Husky Energy Inc. Is Too Cheap to Ignore

Description

Husky Energy Inc. (TSX:HSE) has been crushed by the rout in oil prices, as the stock is now off 56% from its high in 2014. The company has been struggling to rally, even with oil prices climbing above the $50 levels. Husky's assets are extremely capital intensive, and it has been tough on the company's balance sheet.

The company eventually cut its dividend entirely, and many investors have taken the stock off their radars because of this cut. Sure, it's rarely a good idea to invest in a company that has a history of dividend cuts, but the management team is looking to change things up so that such a cut doesn't happen again.

Li Ka-Shing, Hong Kong billionaire and controller of Husky, knows that the capital-intensive assets aren't great in an environment where oil prices are low, so he's planning to sell some of the company's eastern Canadian offshore assets to free up billions of dollars' worth of cash. It's most likely that this cash will be used for an investment in Asia, which will be better for the company if oil prices drop like they did in the early part of last year.

Oil prices are starting to drop from the $50 levels, and some believe another oil crash could be in the works, as the OPEC pact starts to fall apart. Many producers may be cheating and feeding the oil glut by pumping oil like there's no tomorrow. OPEC isn't going to police its members, so it's quite possible that a lot of oil companies could give up their recent gains.

Husky has no recent gains from the current rally to $50, so I believe the company still has a decent margin of safety compared to its peers in the oil patch.

The capital-intensive eastern Canadian assets will continue to drag the company down, so if oil drops below $30 again, there's a possibility that Husky could fall even further. Eventually, Husky will be a decent performer in a low oil price environment, but for now, the company is highly sensitive to drops in crude prices.

If you believe oil prices have stabilized and won't crash again, then Husky could be a fantastic contrarian play. The company trades at a ridiculously cheap 0.9 price-to-book multiple, and there's a high chance the company will reinstate its dividend later this year, assuming oil prices don’t crash again.

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