



Husky Energy Inc. Set for a Profitable 2017

Description

Husky Energy Inc. (TSX:HSE) has taken some flak for a recent oil spill, but the driller is still a good buy as we head into the second half of January.

A spill that took place in July has cost the company a pretty penny; Husky Energy had to pay a sum worth about \$500 million in order to ameliorate the matter. However, the company managed to clean up its act quickly by doing repair work and damage control as soon as it happened, reducing its losses from the spill to approximately \$180 million, according to a filing with the general liability market.

The company has also made amends with the community by offering a donation to the Shawnee Township and American Township. The symbolic gesture netted the fire departments trailers with equipment to better prepare themselves for a future oil spill that could harm the environment and communities. The equipment includes tools to contain and divert oil slicks on bodies of water, and each trailer is worth around \$18,000.

On a more positive note, Husky Energy announced earlier in the month its plans to expand its 2017 capital budget to about \$2.6 or \$2.7 billion, marking a significant increase from the \$2 billion it allotted a year ago. The Calgary-based company is using a large sum of the capital to expand its Lloydminster asphalt refinery as well as new thermal plants in Saskatchewan.

About 45,000 barrels per day (bpd) will be added in production, helping to drive up returns. Average production for the year will now be in the range of 320,000-335,000 barrels of oil equivalent per day. There are 18 potential new thermal projects in the horizon. Recently appointed CEO Rob Peabody expressed his high hopes with the project, saying that the company's investment program will improve margins and increase its free cash flow.

Husky Energy is also likely receiving assistance from the Canadian Environmental Assessment Agency through its Participant Funding Program to aid a project that is currently in the works called Husky Energy Exploration Drilling Project in the Atlantic Ocean. The location is about 350 kilometres east of St. John's, Newfoundland, and Labrador.

Additionally, this stock is worth looking into as it has a market capitalization of \$16.62 billion, and it has

managed to reduce debt from \$6.8 billion on September 30, 2015, to \$4.4 billion 12 months later. Costs will be reduced as well as Husky Energy will spend about \$4 billion less on sustaining and maintenance capital.

Cash flow from operations will bring in \$4 billion if crude oil prices remain the same, the company predicts. In fact, at the current cost of US\$52.37 per barrel, the company will easily surpass the \$4 billion in free cash flow mark. The company is also looking to save about \$1 billion per year by suspending its dividend.

HSE stock has an average rating of a "Buy" from several analysts with a price target of \$19.29, according to the consensus estimate. Between Husky Energy's debt-reducing initiatives, its recent moves to increase the production of crude oil, and the consistent price of crude, we could be looking at a good run in 2017 and beyond for the drilling company.

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