Husky Energy Inc. Just Made a Critical Deal

Description

After posting a record loss last quarter, **Husky Energy Inc.** (TSX:HSE) needed to free up billions in capital to ensure it could continue operating throughout the industry downturn.

This week it received a lifeline from its controlling shareholder, Li Ka-Shing, who used his other companies to buy a 65% interest in Husky's midstream operations. The $1.7 billion deal included 1,900 kilometres of pipelines and 4.1 million barrels of fuel storage tanks. "This transaction unlocks significant value and supports our objective of strengthening the balance sheet," said CEO Asim Ghosh.

With its balance sheet now intact, what's next for Husky Energy?

Don't expect anything splashy

On its conference call, Husky's CEO said the company will wait for the oil markets to rebalance before ramping up capital expenditures or dividends. The company has been hit by both depressed oil prices and the lowest refining margins in the U.S. Midwest since 2010. "We take every input into account, including reading about the massive reshaping of the Saudi world," he said. "We want to look at a state of solidity, rather than just short-term headlines."

Until oil markets stage a sustainable rebound, expect Husky to continue driving operational effeciencies throughout its business segments. Last year it lowered maintenance costs by 15-20% and aims for a sub-$40 breakeven level by the end of 2016. According to management, any new investments will have a breakeven level of just $30 a barrel.

So, even with oil hovering around $40 a barrel, many projects should remain profitable. If oil improves, profitability will grow exponentially. While other companies are still pursuing higher-cost growth projects, Husky is comfortable with focusing on high-quality assets.

Revamped balance sheet ensures viability

Even before the recent asset sales, Husky management anticipated adding zero debt to the balance sheet, something few other operators could do. Now armed with $1.7 billion in extra cash, the company is completely capable of withstanding a prolonged downturn. It maintains an investment grade rating and still has $2.8 billion in unused credit facilities.

The company doesn't have any material debt maturities until 2019, and its net debt to capital levels are now lower than **Cenovus Energy Inc.**, **Imperial Oil Limited**, and **Suncor Energy Inc.**

When shares hit a decade low of just $11.34 in January, the market was concerned with Husky's ability to keep operating at depressed oil prices. The latest cash infusion should put those fears to rest.

A safe harbour during the storm

Husky is now positioned to not only weather the current downturn, but be very profitable when markets stabilize. Cash flows should support capital spending this year, even with prices as low as $30 a barrel. That combined with efforts to reduce its breakeven price makes Husky a worthy option for energy investors playing a long-term rebound in oil.

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2. Investing

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