



Canadian Natural Resources Ltd. Is On Sale: Buy Before It's Too Late

Description

Since the beginning of September, the Toronto Stock Exchange has shed 1,000 points, dropping from a high of 15,600 to its current position of approximately 14,600. Investors need to keep this correction in context, though; equities are still historically expensive.

In September, the TSX exceeded the 15,500 mark, which represents an all-time high, even exceeding the highs prior to the 2008 crash.

Fortunately, the best defense to an expensive market is value, and despite the expensive valuations, there are still bargains to be found. One of them is **Canadian Natural Resources Ltd.** ([TSX: CNQ](#))([NYSE: CNQ](#)). There are worries about oil prices, but investors with a longer-term bullish view can use the weakness to buy Canadian Natural at bargain prices. Here's why Canadian Natural is a gem in an overvalued market that's poised for upside.

Canadian Natural Resources is a high-quality name

Canadian Natural Resources is a large, independent producer of crude oil and natural gas. The company currently possesses possibly the strongest asset base in the Canadian energy sector, both in terms of size and diversity. With 8 billion proven and probable boe before royalties, Canadian Natural Resources currently holds the largest energy reserves in Canada, greater than its 13 major competitors.

These massive reserves are also incredibly diverse, offering a production mix including heavy oil, natural gas, light crude, and synthetic crude. This balanced mix allows the company to reduce risk and stabilize earnings during periods of volatile commodity prices, while giving Canadian Natural Resources the flexibility to shift capital resources to projects which offer the highest returns.

With production expected to grow at a compound annual growth rate of nearly 9% over the next five years, and record production being posted in Q2/2014 at both its Horizon Oil Sands operations, its Pelican Lake heavy crude project, and in its total light crude and natural gas liquids production, Canadian Natural resources is undergoing impressive growth for a \$43 billion company. As these assets are developed, Canadian Natural Resources is focusing on transitioning to a long-life, low-

decline asset base, which will allow for increasing and sustainable cash flows.

The market is not reflecting its high quality

You would expect such as strong asset base and growth rate to be accompanied by a premium valuation, but in this case, Canadian Natural Resources is undervalued compared to its peers. Two comparable Canadian producers are **Suncor Energy Inc.** ([TSX: SU](#))([NYSE: SU](#)) and **Imperial Oil Limited** ([TSX: IMO](#))(NYSE: IMO).

Company	Price-to-Cash Flow	EV/EBITDA
Suncor Energy	6.4	4.87
Imperial Oil	10.9	7.93
Canadian Natural Resources	5.4	5.90

It is clear from this chart that Canadian Natural Resources is trading at a favorable level to its peers on both price-to-cash flow and EV/EBITDA, both of which are excellent measures for valuing companies in the oil and gas industry.

Canadian Natural Resources' true value, however, can be noted by comparing its price to its growth rate. The company currently has an impressive long-term growth rate of 15.95%, compared to only 5.77% for Suncor and 9.90% for Imperial Oil. Despite a higher growth rate driven by record and growing production, large and diverse assets and a focus on transitioning to a long-life, low-decline asset base to increase cash flows, Canadian Natural Resources is still trading at a discount.

Bargains like this don't appear often, and investors should use the latest market correction to pick up Canadian Natural Resources shares at an even further discount before the market catches on.

CATEGORY

- 1. Energy Stocks
- 2. Investing

TICKERS GLOBAL

- 1. NYSE:CNQ (Canadian Natural Resources)
- 2. NYSE:SU (Suncor Energy Inc.)
- 3. NYSEMKT:IMO (Imperial Oil Limited)
- 4. TSX:CNQ (Canadian Natural Resources Limited)
- 5. TSX:IMO (Imperial Oil Limited)
- 6. TSX:SU (Suncor Energy Inc.)

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