



Cenovus Energy Inc. vs. Canadian Natural Resources Ltd.: Which Is the Best Investment?

Description

The recent sell-off in the oil sector has investors strolling through the patch looking for quality names to add to their portfolios.

Let's take a look at **Cenovus Energy Inc.** ([TSX: CVE](#)) ([NYSE: CVE](#)) and **Canadian Natural Resources Ltd.** ([TSX: CNQ](#)) ([NYSE: CNQ](#)) to see if one is a better buy right now.

Cenovus Energy Inc.

Canada's second-largest integrated oil company got hit hard over the past few months, but the recent Q3 earnings report came in strong and the stock is starting to regain some of its losses.

Cenovus has three large oil sands projects on the go with its 50% joint partner **ConocoPhillips** ([NYSE: COP](#)).

The Christina Lake project will have a total production capacity of more than 300,000 barrels per day once all the development phases are complete. In the Q3 2014 earnings statement, Cenovus said production at Christina Lake hit 68,000 barrels per day, a 30% year-over-year increase.

The Foster Creek project is expected to hit peak production of 295,000 barrels per day by 2019. During the third quarter, the facility produced 57,000 barrels per day, a 15% increase of the same period a year ago.

Narrows Lake, the third oil sands project, will eventually produce 130,000 barrels per day.

Cenovus also has a massive refining operation. The company's facilities can process up to 430,000 barrels of crude oil per day. The refining division was hit by an unexpected shutdown in Q3, but the integrated model normally offers investors some earnings protection when oil prices are weak.

Investors have enjoyed solid dividend growth in the past three years and that should continue as production ramps up at the oil sands facilities. The current payout of \$1.06 yields about 3.8%. Cenovus

trades at about 18 times earnings.

Canadian Natural Resources Limited

Rather than offering earnings diversity along the value chain, Canadian Natural Resources provides investors with a hedge against volatility in a single commodity via its broad variety of oil, natural gas, and natural gas liquids assets.

The company is one of the largest natural gas producers in western Canada and holds an impressive land portfolio in the liquids-rich region of Northeastern British Columbia and Northwester Alberta. Canadian Natural got in early on the play and now holds a distinct competitive advantage because it invested wisely in the development of key infrastructure assets.

Canadian Natural also operates a variety of oil assets. Its Pelican Lake project hit record production levels in the second quarter. The best thing about this project is the land portfolio Canadian Natural owns around the play. This enables the company to pursue aggressive development projects while minimizing capital outlays.

The Horizon oil sands project was operating at peak performance in Q2 and also delivered record production.

Canadian Natural likes to fly solo on its large projects. The advantage of having 100% ownership is that the company can quickly move capital from one asset to another to take advantage of opportunities in the fluctuating commodity markets.

The company has more than doubled its dividend in the past two years but still only pays out about 26% of free cash flow. Canadian Natural also buys back a lot of its stock. In the first half of 2014, the company bought and cancelled more than 8 million shares.

The company is trading at 13 times earnings. The dividend of \$0.90 per share yields about 2.3%.

Which should you buy?

Canadian Natural probably owns the best asset mix of all the major oil and gas producers in Canada. The fact that it can move capital efficiently between its different properties is a strong advantage right now.

Cenovus trades at a much higher multiple and its fortunes are primarily tied to crude prices. With forecasts for WTI now drifting toward \$70, it might be best to pick Canadian Natural Resources over Cenovus at this point in time.

CATEGORY

1. Energy Stocks
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2. NYSE:COP (ConocoPhillips)

3. NYSE:CVE (Cenovus Energy Inc.)
4. TSX:CNQ (Canadian Natural Resources Limited)
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