Canadian Natural Resources Ltd Keeps its Focus on the Long Term

Description

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) recently announced that its 2015 capital spending plan would be 28% lower than its previous forecast. This isn't a surprise as nearly every other oil company in Canada is cutting investments due to the big drop in oil prices. That said, Canadian Natural Resources isn't cutting too deep as it continues to focus on long-term growth.

Decelerating, not stopping

One thing that investors should note is that Canadian Natural Resources' view is that the current slump in oil prices is likely a temporary phenomenon. That's why the company isn't stomping on the brakes and halting production growth. So, while the new plan calls for a 28% budget cut, which will bring its spending down to $6.2 billion in 2015, those funds will still yield a very robust 7% increase in production. While that's down from the company's previous plan to grow production by 11%, the company also isn't simply trying to maintain its current production level to save money. Further, it is continuing to invest in projects that will yield more production growth in the years ahead.

The only real casualty of Canadian Natural Resources' new spending plan is the Kirby North Phase 1 project, which has been deferred until oil prices improve. Because of the high initial investment the company is going to hold off on the $470 million it intended to spend this year until oil prices stabilize enough to justify this extra capital.

Awaiting the dawn of a cash flow machine

Canadian Natural Resources is still planning to pour $6 billion into its Horizon Oil Sands Mining project over the next three years. There are two big reasons why it's continuing to move forward with Horizon. First, it has already put $7 billion in the project so delaying it would only push back its potential return on that capital. Further, once the project is complete the facility should deliver operating costs of $25 to $27 per barrel, which will yield tremendous future cash flows.

Canadian Natural Resources sees the potential for billions of dollars in cash flowing out of Horizon each year once it's complete even if long-term oil prices aren't all that robust. In fact, at a long-term oil price of just $70 per barrel Horizon could generate up to $4 billion in cash flow each year for decades to come. This is why the company is looking beyond the current oil price environment to a future where oil prices are likely to be higher. It doesn't want to delay its chance to cash in on that future.

Investor takeaway

Oil companies are really focusing on balancing near-term uncertainty with a long-term view that oil prices will rise. This is why Canadian Natural Resources isn't cutting its spending all that deeply. While it is delaying one long-term project, it's not going to slow down spending at Horizon because it sees that project being a cash flow machine that will last for decades to come.

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