

George Soros Has Bet Big on Canadian Natural Resources Ltd.: Should You?

Description

Despite plunging oil prices, Wall Street has taken a liking to Canada's energy patch, with depressed share prices attracting some of the biggest names on Wall Street. Among them is George Soros, renowned for breaking the Bank of England, who has bet US\$4.7 million on Canada's second largest integrated energy major, **Canadian Natural Resources Ltd.** ([TSX: CNQ](#))([NYSE: CNQ](#)).

But with fears crude prices will continue to slide southward the big question is should investors follow suit and take the plunge with Canadian Natural Resources?

As a contrarian investor who favours investing in oil, my answer is an unequivocal yes. Here are three reasons why.

1. The frenzied sell-off of energy stocks has created a once in a life-time opportunity for bargain hunters

With both West Texas Intermediate and Brent now trading at lows not seen since early 2010, there has been a frenzied sell-off of energy stocks with some of the best known names in the patch hit hard.

This has left a number of quality profitable companies trading at bargain basement prices including Canadian Natural Resources, which over the last three months has seen its share price plunge 14%. But this has left it with some very attractive valuation multiples including an enterprise value or EV of six times EBITDA and seven times its oil reserves.

Even after allowing for softer crude prices, Canadian Natural Resources continues to appear attractively priced trading at a discount to net asset value of its massive reserves base of almost 8 billion barrels of crude. More startling is this is before the value of its downstream or refining operations are factored in.

2. Its business is almost impossible to replicate

Canadian Natural Resources has built a substantial diversified base of onshore and offshore assets in North America, the North Sea, and Africa. It is also an integrated energy company, which means it has upstream, or oil exploration and production operations coupled with downstream refining and marketing operations.

Creating an integrated energy company is not an easy task. It requires a significant capital investment in oil assets coupled with the acquisition of significant quantities of plant and equipment, including refining capability. There are also other steep barriers to entry, including significant regulatory requirements and limited availability of oil assets.

All of these factors work together to create a multifaceted economic moat which protects Canadian Natural Resources competitive advantage.

As an integrated energy company, Canadian Natural Resources is well positioned to better manage price spreads and margins in an operating environment dominated by weak industry-wide fundamentals. This gives it an edge over its peers which solely operate downstream businesses and along with its economic moat and the inelastic demand for crude, with petroleum a key component in modern economic activity, helps to stabilize earnings and protect revenue growth.

3. Has a solid history of consistently growing dividend payments

Since commencing dividend payments in 2001, Canadian Natural Resources has hiked its annual dividend every year since then. This now gives it a yield of 2.2% coupled with a conservative and sustainable dividend payout ratio of 31%, leaving plenty of room for further dividend hikes.

More impressively its dividend has a compound annual growth rate of 23% since inception, which is significantly higher than the average annual inflation rate for the same period. This rate of return is significantly higher than the return on many other investments such as government bonds.

It is easy to see what Soros has made a bet on Canadian Natural Resources and a rebound in crude prices. It is a company that appears significantly undervalued while holding a portfolio of diversified oil assets coupled with a history of solid dividend growth. This means investors will continue to be rewarded by the company while they wait for its share price to appreciate on the back of higher crude prices.

CATEGORY

1. Dividend Stocks
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Author

mattdsmith

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