

Husky recently reported fourth-quarter results that showed the cost-cutting practices it has adopted are starting to be reflected in the bottom line, though the company did still show a loss.

Here's a recap of how Husky did and what it has planned for 2016.

How is Husky doing?

Husky currently trades at \$14.05 and is up nearly 6% in the past week. Year-to-date, the stock is down by 1.82%. Expanding this out to a full year reveals that the stock is down by nearly 50%, much like many of Husky's competitors.

In the most recent quarter, Husky posted a net loss of \$69 million. As bad as you think this number might be, it's still only a fraction of the \$603 million loss Husky reported for the same quarter a year ago; granted, that included significant write-downs.

Husky's objective is to cut costs, and so far the company has been largely successful. In the past quarter the company lowered sustaining and maintenance to up to 20% below its historical averages. Operating costs have been lowered by up to 25%, and in some cases, even higher to 50%.

Last year Husky managed to reduce administration by an impressive 26% and shaved off nearly 22% of the company's workforce. Husky also moved to suspend the dividend payment for the fourth quarter.

Those cuts are likely to continue into 2016 as the company streamlines staffing levels and operations to reflect the new reality of lower-priced oil.

Will oil prices go lower or higher?

Crude averaged \$42 per barrel in the last quarter, and Husky is making an effort to get costs in line to support a \$30 per barrel price.

This is an aggressive target for the company that could be both lifesaving and lucrative, depending on which way oil prices go. By comparison, Husky's main competitors are targeting oil in the \$39-42 range.

Husky is in the midst of transitioning to becoming a primarily low-sustaining capital business. More specifically, the company is targeting 40% of business to come from lower-priced ventures as opposed to just 10% a few years ago.

In my opinion, Husky is doing an impressive job reducing costs and focusing on operations that will yield the greatest return with the lowest cost. In the latest round of quarterly results, the company did well to meet analysts' expectations, and should Husky continue on the current path, a breakeven point should be just around the corner.

Should prices start to appreciate, the cost-cutting practices that have been implemented will do very well to boost revenues for the company. Unfortunately, however, the oil and gas industry remains an extremely volatile market as prices could go either way.

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