Husky Energy Inc.: Big Changes Are Coming

Description

On October 27 **Husky Energy Inc.** (TSX:HSE) announced that its chief executive, Asim Ghosh, will retire on December 5.

The loss will be important given he has successfully led the company through tumultuous markets. This past quarter Husky swung to a quarterly profit following $1.5 billion in gains related to asset sales. That compares to a loss of $4.1 billion in the same quarter of 2015.

What does the future hold for Husky Energy?

Set up for success

Despite one of the most difficult operating environments in the last century, Ghosh has positioned Husky well for the future.

In preparation for a "lower-for-longer" oil-price environment, Husky has been insistent on lowering its cost profile. Today nearly all of its new projects aim for a minimum breakeven price of $30 a barrel. Husky is capable of generating billions of free cash flow even at $35 oil.

So, even with sub-$50 oil prices, many projects should remain profitable. If oil improves, profitability will grow exponentially.

Husky has also derisked 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 about 40% of projects. This is a driving force behind Husky boosting production this year while lowering capital spending by 15-20%.

Ghosh has successfully positioned Husky to continue decreasing breakeven prices, lower its capital needs, and increase production.

What can shareholders expect going forward?

Steve Williams, CEO of **Suncor Energy Inc.**, believes that oil prices will experience increasing volatility in the coming years. Husky Energy is one of the better stock picks if this prediction comes to pass.

Husky maintains an investment grade rating and has over $3 billion in unused credit facilities. It also has lower debt-to-capital levels than most of its peers.

Additionally, major dividends may be on the way. A recent project restart with **CNOOC Ltd.** should ensure ample cash flows over the next few years. At the newly negotiated rates, the annual free cash flow from this project should be close to $250 million.

At $50 crude, management anticipates generating $800 million in total annual free cash flow. With a market cap of just $15.1 billion, that would be a sizable amount. Because the company reviews its dividend policy on a quarterly basis, a reinstated payout could happen sooner than most think.

As long as oil remains around $50 a barrel, count on Husky rewarding shareholders with another dividend announcement. Even at half of its former rate, shares would yield roughly 4%.

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