



Canadian Natural Goes Bargain Hunting

Description

It was only six weeks ago that **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)) abandoned plans to sell some of its natural gas assets. The company was [unwilling to sell right into a buyer's market](#). Now CNRL has flipped the switch entirely, with its \$3.1 billion purchase of some **Devon Energy** ([NYSE:DVN](#)) gas assets. CNRL is a very prudent capital allocator, so one would instinctively think the company got a good deal. And at first glance, that appears to be the case.

First of all, the \$3.1 billion purchase represents about 6% of the company's enterprise value. And for that price, CNRL will be increasing its production by 11%. But the news gets better.

The deal will also provide CNRL with \$75 million in annual royalty revenue. The company likely will be combining that revenue with its current royalty portfolio and selling it all off some time this year. Royalties are often highly sought after, and demand high multiples. For example, **Silver Wheaton** (TSX:SLW)(NYSE:SLW) trades at 20 times earnings. But even if one uses only a 10x multiple on Devon's royalty stream, that brings down CNRL's net purchase price to \$2.4 billion, or 4.6% of enterprise value.

The assets are also a good fit with CNRL's existing production, meaning that there should be plenty of opportunities for cost synergies. As an added bonus, the deal also provides CNRL with 2.2 million undeveloped acres, which could be used to develop liquids-rich natural gas and light oil.

Foolish bottom line

Before even digging into the numbers, one could easily conclude that CNRL got an excellent deal. Given the state of the Canadian energy market, the company without doubt has plenty of deals to choose from. And given management's track record, one could be fairly confident that the company didn't overpay. CNRL's shares rose by nearly 4% in reaction to the news, and for good reason.

With so many other companies looking to sell gas assets in western Canada, CNRL will have plenty of opportunities to do similar deals. Unfortunately for the sellers, CNRL won't accept anything but another bargain.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:DVN (Devon Energy Corporation)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:WPM (Wheaton Precious Metals Corp.)

Category

1. Investing

Date

2025/08/27

Date Created

2014/02/20

Author

bensinclair

default watermark

default watermark