Should You Buy Husky Energy Inc. (TSX:HSE) or Imperial Oil Limited (TSX:IMO)?

Description

Stocks in the Canadian oil patch are showing signs of a recovery.

Let's take a look at **Husky Energy Inc.** (TSX:HSE) and **Imperial Oil Ltd.** (TSX:IMO)(NYSE:IMO) to see if one might be an attractive pick for your portfolio today.

Husky

Husky is an integrated energy company with production and refining assets located in Canada, the United States, and Asia.

The heavy oil thermal production is located in western Canada, with operations in Saskatchewan and Alberta. Husky is also developing resource plays in the Atlantic off the coast of Newfoundland and Labrador, including the West White Rose Project that is expected to produce first oil in 2022.

In China, Husky has a 49% stake in the Liwan Gas Project located 300 kilometres off the coast of Hong Kong. The facilities produce natural gas and natural gas liquids. The company also has contracts for two exploration blocks in the Pearl River Mouth Basin.

In Indonesia, Husky is advancing gas projects in the Madura Strait. The BD project began production in 2017 and two other developments are expected to go into service in 2019. Husky is a 40% partner in these assets.

The refining operations are located in Canada and the United States, producing various end products that include gasoline, asphalt, jet fuel, and diesel fuel.

Husky reported strong Q2 2018 results supported by improved margins on both the production and downstream operations. Funds from operations hit $1.2 billion, representing a 69% gain compared to Q2 2017. Free cash flow came in at $500 million, compared to $123 million in the same period last year.

Net debt is just $3 billion, or 0.8 times trailing 12-month funds from operations, so the balance sheet is in good shape.

Husky just raised its quarterly dividend from $0.075 per share to $0.125 per share. That's good for an annualized yield of 2.3%.

Imperial Oil

Imperial Oil also has operations all along the hydrocarbon value chain.

The company is a major oil sands producer with interests in Cold Lake, Kearl, and Syncrude. In addition, Imperial Oil operates a portfolio of refineries, as well as a network of 1,700 service stations under the Esso and Mobil brands.

The company generated $859 million in cash from operating activities in Q2 2018, thereby representing an increase of $367 million compared to Q2 2017.

Imperial recently increased the dividend from $0.16 to $0.19 per share and has a share buyback program that could see the company repurchase up to 5% of its outstanding common stock through June 26, 2019.

The current dividend provides a yield of 1.75%.

Is one a better bet?

Both Husky and Imperial are enjoying the benefits of a recovery in the energy sector, and the large dividend increases suggest management is comfortable with the cash flow outlook over the medium term.

If you only buy one, I would probably go with Husky as the first choice for a buy-and-hold portfolio. The long-term resource opportunities in the offshore operations are attractive and could drive production significantly higher in the coming years.

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