Why You Should Hold Canadian Natural Resources Ltd. Over EnCana Corporation

Description

With the recent plunge in oil prices, we are learning which energy companies have been most responsible, and which have not. As Warren Buffett has said, "Only when the tide goes out do you discover who's been swimming naked." And some energy companies have been very overexposed.

To illustrate, below we compare two Canadian energy companies: **EnCana Corporation** (TSX: ECA)(NYSE: ECA) and **Canadian Natural Resources Ltd.** (TSX: CNQ)(NYSE: CNQ). By the end of this article, it should be clear which company always wears its swimsuit.

EnCana doesn't look so bright anymore

After Spanish giant **Repsol** agreed to buy **Talisman Energy Inc.** (TSX: TLM)(NYSE: TLM) for US$13 billion, it made some previous deals look terrible. Chief among them was EnCana's US$7.1 billion deal for Athlon Energy Inc. in September.

To put this in perspective, EnCana paid about five times more per barrel for Athlon than Repsol did for Talisman. Granted, this isn't a perfect apples to apples comparison. Talisman has other issues, such as some troubled assets in the North Sea – meanwhile, Athlon's production is much more economic. But with a price difference this wide, Encana's September purchase now looks like a mistake.

To be fair to EnCana, hindsight is always 20/20. But this is not the first time Encana has gone the wrong way. Back in 2009, it spun off its oil assets in order to focus on natural gas. When gas prices plunged, Encana was caught red-handed, and the company has sold gas assets into a buyer's market since. In the meantime, it bought oil and liquids assets, which were much more popular and expensive.

At this point, EnCana may have a problem with culture. Because it cannot resist buying assets at the top of the market, and selling at the bottom. Longer term, this is bad news for shareholders – if you need any proof, its shares have returned only 1.6% per year over the last decade.

Canadian Natural may now become a predator

Meanwhile, over the last 10 years, Canadian Natural shares have returned nearly 12% per year. How has it performed so much better than Encana? Well, Canadian Natural does a couple of things particularly well. First of all, costs are always kept in check, an absolute must in the energy sector.

But just as impressively, Canadian Natural spends money very wisely. A perfect example of this occurred in February of this year, when the company purchased $3.1 billion worth of natural gas assets from **Devon Energy**, right when everyone else was selling. This allowed Canadian Natural to pick up these assets very cheaply.

So now, with oil prices so low, and so many companies looking to shed assets, Canadian Natural is perfectly positioned to snap up some more bargains. And in the long term, shareholders should come out ahead. You're better off holding this swimsuit-wearer in your portfolio.

CATEGORY

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2. TSX:CNQ (Canadian Natural Resources Limited)

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