



Why You Should Buy Canadian Natural Resources Limited Now

Description

Hedge funds managers are beginning to bet on a resurgence in oil prices. Here is why now is the time to buy **Canadian Natural Resources Limited** ([TSX:CNQ](#))([NYSE:CNQ](#)).

Money managers turn net-long

Commodities Futures Trading Commission data shows that hedge funds and money managers are increasing their net-long positions (bets on higher prices) after U.S. producers have started to idle drilling.

In the week that ended on February 17, hedge funds and other money managers increased their net-long positions by 2.7%. According to Baker Hughes, the rig count keeps declining. In the week that ended on February 27, U.S. oil explorers idled rigs again, taking the active amount of rigs down to 986, the fewest since June 2011.

The most important piece of the puzzle

Decreased drilling in the U.S. is one piece of the puzzle necessary to reduce supplies and turnaround prices, but a drop in OPEC production, particularly from Saudi Arabia, is necessary before we can see a large enough decrease in supplies to turn around prices. Fortunately, we could be getting close.

OPEC is scheduled to meet in June, unless a special meeting is called, but many analysts feel that Saudi Arabia will decrease production, and this decision will come sooner rather than later.

The decline in oil prices is hurting OPEC member nations, but Saudi Arabia has been reluctant to decrease production for fear that North American producers would keep operating, and the Kingdom would be left dealing with lower prices, and a lower market share. If the Saudis were honest about this, given the declining in drilling in the U.S., they should seriously consider a production cut.

Once Saudi Arabia does reduce production, we could see a rapid increase in oil prices, and therefore a quick ascent in the share values of major oil producers.

Timing is paramount

So, once this production cut happens, who is poised to benefit the most?

The oil producers that will be best positioned to thrive once oil recovers are the ones that can operate with the lowest costs during the weakness in the market without cutting production, and Canadian Natural Resources meets this requirement.

Canadian Natural Resources is widely recognized as *the* low-cost producer in Canada's oil sands, and is working hard to maintain this status. The company is doing all it can to reduce costs without sacrificing production.

The company's 2015 capital spending plan was recently reduced by 28%, but the company is still planning to grow production by 7% this year, lower than its prior forecast for 11%, but still a very healthy growth target.

Canadian Natural Resources has warned that all Canadian oil sands producers have to aggressively reign in costs, or face dire consequences. Canadian Natural Resources is doing just this. Recently, the company sent letters to its suppliers asking what can be done to cut rates, and the company is pushing its suppliers to provide the largest discount possible.

When will the bottom be hit?

No one can know exactly when oil will bottom, but the latest data suggests we are getting close. If Saudi Arabia cuts production, we will see a very rapid increase in oil prices, and therefore the stock value of oil producers. It is not a matter of if, but when oil prices will rebound. In the near term, Canadian Natural Resources is well positioned to ride out the storm, and when oil starts to rebound the stock should see some hefty gains.

CATEGORY

1. Investing

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

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