3 Reasons to Buy Canadian Natural Resources

Description

Late last week, **Canadian Natural Resources** (TSX: CNQ)(NYSE: CNQ) reported earnings for the first quarter of 2014, and the results were very impressive. Strong prices helped the company triple its net income year-over-year, and the company also increased its 2014 production guidance.

The results cap off what has been a very strong 12 months for CNRL, one in which its stock has returned over 45%. So does that mean it's too late to own the shares? Not necessarily. Below are three reasons why.

1. A strong future for Canadian energy

This is something that applies to all energy companies in Canada, including CNRL. But the company has already benefited greatly from easing bottlenecks for Albertan oil and higher gas prices. And these trends look set to continue.

The main catalyst for easing bottlenecks has been the growth of crude-by-rail – new figures show that this has grown by over 900% in the last two years alone. It just goes to show that when a product (such as heavy crude) is selling at such different price points in two different regions, any business that transports that product will grow tremendously. As more and more rail loading facilities and oil rail cars get built, that should ease transportation bottlenecks further.

Gas prices used to be in the doldrums, but now have come roaring back, thanks mainly to a cold winter and low storage levels. Furthermore, more questions are starting to be raised about just how low-cost America's natural gas is. If American production is higher-cost than previously thought, then that spells a bright future for Canada's gas, including CNRL's.

2. A great track record

So what separates CNRL from other Canadian energy companies? Well, it's mainly the track record. Led by chairman N. Murray Edwards, CNRL has developed a reputation for being one of the shrewdest capital allocators and most ferocious cost-cutters in the industry. As a result, the stock has returned nearly 19% to shareholders per year over the last 15 years.

By comparison, **Suncor** (TSX: SU)(NYSE: SU), Canada's largest energy company, has returned only 13% per year over that same time period. Others have fared much worse. So if you're a long-term investor, why not go with the company that you know will be well-managed over time?

3. Still not too expensive

Despite CNRL's share price surge, there is still room to run. At today's stock price, CNRL is trading at about the value of its total reserves, discounted at 10% after tax. Any additional barrels in the ground you get for free. This is quite a bargain for a company with CNRL's track record.

But when digging deeper, CNRL's reserves are valued using fairly conservative price assumptions. The benchmark Western Canadian Select (Albertan heavy oil) is assumed to remain in the mid $70s for the next three years. But WCS prices have already shot into the mid-$90s, and have shown no sign of collapsing. Likewise, the WTI benchmark is assumed to fall to $84.25 by 2016. But WTI for June delivery currently trades right around $100.

Plenty of bargains in the energy sector

A similar case could be made for most companies in the energy sector. But when you have so many great choices, why not go with the highest-quality company? That way at least you know your money's being taken care of wisely.

CATEGORY

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