6 Reasons to Buy Canadian Natural Resources Ltd. Right Now

Description

Canadian Natural Resources Ltd. (TSX: CNQ)(NYSE: CNQ) is rebounding strongly from recent lows even as oil prices continue to slide. Here are the reasons why I think new investors should consider adding Canadian Natural to their portfolios right now.

1. Production growth

Canadian Natural just reported better-than-expected Q3 earnings despite the tough times in the oil market. The reason for the earnings strength was a year-over-year production increase of 94,000 barrels of oil equivalent per day. The news gets even better. The company said it expects average production for 2015 to be 893,000 barrels of oil equivalent per day, or 11% higher than 2014.

The extra production from existing operations should bring down the operating cost per barrel and provide greater margins to help offset the decline in oil prices.

2. Profitable at low oil prices

Canadian Natural said its Horizon oil sands facility can produce strong free cash flow for decades even if West Texas Intermediate (WTI) oil prices drop as low as $70 per barrel for and extended period of time.

This is even more impressive when you take into consideration the fact that Canadian Natural expects to receive 18% per barrel *less* than its 2015 WTI estimate of $81. Canadian Natural receives Western Canadian Select (WCS) pricing for its heavy crude oil production which is alway priced at a discount to WTI.

3. Diversified production

Canadian Natural Resources is one of the largest natural gas producers in western Canada. Natural gas is holding up well compared to oil and prices could skyrocket again if the forecasted cold winter turns out to be as bad as last year.

Canadian Natural also produces natural gas liquids and has conventional oil assets that complement its oil sands production.

4. Great long-term assets

Horizon is just one of Canadian Natural's properties that promise to deliver strong production for decades. The company's Pelican Lake project is hitting record production levels and Canadian Natural owns a vast land base around the facility, allowing it to deploy capital efficiently as it develops new resources. Canadian Natural also owns extensive properties in the liquids-rich region of Northwestern Alberta and Northeastern British Columbia.

5. Efficient use of capital

Canadian Natural owns 100% of its projects. This gives the company great flexibility in moving capital around to develop projects that offer the best return. If oil prices continue to fall and natural gas strengthens, Canadian Natural has the ability to adjust quickly.

6. Share buybacks and dividend growth

Investors can rely on Canadian Natural Resources for annual dividend increases. In fact, the company has boosted the payout every year since 2001. Back then, the annualized distribution was 5 cents per share. Now, the company pays 90 cents per share with a yield of about 2%, and the payout ratio is still only about 26%.

Canadian Natural also has an aggressive share repurchase program. In the first half of 2014, the company bought back and cancelled eight million shares.

Canadian Natural Resources trades at a reasonable 11 times forward earnings and 1.6 times book. Given the forecast for production growth and the low payout ratio, investors should see continued dividend hikes even in an environment of low oil prices.

CATEGORY

1. Energy Stocks
2. Investing

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