What Husky Energy (TSX:HSE) Investors Should Do After a Bleak Q1

Description

Canadian energy company **Husky Energy** (TSX:HSE) stock surged a notable 12% yesterday, despite reporting depressing first-quarter earnings. The recent rally must have brought a little relief to its investors, as the stock has already lost almost 65% so far this year. However, investors should note that the near-term outlook for crude oil remains gloomy, and thus energy markets could continue to witness downward pressure.

Calgary-based Husky Energy reported total revenues of $4 billion for the quarter ended March 31. This represents a decline of more than 11% against the same quarter last year. It reported an adjusted net loss of $611 million against a profit of $312 million in the year-ago period.

The company primarily blamed lower crude oil prices for its loss in the reported quarter. Husky also announced a dividend cut of 90% to strengthen its balance sheet and weather the harsh times. That trims its forward dividend yield to 1.4% from 13% earlier.

I'd warned investors about its potential dividend cut earlier this week given the weaker outlook of the energy markets.

Why did Husky Energy stock surge?

There is more than one reason. Yesterday, crude oil price surged more than 20% on plans of re-opening major economies after days of lockdowns. It seems like investors focused more on the positive news and conveniently ignored Husky's weak earnings.

Apart from rallying crude prices, Husky Energy stock's technicals might have come into play. The stock is currently trading deep in the oversold zone with its RSI (relative strength index) at 20. Interestingly, the stock might continue to see an upward trend in the short term based on its RSI.

The dividend cut by Husky will also give it some flexibility in the near future to weather the crisis. Though it is bad news for investors, the dividend cut places the company on a relatively better footing with additional cash for higher priorities.

Peer **Cenovus Energy** stock also surged 14% yesterday, despite reporting a loss in the first quarter. It suspended dividends last month, as cash retention became a necessity. Interestingly, Cenovus stock is also one of the fastest to bounce back recently. It also more than doubled since its last-month lows.

What should investors do?

Husky Energy stock has almost doubled since its 52-week low of $2.2 last month. However, I don’t think it is a lasting recovery. Energy markets are expected to remain weak in the short to medium term mainly due to weaker crude oil prices.

Investors should note that market experts estimate even lower earnings in the second quarter compared to the first. It would not be prudent to consider historical earnings for valuing energy stocks in the current market scenario. Thus, in a nutshell, energy stocks like Husky do not look attractive from the valuation perspective given the massive amount of uncertainty.

Falling oil prices could continue to make energy stocks excessively volatile. Even if lockdowns are released in the near term, it will take time for oil consumption to jump back to pre-coronavirus levels. Thus, lower oil prices for longer could deteriorate further in the energy industry, and stocks could retest their recent lows.

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