Why Shares of Husky Energy Inc. May Be the Play

Description

Investors have heard of **Husky Energy Inc.** (TSX:HSE), but only few have chosen to invest in this integrated oil company, as dividend payments were ceased at the end of fiscal 2015. By failing to pay a dividend, the only way to return capital to shareholders is through a share-repurchase plan, which has not happened in the past few years. Essentially, investors have only had the opportunity for capital appreciation.

Since the end of fiscal 2015, shares have not moved very much. Closing 2015 at a price of $14.31, the current share price of nearly $15 is an increase from the lows experienced since the beginning of the oil sell-off. Clearly, as an integrated oil company, Husky has been able to operate better than companies engaged exclusively in the exploration phase only. Similar to many exploration companies, however, shares have fallen more than needed.

As of the most recent quarterly financial reporting period (March 31), the tangible book value per share works out to be about $16.86 per share. Investors are getting a discount to the tangible book value per share of the company. Although revenues have declined significantly, the company has managed to steady the ship during these difficult times.

With revenues topping out in fiscal 2014 at more than $24 billion, the has been substantial decline. Revenues were just shy of $13 billion in fiscal 2016; the company was successful in limiting the loss to $0.18 per share. In the prior year, the loss totaled $3.87 per year from revenues of approximately $16 billion.

A positive that investors can take away from this decline is that the cash flow from operations has remained positive. And although no dividends were paid and no shares were bought back during fiscal 2016, the company still managed to pay down debt in the amount of $1.2 billion. While company management has chosen to act prudently given the lengthy downturn in the oil industry, shareholders may have turned the other cheek a little too quickly.

Total assets have declined from $38.8 billion at the end of 2014 to $32.9 billion at the end of Q1 2017. It is important to consider what has happened with total liabilities. Over the same period, total liabilities declined from $18.2 billion to $15.3 billion. The debt ratio, which is calculated as liabilities/assets, has decreased from 0.47 to 0.46 over this time. Although this is a very small change, it is important to recognize that in spite of a very difficult environment, company management has done a fantastic job of ensuring that the hole is dug no deeper.

Although shareholders of Husky have not been rewarded over the past two years, the company remains well positioned to benefit from a recovery in oil prices.

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ryangoldsman