



Canadian Natural Resources Ltd. Cuts its 2015 Capital Budget: What Does This Mean for Investors?

Description

The rout in oil prices is wreaking havoc with Canada's energy patch. It has forced the majority of oil companies to slash capital expenditures and even dividends in order to maintain cash flow and preserve balance sheets.

Just recently, Canada's second largest energy company, **Canadian Natural Resources Ltd.** ([TSX:CNQ](#))([NYSE:CNQ](#)), announced that it has cut its 2015 capital budget because of significantly weaker oil prices. This now sees CNRL setting capital expenditure for the full year at \$6.2 billion, a reduction of 17% compared to 2014.

So what does this mean for investors, particularly with its share price down 32% over the last six months?

Despite the spending cuts crude production is expected to grow

Surprisingly, despite the planned reduction in capital expenditure, CNRL's oil production is expected to grow by 7% during 2015. This will help to offset lower crude prices by boosting revenue over the course of the year, allowing CNRL to maintain cash flow and continue meeting its financial commitments.

How has it achieved this?

The majority of the cuts in capital expenditure come from deferring the Kirby North Phase 1 thermal project and this has created savings of \$470 million for 2015. Other savings have been created by reduced drilling activity in North America and CNRL's international operations.

But more importantly for the company's future growth, CNRL has maintained spending on the Horizon Oil Sands expansion and upgrade project. This is a particularly important project because Horizon already contributes almost 16% of the company's total crude production and upon completion in 2017, its output is expected to double to 250,000 barrels of crude daily.

The Pelican Lake production ramp-up also remains on track and this is expected to add an additional 52,000 barrels of oil CNRL's total daily crude production.

Despite the cut in capital expenditure and investment in the development of its oil assets, CNRL remains on track to continue growing crude production over the long term. This leaves it well positioned to take full advantage of a rebound in oil prices, which over the long-term is almost certain as producers wind down production and the global economy recovers.

What does this mean for investors?

Clearly, the rout in oil prices now sees investors shying away from the energy patch, particularly with no clear signs of how long before oil prices recover. But I believe after the recent sell-off in CNRL's shares it is attractively priced with an enterprise value of a mere five times EBITDA and six times its oil reserves. It is an even more compelling investment opportunity when its solid balance sheet and low degree of leverage is taken into account, along with its previous history of successfully weathering low oil prices.

CNRL also continues to reward investors with a steadily appreciating dividend offering a yield of 2.8%, coupled with a very sustainable payout ratio of 31%. And while this may be a modest yield compared to many of its peers, the dividend since inception has delivered investors an impressive compound annual growth rate of 22%.

Patient investors should continue to be rewarded while they wait for the long awaited rebound in oil prices.

CATEGORY

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1. NYSE:CNQ (Canadian Natural Resources)
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