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Husky Energy

Oil & gas

10 September 2019

Cumulative FCF C$8.7bn in the next five years

Husky Energy's integrated corridor business physically connects assets across North America, from the wellhead to the refinery, enabling the company to maximise value per barrel produced. Accounting for c 70% of Husky's cash flow, the integrated corridor underpins its five-year plan, which envisages cumulative group free cash flow (FCF) of C$8.7bn from FY19 to FY23. Coupled with high/fixed-price contracts in Asia and high-margin offshore assets in the Atlantic, this enables Husky to maximise operational margins and be resilient through the cycles. Excess FCF is to be directed towards increasing shareholder returns and strategic growth projects. These are Husky's main objectives, along with becoming a high-reliability organisation in terms of safety. Net debt remains below a targeted 2x funds from operations when stress tested at US$40/bbl WTI. Husky trades at 2.4x FY20 P/CF vs the North American large-cap E&P average of 3.5x and North American integrated average of 6.0x.

Resilient in a volatile commodity environment

Husky's integrated corridor processes mostly its own Canadian heavy oil. Ownership across the value chain enables the company to leverage the optionality of the asset base to maximise operational margins. Stress testing at US$40/bbl WTI provides the ability to fully fund FY19 sustaining capex and, with management's projected growth/margin improvements, the ability to fund the entirety of sustaining capex, growth capex and dividends by FY23.

C$8.7bn FCF over five-year plan at US$60/bbl WTI

The new five-year (2019–23) plan reduces forecast capex by C$1.7bn relative to the previous plan, leading to a longer step-up in production. As near-term projects go into production, Husky will see an inflection point in FCF where high capex will be replaced by FCF generation, in excess of that of its peers. This will facilitate enhanced shareholder returns, which is one of Husky's current priorities. Management expects c C$8.7bn of cumulative FCF over five years, providing the basis for a potential increase in FCF/dividend cover from an estimated 164% in FY19 to c 600% in FY23, highlighting the flexibility to increase cash returns.

Valuation: 35% discount to North American peers

Husky is trading at a large discount to North American large-cap E&P and integrated companies on current P/CF multiples for FY19 and FY20. This is reflected in its dividend yield of 5.3% versus peers' average of 1.7%. Key drivers of funds from operations (FFO) include the underlying WTI oil price (FFO ± C$100m per US$1/bbl) and crack spread (FFO ± C$120m per US$1/bbl in Chicago 3:2:1).

Consensus estimates

Year end	Revenue (C$m)	EBITDA (C$m)	Operating cash flow	Net debt/ (cash) (C$m)	Capex (C$m)	Yield (%)
12/17	18,583	3,562	3,704	3,425	(2,220)	0.8
12/18	22,252	4,737	4,134	2,881	(3,578)	4.8
12/19e	20,459	4,048	3,671	4,349	(3,470)	5.3
12/20e	21,141	4,257	3,943	4,613	(3,467)	5.6

Source: Husky Energy, Refinitiv consensus as at 21 August 2019

Price	C$9.35
Market cap	C$9bn

C$1.33/US$

Share price graph

Share details

Code	HSE
Listing	TSX
Shares in issue	1,005m

Business description

Husky Energy has two core businesses: Integrated Corridor and Offshore. The former operates in Western Canada and the US, where thermal heavy oil production is integrated with downstream operations. In the Offshore, the company is focused in the Asia-Pacific and Atlantic regions.

Bull

- Full value chain integration.
- Balance sheet strength.
- Low sustaining capex relative to cash flow.

Bear

- Affected by Alberta production quotas.
- Exposure to WTI oil price and crack spreads.
- Prioritising refinery works post-incident/rebuild.

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