Will Canadian Natural Resources Limited Hit $55?

Description

Numerous analysts have recently weighed in on **Canadian Natural Resources Limited** (TSX: CNQ)(NYSE: CNQ), and they agree on one thing: The stock will be moving to the upside. Recent estimates range from a low of $51 per share from TD Securities to a high of $57 from CIBC analysts.

With a current share price of around $38.50, these estimates are implying a minimum 31% upside for the next 12 months. Is this too optimistic? With WTI crude falling over 20% since June 2014, Canadian Natural Resources is not operating in the strongest macroeconomic conditions.

However, many analysts are still bullish on oil prices, with a recent Reuters poll suggesting a consensus forecast for Brent and WTI prices in 2015 in line with high 2014 prices. If they are right, Canadian Natural Resources has the asset base, the financial strength, and the forecasted production growth to hit or exceed the $55 target. Here's why:

1. Strong asset base and financial strength

The capability of an oil company to generate consistent production, growth on production, and control costs ultimately depends on the quality and diversity of its asset base. Canadian Natural has the largest and perhaps most diverse asset mix amongst its large-cap peers, and this provides the company with the means to continue and grow production.

Currently, Canadian Natural has almost 4.5 billion barrels of oil equivalent (boe) of proven reserves after royalties, and 8 billion proven and probable boe. These reserves produce a balanced and diverse production mix, consisting of heavy crude, light crude, natural gas, and synthetic crude.

These assets are made better by Canadian Natural's strategy for developing them. The company is currently in the process of a multi-year transition to a longer life, lower decline asset mix. This is occurring by focusing growth and development on the Horizon Oil Sands project, the thermal in situ oil sands assets, and on the Pelican Lake crude oil assets.

Assets like the Horizon Oil Sands project will provide high-quality synthetic crude for more than 40 years with no declines, and reserve replacement costs for these assets are extremely low compared to conventional oil resources.

As the transition to these lower-cost, low-decline assets continues, Canadian Natural will be able to deliver increasing free cash flow, and is expecting free cash flow to rise sustainably to almost $7 billion a year by 2018, at a projected CAGR of 37%. This free cash flow will be allocated to resource development, opportunistic acquisitions, and returned to shareholders, all of which will drive earnings growth.

2. Realistic growth that will drive share price

The previously mentioned asset mix and incredible free cash flow generation will provide Canadian Natural with the production and earnings growth necessary to drive share price up. In Q2 2014, Canadian Natural reported record production on its Horizon operations, its Pelican Lake crude oil operations, and on its light crude and NGL production. This resulted in record cash flow from operations in Q2 2014 of $2.63 billion, compared to $1.67 billion in the year prior.

This growth is expected to continue, with Horizon expected to average 127,000 bbl/d by 2015 from 119,000 bbl/d currently. This will grow from there as the Horizon expansion continues, with a 250,000 bbl/d capacity expected by 2017. Canadian Natural's thermal in situ and Pelican Lake assets are also forecasting excellent growth rates.

Analysts are currently forecasting a 16% long-term growth rate for Canadian Natural and a 3.81 EPS for the current fiscal year. This kind of growth is exceptional for a company this size, and with its current low price-to-earnings ratio of 13, the forecasted EPS of 3.81 would result in a share price of $49.53.

Since Canadian Natural is currently trading at a discount to its peers, a share price of $55 is very possible, should this discount unravel. With growth prospects and assets that are industry-leading, Canadian Natural's current discount should be short-lived, and investors should take advantage before it's too late.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

Category

1. Energy Stocks
2. Investing

Date
2025/08/26
Date Created
2014/10/20

Author
amancini