



3 Reasons to Buy Canadian Natural Resources in 2014

Description

After a disappointing 2013, the New Year is looking optimistic for **Canadian Natural Resources** ([TSX:CNQ](#)). Here're three tailwinds that could propel the oil and gas producer higher in 2014.

1) Big cash flow generation

Canadian Natural Resource's decade of massive investment is starting to pay off. Project construction is winding down, production is ramping up, and the profits are starting to roll in. The company's free cash flow is expected to grow 115% year-over-year to \$1 billion in 2014.

This provides several possible ways to reward shareholders.

Dividends are an obvious route. Canadian Natural Resources has increased its payout for 14 years in a row. There's good reasons to believe the company will continue that tradition with another dividend hike is coming in the first quarter of this year.

Another round of share buybacks are also in the cards. During the first three quarters of 2013, Canadian Natural Resources repurchased 9.256 million common shares at an average price of \$31.13 per share. These programs are a great way to reward shareholders without any immediate tax liability.

But Canadian Natural Resources story gets really interesting in the years to come. The company's cash flow is projected to grow fivefold to \$5 billion annually by 2018 once the Horizon oil sands facility is finished. Both dividend hikes and share buybacks will provide plenty of catalysts in the New Year and beyond.

2) Heavy oil prices

Today, Albertan heavy oil trades at a \$20 per barrel discount to West Texas Intermediate and other North American benchmarks. Multiply that by every barrel of heavy oil Canadian Natural Resources pulls out of the ground, and you start to understand the scope of the problem. However, there're several catalysts that could close that spread in the New Year.

First, **BP's** Whiting, Illinois refinery is expected to come online this month increasing its heavy oil throughput from 85,000 bpd to 350,000 bpd. That's a material figure.

Second **Enbridge** (TSX:ENB, NYSE:ENB), the company responsible for shipping over two thirds of Canada's crude exports, has been quietly expanding its pipeline system. These initiatives include twinning the Seaway and Spearhead pipelines to move more crude to the U.S. Gulf Coast, eliminating bottlenecks to boost capacity in the Chicago area, and reversing its Line 9 route to begin shipping oil east to Quebec. According to the company's estimates, these secured projects will boost capacity 50% to three million bpd by 2015.

Finally, we should also get some decisions on several major pipeline projects in the New Year. The Enbridge Northern Gateway pipeline, which has already received conditional approval from regulators, will ship 350,000 bpd of bitumen from Edmonton, Alberta to Kitimat, British Columbia. We can also expect a decision on **TransCanada's** infamous Keystone XL pipeline which will ship 830,000 bpd of bitumen to the Gulf coast if approved.

All of the above catalysts could significantly close that discount for Alberta heavy oil. That would be a big boost to Canadian Natural Resources' top-line.

3) Smart money is moving in

In school it was considered cheating to peak at another student's work. But there's nothing wrong with copying the answers from the smartest minds in the world when it comes to investing.

According to recent SEC filings, several smart money investors have been increasing their stakes in Canadian Natural Resources. Last quarter billionaire investors Eric Sprott and Steven Cohen were both accumulating shares in the company. Legendary trader Ray Dalio also owns a large stake in the firm.

Foolish bottom line

Canada's oil sand producers have pushed to the backburner these past few years. But a variety of catalysts could put a bid underneath shares in 2014. It's time to put Canadian Natural Resources on your watchlist.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:CNQ (Canadian Natural Resources Limited)
3. TSX:ENB (Enbridge Inc.)

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