



## Is Canadian Natural Resources Limited Still a Safe Investment?

### Description

Investors are getting a good taste of the volatility that can wreak havoc in the oil market. Shareholders in Canada's top oil companies have watched in horror over the past few weeks as their juicy gains for the year have been wiped out. Some stocks are even trading at five-year lows.

Not all energy companies are the same and new investors looking to buy top quality names at a discount should pick and choose carefully when wading through the wreckage.

**Canadian Natural Resources Limited** ([TSX: CNQ](#))([NYSE: CNQ](#)) has been a favourite with investors for most of the past 12 months. Let's take a look at the company and see if the sell-off has been overdone.

### Diversified assets

Canadian Natural probably has the best asset mix in the Canadian energy patch. For investors, this diversity is extremely important during volatile times in the commodity markets because earnings are spread out across gas, gas liquids, and oil production.

Natural gas prices have held up better than oil in the past few weeks and Canadian Natural Resources is one of the largest natural gas producers in western Canada.

Long-term investors should pay attention to the company's assets in Northwestern Alberta and Northeastern British Columbia. This liquids-rich region is still relatively unexplored and Canadian Natural Resources has already created a distinct competitive advantage in the zone by investing early and building the key infrastructure needed to develop its properties.

Oil assets are another part of Canadian Natural's resource mix. The company's Pelican Lake project is producing record volumes of oil and vast land holdings in the area allow Canadian Natural to minimize capital costs when undertaking large exploration and development projects.

In the oil sands, Canadian Natural's Horizon project is also enjoying record production and the company's promising thermal in situ assets are being developed with state-of-the-art steam assisted

gravity drainage (SAGD) and cyclic steam stimulation (CSS) techniques.

### **Nimble allocation of capital**

Canadian Natural Resources owns 100% of most of its assets. This is important for investors because it gives the company the freedom to move capital quickly from low-margin projects to ones that will drive the highest earnings. In volatile commodity markets, this is a great competitive advantage.

### **Dividend growth and share buybacks**

Canadian Natural Resources has more than doubled its dividend in the past two years. Despite the big increases, the payout ratio is only 26%. The company also has an aggressive share-repurchase program. In the first half of 2014 it bought back 8 million shares.

### **Should you buy?**

As investors have seen with other names in the space, being a one-trick pony in the energy sector is a dangerous way to live. The diverse nature of Canadian Natural's assets means its revenue stream is somewhat protected from volatility in a single commodity. The company can also efficiently move capital between oil, gas, and gas liquids assets to maximize cash flow.

The stock is trading at a very reasonable 12.5 times earnings and 1.5 times book.

Given the quality of the company's assets, its low payout ratio, and cheap valuation, I think long-term investors who believe oil prices will stabilize at current levels or higher should consider adding the company to their portfolio.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)

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