Is Canadian Natural Resources Ltd. a Better Bet Than Crescent Point Energy Corp.?

Description

Oil prices continue to be volatile and investors who were just getting ready to dive into their favourite energy stock are now thinking it might be a good idea to stay on the sidelines a wee bit longer.

Trying to catch the bottom in any stock is a dangerous game in normal conditions. The complexities of the oil market make the task even harder, especially when analysts and industry players are throwing out price targets with ridiculous spreads.

In the past week alone, investors have been hit with predictions ranging from $20 to $90 per barrel.

Given all the uncertainty, it is important to look at solid companies with strong balance sheets and excellent assets when considering a position in the energy space.

Canadian Natural Resources Ltd. (TSX:CNQ)(NYSE:CNQ) and **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) are two companies that will likely emerge from the current chaos as winners. Let’s take a look at both to see if one is a better choice right now.

Canadian Natural Resources

Canadian Natural is one of Canada’s largest energy companies and it probably owns the best asset mix in the patch.

The company’s portfolio includes oil sands, conventional oil, natural gas, and natural gas liquids properties. Canadian Natural tends to control 100% of its assets, which is a great advantage during times of volatile markets because it gives the company flexibility to move capital quickly.

The recent announcement of a 28% cut in spending suggests the company is taking a conservative view on the near-term outlook for energy prices. The more important item for investors is the fact that Canadian Natural still expects 7% production growth in 2015.

Canadian Natural pays a dividend of $0.90 per share that yields about 2.3%. The payout ratio is very low so the distribution should be safe. The company has a very strong balance sheet and management will likely use its financial strength to acquire distressed assets as they come up for sale in the next 12 months.

Crescent Point Energy

Crescent Point is best known for its fat dividend payout. The company’s business model is built around using the big distribution to attract investors when it wants to raise capital for acquisitions and capital projects.

Crescent Point also cut its 2015 capital program by 28% and has reiterated its commitment to maintain the lofty dividend payout. The company expects production to be slightly lower than previously forecast due to the spending cuts but investors shouldn't be overly concerned.

At the moment, Crescent Point's hedging program is supporting cash flow. The company has roughly 50% of its production for the first half of 2015 hedged above $90 per barrel. As long as oil prices begin to rebound by the end of the year, the 8.5% dividend is probably safe.

Crescent Point is always on the lookout for new assets. The current oil rout will serve up some quality properties at very attractive prices and investors should expect to see the company participate in the bidding process.

Which should you buy?

Both companies are solid long-term holdings. Crescent Point's big dividend is certainly attractive but the 6% difference in the payout probably doesn't make up for larger downside risk if oil prices head back toward $40 or lower.

Canadian Natural Resources is a much larger company and its balance sheet is rock solid. Given the risks of a renewed plunge in oil prices, Canadian Natural is a safer way to dip your toes in the energy sector.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:VRN (Veren)
3. TSX:CNQ (Canadian Natural Resources Limited)
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