3 Reasons to Buy Canadian Natural Resources

Description

Investing in energy can be a very dangerous game. After all, predicting where oil and gas prices will go is not easy, and if they move in the wrong direction, you could get burned. And that's not all. Energy companies have to deal with rising costs, operational issues, and sometimes geopolitical risks. Some of these firms are awful capital allocators.

If you're looking to reduce these risks, you'll want to buy the strongest energy companies, and they don't come much stronger than **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ). To illustrate, below we look at three reasons to buy CNRL.

1. Its reserve base

Most people do not realize that CNRL has more reserves than any other energy company in Canada, with approximately 5 billion boe (barrels of oil equivalent) of gross proven & probable reserves. So you don't have to worry about production suffering as reserves are depleted. Nor do you have to worry about big capital expenditures just to sustain production.

In fact, CNRL is aiming to increase its free cash flow by 37% per year from 2014 to 2018. Without such a strong reserve base, such a goal would be impossible.

2. Track record

It's a common frustration of investors, especially in the energy sector: you buy a company that makes lots of money, only to see management waste it on a bad project or acquisition. Just look at **Talisman Energy** (TSX:TLM)(NYSE:TLM), whose global ambitions have left the company overstretched. Now it is trying to scale back and reduce its debt load – the whole process has been very messy, and investors have not fared well.

But CNRL has not made such mistakes. Its expansion has been done by spending money very wisely, and costs have been kept under control. As a result, shareholders have fared extremely well, earning nearly 19% per year over the past 15 years. By comparison, shareholders of energy giant **Suncor** (TSX:SU)(NYSE:SU) have only earned 13.6% per year over this time. Talisman shareholders have fared even worse, earning 10.6% per year.

3. Its price

Despite CNRL's soaring share price, which is up more than 50% in the last year alone, the company is not overpriced. As it stands, the company has an enterprise value (which includes net debt) of just under $64 billion. This represents just a 5% premium on the present value of its reserves (using a 10% discount rate). For a company with CNRL's track record, I don't think this is too much to pay.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:SU (Suncor Energy Inc.)

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