Why Canadian Natural Resources Limited Is the Only Oil Stock You Need to Own

Description

It is no secret that oil prices have seen better days, with a well-supplied market and declining demand providing enough downside pressure on the commodity to overshadow geopolitical tensions and send both West Texas Intermediate and Brent crude prices reeling. Gone are the days when tensions in the Middle East could send oil on a huge rally.

This development then poses the question: If the supply-demand balance of the market is fundamentally changing, are the days of profiting from oil investments also over?

Commodities prices are cyclical, and while the opportunity to make a lot of money in oil investments right now is less prevalent than we have seen in the past, there are still some great investments out there. **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ) is a prime example.

With lower oil prices a larger, stable company with a history of success, good cash flow and low operating costs will come out ahead. Canadian Natural Resources' long-term business strategy is to focus on long-term low decline, low-risk assets and the company adds to its production by both developing its current holdings to their potential and by pursuing acquisitions. This business strategy is effective, and has contributed to the company being widely known as the low-cost producer of oil in Alberta's oil sands.

Canadian Natural Resources' low-cost operations means that the company can withstand periods of lower oil prices and its cash-rich position enables it to acquire other companies that are not as well positioned to survive challenging times. While high oil prices are technically a positive for all oil producers, low prices can be, relatively speaking, better for a low-cost producer such as Canadian Natural Resources. This is because high prices attract new competition. When prices are low, inefficient companies struggle, giving low-cost producers a new opportunity to position themselves for the next upswing through mergers and acquisitions.

With oil prices forecast to stay low for some time, we could expect Canadian Natural Resources to be on the lookout for struggling smaller companies with high-value assets that it could add to its books.

The current challenges that oil prices are experiencing do not appear to me a short-term problem. All of the major global energy agencies including OPEC, the IEA, and the U.S. EIA expect declining oil consumption and increasing oil production will keep a lid on the commodity's price over the next coming years. This time frame is long enough that other oil companies may have to mothball some production, and when production falls, prices often see a bit of correction. This is another positive for Canadian Natural Resources: With the company's low costs keeping the doors open while prices fall, it will be well positioned to benefit from the spikes in oil prices that other companies won't be operating.

Given the current climate, Canadian Natural Resources is poised to outperform the competition due to its low operating costs, and its cash flow may be able to afford it a good deal on some smaller, struggling oil companies that will build up its long-term growth objective. That is why right now I see the company as the only oil stock you need to own.

CATEGORY

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