Looking for $8.7 Billion in Free Cash Flow From a Canadian Company?

Description

This Canadian oil sands company is expected to produce $8.7 billion in free cash flow over the next five years.

That's right, an oil sands company.

As pipeline capacity remains constrained, most Canadian oil producers in Alberta have cut back on earnings expectations. The reality is, without shipping oil by more expensive means, such as rail, growing the top and bottom line for any major Canadian oil producer has become extremely difficult.

For some oil giants such as **Husky Energy Inc.** (TSX:HSE), growth is something which is simply not expected, and for good reason. Governmental scrutiny on pipeline capacity has led to sector-wide issues, mostly pertaining to the ability of Canadian companies to sell their products in the U.S.

That has been reflected in a sharp share price drop, which has cut the equity portion of long-term investor's holdings in Husky by significantly more than 50% over the past five years.

Now, for the good news

One of the things I absolutely love about Husky right now is the rock bottom valuation the company is getting. The company is valued at only $12.6 billion, which is approximately 1.5 times expected cash flow *over only the next five years*. In other words, if the company keeps producing cash flow as expected, one could expect a FCF payback in less than eight years, a truly remarkable feat.

The company's dividend yield also makes investors such as myself salivate — nabbing a 4% yield in addition to an eight-year FCF payback is something of a pipe dream in today's relatively overvalued market. Management has indicated that a significant portion of its future cash flow generated would be returned to shareholders (whether in the form of dividends or buybacks).

Companies like Husky that can generate relatively reliable and predictable cash flows over time make for less risky equities, all things considered; in that regard, I tend to favour regulated utilities and other companies with track records of dividend growth, but Husky Energy is one company which has simply been beaten up by the market too much to ignore.

For value investors, taking a look at the “losers” in the stock market periodically is the way to find tomorrow’s “winners.”

Bottom line

For investors who have simply eschewed investments in the Canadian oil space, I would petition a second look at a company like Husky. The firm’s balance sheet combined with prudent capital spending practices (the company has committed to cut nearly $1.7 billion of CapEx in the near-term) leads me to believe that a rally in the relatively near-term could be in the works for companies like Husky.

Stay Foolish, my friends.

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