



## Why It's Great to be Canadian Natural Resources

### Description

Despite numerous “expressions of interest”, **Canadian Natural Resources Ltd** (TSX:CNQ, NYSE:CNQ) announced on January 9 that it had not received any acceptable offers for some of its natural gas assets, so the company will hold on to them for now.

Did the stock take a hit? Not at all; in fact, its shares jumped the following day.

These types of stories have become very familiar in Canadian energy, which today is clearly a buyer's market. But this is the luxury of being a company like Canadian Natural; because it has such a strong record of profitability and no liquidity issues, investors were willing to give the company a free pass when it failed to find a buyer. Not everyone is that fortunate.

For example, **Talisman Energy Inc.** (TSX:TLM, NYSE:TLM) is also trying to unload assets, but it does not have as strong a record as Canadian Natural. The company is also much more pressed for cash, holding over \$6 billion in debt. After legendary activist investor Carl Icahn bought a 6% stake in Talisman last October, the pressure was ratcheted up even further.

**Encana Corp.** (TSX:ECA, NYSE:ECA) offers yet another example. For years the company has overextended itself, building up a massive land position before natural gas prices cratered. Since late 2009, its shares have fallen by about two thirds.

New CEO Doug Suttles has pledged to turn the company around, which includes selling much of its legacy natural gas assets. He is also under tremendous pressure; Encana's chairman has said that he expects to see results within the next 12 to 24 months. Normally such time constraints wouldn't be so unreasonable, but the energy market may not have turned around before that time passes.

### Foolish bottom line

In most cases, these types of turnaround stories can lead to great wins for investors. It starts with a good company expanding beyond its core business and getting carried away. After that strategy backfires, a new leader is brought in to trim costs and bring the business back to its roots. Meanwhile the stock remains depressed (often referred to as being “in the penalty box”), until the company

actually follows through. If new management is able to execute, then the stock can benefit immensely as investors forgive the company for its past sins.

Investors in companies like Talisman and Encana are betting on this story playing out. The problem, as has been demonstrated numerous times, is that the two companies will have trouble getting proper value for their assets. And if they had more time, they could wait for a better opportunity like Canadian Natural. But when there's a cash crunch, or an activist investor, or a chairman who expects results quickly, waiting is easier said than done. This is certainly something that these companies' investors must remain wary of.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)

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