1 Oil Dividend That Might Be Making a Comeback

Description

With oil prices crashing to start the year, **Husky Energy Inc.** (TSX:HSE) suspended dividend payments in order to maintain a strong balance sheet. However, with oil on the rise in recent weeks, the company is now in the position to generate upwards of $800 million in free cash flow if oil stays around $50 a barrel. That excess cash could enable the company to reinstate its dividend much sooner than expected.

Solid progress

Given the direction oil prices were going to start the year, Husky Energy put a plan into action to balance its cash outflows with expected inflows at $30 a barrel. That included another cut to capex, which went from an expected range of $2.9-3.1 billion down to $2.1-2.3 billion, as well as a halt to future dividend payments. Further, the company also announced that it was assessing a range of asset sales in order to strengthen its balance sheet.

So far that plan has worked. Not only is the company on pace to maintain its production at its current spending level, but it will generate $800 million in free cash flow by the end of the year if oil remains around $50 a barrel.

Further, the company made a lot of progress on asset sales, completing $2.9 billion in transactions this year, including the sale of $1 billion in legacy production assets in western Canada, $1.7 billion in midstream monetizations, and a nearly $200 million royalty asset transaction. Those moves protected the company's balance sheet strength, which is evidenced by the fact that its investment-grade credit rating was reaffirmed.

Set up well for 2017

Despite cutting back on spending and selling a number of assets, Husky Energy is well positioned for the future. The company is currently on track to complete eight projects, which it estimates will deliver 90,000 BOE/d of incremental production. That will more than offset the 22,200 BOE/d of productionthat it recently sold, enabling the company to grow its output well above the 341,000 BOE/d itproduced last quarter.

In addition to that incremental production, Husky Energy expects to be able to reduce its sustaining capex by $100-150 million going forward. Because of this, the company's cash flow could climb higher in 2017 even if oil prices stagnate. In other words, Husky Energy could have a growing supply of excess cash flow next year, which bodes well for its ability to not only reinstate its dividend sooner rather than later, but potentially grow the payout in short order.

Investor takeaway

With oil now close to $50 a barrel, it will enable Husky Energy to generate a lot more cash flow this year than it initially expected. That cash flow, when combined with its strong balance sheet and growth projects nearing completion, could allow the company bring back its dividend much sooner than anyone initially expected.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

Category

1. Energy Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/15
Date Created
2016/06/08
Author
mdilallo