Husky Energy Inc. (TSX:HSE) Stock Is Down 40% in 90 Days: Time to Buy?

### Description

After hitting a three-year high in September of $23, shares of **Husky Energy** (TSX:HSE) have taken a dive. After plummeting nearly 40% in just 90 days, shares are now stuck at around $13.50 per share, the same level shares traded at in 2004.



Husky isn't alone either. Since September, shares of its peers — including **Suncor Energy**, **Cenovus Energy**, and **Imperial Oil** — are all down between 20% and 40%. With the entire Canadian energy sector under siege, has Husky been thrown out with the bathwater, or is something troubling sweeping through the space?

## Big changes haven't made the business less volatile

Back in 2016, Husky shareholders were panicking. After trading in the mid-$30s the year before, the stock fell to around $13 per share, similar to where they remain today. Then in 2017, the company's CEO Asim Ghosh announced that he would be retiring by the end of the year. The company he left, however, should have been well positioned for a difficult future.

While the company had historically drilled new fields with a breakeven price of around $50 per barrel, Husky pivoted to developing projects with a minimum breakeven price of just $30 per barrel. With oil hovering around $50 per barrel, Husky should be able to generate billions of dollars in free cash flow.

With an attractive, lost-cost production business, why has Husky stock fared so poorly recently? Both internal and exogenous shocks are to blame.

First, Canadian oil prices haven't tracked global oil prices. This fall, Canadian producers were selling their production at $20 or $30 per barrel, while their U.S. peers were achieving prices as high as $60 per barrel. Why the disconnect? The lack of pipeline and terminal infrastructure is to blame.

With finite capacity to move Canadian oil to refineries, companies became mired in a pricing war. And with little ability to store their output, they became forced to bid aggressively to move their oil to market. In September and October, the spread between Canadian and U.S. oil prices widened to their largest levels in a decade.

While the Alberta government recently instituted mandatory production cuts to stem pricing pressures, energy companies will suffer from lower production potential. Plus, infrastructure takes years to build, so this problem isn't going away anytime soon.

Second, new international regulations are set to cripple Canadian's oil sands producers. New International Maritime Organization regulations, which take effect in 12 months, mandate lower sulfur content levels in marine fuels. While this may seem like a niche topic, a Canadian Energy Research Institute report estimates that up to 20% of oil sands projects will become economically unviable under the new rules. While the impact to Husky won't be as severe, it's yet another external shock the company will have to face.

Lastly, all Newfoundland and Labrador offshore oil rigs were halted in November after Husky experienced an oil spill just outside St. Johns. A few days later, regulators suggested that the oil spill had become impossible to clean up due to its dissolution in the Atlantic ocean. The ultimate liability for this incident is still unknown, but repercussions could be notable given Husky was in hot water in 2017 for another safety violation.

## Canadian oil is a tough place to be



All of the above factors present strong, long-term headwinds for oil producers. Pipelines aren't built overnight, climate-related regulations continue to mount, and even Husky's own oil spill may cause increased rules and compliance costs for producers. If these troubles clear up quickly, shares of Canadian oil companies would rise sharply, but keep in mind that it will take much more than higher oil prices to profit.

If you're looking to gain exposure to rising energy prices, it's likely a better bet to look abroad for the next few years.

**CATEGORY**

1. Energy Stocks
2. Investing

**POST TAG**

1. Editor's Choice

**PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

**Category**

1. Energy Stocks

2. Investing

**Tags**

1. Editor's Choice

**Date**
2025/08/17
**Date Created**
2018/12/27
**Author**
rvanzo