



## Why Canadian Natural Resources Should Be Part of Your Portfolio

### Description

Higher crude prices and a narrowing price differential between Canadian heavy crude and West Texas Intermediate are boosting the revenues of oil sands producers and generating renewed interest in the industry. One company that stands out in Canada's oil patch is oil sands heavyweight **Canadian Natural Resources** ([TSX: CNQ](#))([NYSE: CNQ](#)).

#### **Solid 2013 full-year performance highlights the company's strengths**

Canadian Natural Resources reported some strong operational and financial results for 2013. Revenue grew a healthy 11% in comparison to 2012 and cash flow shot up a mighty 24%, giving net earnings of \$2.08 per share, a pleasing 21% increase year over year.

This solid financial performance was driven primarily by higher crude prices and the narrowing differential between Canadian heavy crude (West Canadian Select) and Texas Intermediate. Over the course of 2013, the price differential between WCS and WTI narrowed by 23%, making the crude produced from oil sands significantly more profitable.

Another driver of this solid financial performance was increased crude production for 2013, which shot up 2% in comparison to 2012 to 671,000 barrels daily. More importantly, Canadian Natural Resources had a 2013 oil reserves replacement ratio of 143%, meaning not only was it able to replace all crude reserves depleted by production, but its oil reserves grew.

By the end of 2013 Canadian Natural Resources reported oil reserves gross before royalties of 5.1 billion barrels of crude, a healthy 2% increase over 2012. This indicates that not only is Canadian Natural Resource's crude production sustainable, but the value of its most important underlying asset – its oil reserves – has increased.

This reserve replacement ratio was also higher than many of its domestic and international peers including **Exxon Mobil's** ([NYSE: XOM](#)) 103%, **Chevron's** ([NYSE: CVX](#)) 112% and **Suncor's** ([TSX: SU](#))([NYSE: SU](#)) 64%. But it was lower than **Husky Energy's** (TSX: HSE) 164% and **Cenovus'** ([TSX: CVE](#))([NYSE: CVE](#)) notable 243%.

These strong results certainly indicate the company is on a solid footing, but the key question for

investors is whether Canadian Natural Resources can continue delivering such strong results.

### **The outlook for 2014 and beyond is positive**

Canadian Natural Resources has a solid asset base coupled with a strong portfolio of projects under development, boding well for the company to continue building its oil reserves and production. For 2014, Canadian Natural Resources has committed to capital expenditure of \$7.7 billion — a healthy 6% increase over 2013 — with a 9% growth in crude production targeted.

The majority of this capital expenditure will be used to drive increased production from higher return crude and natural gas liquids projects, which will boost margins and bodes well for increased cash flow and profitability.

In order to do this in 2014, Canadian Natural Resources is targeting the drilling of 93 light oil wells across its North American land base. It is also focused on developing its thermal oil sands production, with the Kirby North Phase 1 project set to be completed mid-year. The company also remains focused on completing phases 2 and 3 of the Horizon synthetic crude oil project, which is expected to bring total crude production from this asset to 250,000 barrels daily by 2017.

Another positive development for investors is Canadian Natural Resources' commitment to growing the diversity of its asset base by continuing to develop its North Sea, Côte d'Ivoire, and South African assets. Oil produced from these assets can be sold at a higher margin because its price is generally indexed to Brent rather than West Texas Intermediate, with Brent trading at a premium to WTI.

### **Remains attractively valued**

Despite its share price appreciating by 29% over the last year, Canadian Natural Resources remains attractively valued. The company is trading with an enterprise-value of 7 times EBITDA and 11 times its oil reserves. Indicating the market has yet to fully appreciate the value of the company's underlying assets.

These valuation ratios compare favorably too many of its peers as the table highlights.

[CNQ Val Ratios 300314](#)

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When both ratios are compared across its peers, Canadian Natural Resources appears to be the most attractively priced.

### **Continues to reward investors through a growing dividend**

Canadian Natural Resources continues to reward share holders with regular dividend increases, with

two increases in the quarterly dividend over the last two consecutive quarters. This gives the company an annualized dividend of \$.090 per share and a yield of around 2.2%, which while comparing favorably to many of its peers, is one of the lowest in the industry.

As you can see from the table Exxon, Chevron, Suncor, Husky and Cenovus' all have higher dividend yields, while **Imperial Oil's** ([TSX: IMO](#))(NYSE: IMO) is less than half.

[CNA Div Yields 303014](#)

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More impressively Canadian Natural Resources' dividend has a compound annual growth rate of 24% since inception in 2001. This highlights the company's commitment to unlocking value and continuing to reward shareholders for their patience.

### **Foolish bottom-line**

Canadian Natural Resources is a stand-out player in Canada's oil patch for all of the right reasons. It has a solid portfolio of quality assets coupled with an attractive valuation and solid dividend yield. This makes it an attractive opportunity for investors seeking yield and growth.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:CVX (Chevron Corporation)
3. NYSE:XOM (Exxon Mobil Corporation)
4. TSX:CNQ (Canadian Natural Resources Limited)
5. TSX:CVE (Cenovus Energy Inc.)
6. TSX:SU (Suncor Energy Inc.)

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