The Stock Picker's Guide to Canadian Natural Resources Ltd. for 2015

Description

This year was a very challenging one for **Canadian Natural Resources Ltd.** (TSX: CNQ)(NYSE: CNQ) and its shareholders. Plummeting oil prices in the back half of the year led to reduced cash flow, as well as a sinking stock price.

But with CNRL's stock price so much cheaper than it was in June, should you jump in before 2015? Below we take a look.

History is on the company's side

As we all know, the energy sector tends to go through wild swings. And the key to long-term prosperity is an ability to navigate these ups and downs. CNRL offers a perfect example.

First of all, the company places a big emphasis on cost control. This allows the company to remain profitable even when oil prices are depressed.

Just as importantly, CNRL tends to invest money against the cycle. In other words, it tends to spend when the market is depressed, and hold back when the market is frothy. In the long term, this certainly benefits shareholders – when times are tough, then labour, equipment, and assets come with a cheaper price tag. Not all companies are able to replicate this strategy; it requires a lot of discipline and financial flexibility.

History looks set to repeat itself

With oil prices so depressed, it looks like CNRL is once again perfectly positioned to take full advantage. Its balance sheet is very solid, with debt equal to only 31% of book value.

And unlike many of its peers, CNRL is actually planning to grow production in 2015, by about 10%. This does not include any opportunistic acquisitions the company makes. Remember, CNRL made a US$3.1 billion acquisition back in February, right when no one was buying (and when the market was humming along in June, CNRL didn't buy anything).

A better option than the high yielders

Skeptics might point to CNRL's dividend, which only yields 2.5%. But in this environment, the company is much better off investing that money itself. It could invest in its own operations, taking advantage of cheap labour and equipment costs. It could buy assets – as it did in February – from someone desperate to sell. Or it could take advantage of cheap stock prices by making an acquisition. Perhaps best of all, it could continue buying back its own shares.

Contrast this with the higher-yielding stocks in Canada's energy patch. These companies typically have big debt loads, and are having to sell assets to maintain the dividend. In this environment, selling assets is not what you want to be doing.

So if you're looking to bet on recovering energy prices (which many analysts are calling for), then CNRL is a great way to do so.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:CNQ (Canadian Natural Resources Limited)

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