What's Next for Canadian Natural Resources?

Description

On Thursday, **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) released results for the fourth quarter of 2013. Cash flow from operations came in at nearly $7.5 billion for the year, nearly $7 per common share. The company spent nearly all of that money on capital expenditures, but still had enough leeway to raise its dividend by 13% to $0.225, the second dividend increase in three months. The shares now yield just over 2%.

But it is not the dividend yield that shareholders of Canadian Natural care about most. The company has become one of Canada's largest oil companies by spending capital very wisely, as well as by placing a big emphasis on cost control. Looking ahead, the dividend will continue to be an afterthought. In 2014, CNRL plans to spend over $7 billion on capital expenditures, compared to about $1 billion on dividends.

Of course CNRL has very ambitious growth plans; the company hopes to grow free cash flow by 46% per year from 2013 to 2020. And as mentioned before, the company is in a perfect position to do so. Many producers are timid about spending large amounts of capital, which should help contain labour and equipment costs in Alberta. Companies such as **Encana** (TSX:ECA)(NYSE:ECA) and **Penn-West** (TSX:PWT) have even been looking to shed assets, helping to create a buyer's market in the region. CNRL has gone bargain-hunting recently, scooping up some natural gas assets from **Devon Energy** (NYSE:DVN).

Despite the company's continued success, the focus continues to be on heavy oil differentials, which force CNRL to sell its heavy oil at a discount to the standard WTI benchmark. That discount widened to 40% in December, causing CNRL to curtail production in response. Upcoming decisions on the Keystone XL and Northern Gateway pipelines could bring some relief to CNRL, as will the continued growth of crude by rail.

Foolish bottom line

Investors who are looking for steady earnings and a nice dividend should probably avoid CNRL, and probably the entire energy industry altogether. Capital expenditures will remain high, and differentials create a cloud of uncertainty. The most recent quarter served as a reminder.

But believers in the Canadian energy industry should certainly consider CNRL. The company has one of the best track records in the industry, and is extremely well positioned to achieve its ambitious growth plans. The most recent quarter served as a reminder of that as well.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:DVN (Devon Energy Corporation)
3. TSX:CNQ (Canadian Natural Resources Limited)

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