Is Now the Time to Buy Canadian Natural Resources Ltd.?

Description

The oil rout has done some significant damage to a lot of producers. Profits are down, dividends are getting cut, and some firms are being pushed to the brink.

At least one company is bucking the trend: **Canadian Natural Resources Ltd.** (TSX:CNQ)(NYSE:CNQ). The Canadian energy giant reported results for the fourth quarter of 2014 on Thursday morning, and they were very impressive. Adjusted earnings per share increased by 33% year over year, even though the company's realized oil price fell by 10%. The key, of course, was increased production; total output increased by 27% relative to 2013.

Even more remarkable, CNRL increased its per-share dividend from $0.225 to $0.23. Clearly, it's a very small increase, but it's a lot better than the dividend cuts we've seen from CNRL's peers.

So, how exactly did CNRL put up such solid numbers? More importantly, is this a signal you should buy the stock?

Production way up

CNRL's production increased markedly over 2014 for a number of reasons. The company made a US$3.1 billion acquisition in February, and has successfully integrated those assets. Drilling programs have been successful. Production continues to ramp up at Pelican Lake, Kirby, and Horizon.

CNRL was able to do all these things without breaking the bank. One project at Horizon last year even came in below budget. The company has always been well known for tight cost control, and last year was no exception.

If that wasn't enough, CNRL was able to significantly add to its reserves. This bodes very well for production down the road—the company now has enough reserves for over 30 years of production.

Still a darling

These kinds of results are to be expected from CNRL, which has always been a top performer in the energy patch. It's why the company is a favourite among analysts. According to one Bloomberg survey, 19 out of 25 analysts consider CNRL a buy.

The company has other things going for it. Most notably, most of Horizon's up-front costs have already been incurred, and when its expansion ramps up in two to three years, that's going to bring even more cash flow.

CNRL also has a solid balance sheet, an absolute must in this environment. For this reason, I would expect the company to pick up some cheap acquisitions from desperate sellers.

Not so fast

At first glance, CNRL seems like a great way to bet on an oil rebound. That said, there are some issues.

One is the stock price, which has not declined much since the oil rout worsened. To put this in perspective, the company's shares have declined by 11% since late November, while the oil price has declined by a third. Clearly, the investment community is expecting a rebound and is pricing it into the stock.

Second, an oil-price rebound is not certain. CNRL is a perfect illustration of why—its production has been skyrocketing, even in a bad environment, and many of its peers have been doing the same. The company will likely outlast most of its rivals, but that doesn't guarantee you'll make money on the stock. I would wait on the sidelines for now.

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