Husky Energy Inc. May Be Nearing a Bottom

Description

Husky Energy Inc. (TSX:HSE) shares have rallied ~12% over the past year with what appears to be a support level at the ~$15 level. While the stock is still down over 55% from its summer 2014 peak, the management team continues to improve the health of the balance sheet, which is actually strong relative to many of its peers in the Canadian oil patch.

Capital expenditures for the year have dropped ~10% to between $2.5 and $2.7 billion thanks in part to the postponement of the company's asphalt expansion in Lloydminster. The management team has done a great done battening down the hatches of late, and it appears a relative margin of safety has been reached.

Still no dividend, but that's not really a bad thing

During oil's crash, many oil firms partially slashed their dividends. To an investor, having a dividend cut multiple times over the course of many months means that management isn't doing a great job of forecasting, and with more cuts, regardless of the magnitude, I believe investors will lose faith in the company's abilities to sustain any form of dividend should another downfall occur in the future.

Husky cut its dividend entirely, which I thought was a smart move, since income-focused investors could stop worrying about whether or not another cut would be on the horizon. In addition, Husky freed up a great deal of cash to get operations back in shape and restore the health of its balance sheet.

The company had extremely capital-intensive assets, so as you could imagine, the company folded when oil prices went tumbling. To become a more robust integrated producer, many capex-intensive assets were sold to free up more cash, while Husky adapted to the harsher environment, which may be sticking around longer than originally anticipated.

Dividend may be returning soon

Now that Husky is in better shape, I believe the company has room to reinstate a dividend, which could attract new investors. The environment is steadily improving, and if oil hits US$60 territory, I'd be very surprised if a dividend reinstatement didn't happen, since the company could sustainably pay an attractive dividend in the 3-4% range.

Bottom line

Husky is back on the right track and may be near a bottom; however, I don't think shares are ripe for take off just yet. Shares of HSE are reasonably valued at a one price-to-book multiple, but I think there are far more attractive energy plays out there if deep value is what you're looking for.

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