4 Reasons Why You Should Buy Canadian Natural Resources Ltd.

Description

As the oil rout continues, investors are trying to decide which companies will be left standing after the market has finally bottomed. Some producers will disappear, but the ones that manage to survive should come out of the downturn as much stronger players.

Here are the reasons I think **Canadian Natural Resources Ltd.** (TSX:CNQ)(NYSE:CNQ) is well positioned to ride out the slump and why investors should consider buying the stock.

1. Diverse assets

Canadian Natural probably has the best mix of high-quality assets in the Canadian energy sector.

At the end of 2014, the company had nearly 9 billion barrels of oil equivalent proved and probable reserves. The resource base is a mix of heavy, medium, and light crude oil, oil sands bitumen, natural gas, and gas liquids.

Canadian Natural owns 100% of most of its assets. This is important because price shifts in the various product markets tend to present opportunities. By not having partners, Canadian Natural can move capital quickly to take advantage of these moves in the market.

In recent years, Canadian Natural has made a concerted effort to transition to a long-life, low-decline asset base, and the company finished 2014 with more than half of its crude oil and natural gas liquids production coming from long-life assets.

The shift is significant for investors because it provides a stable long-term cash flow stream that can be relied on for decades.

2. Strong balance sheet

Canadian Natural ended 2014 with $2.6 billion in available bank lines, a debt-to-book capitalization of 33%, and a debt-to-EBITDA ratio of 1.3 times.

The strong balance sheet positions the company well to make strategic acquisitions, as producers with unmanageable debt levels are forced to unload properties to survive.

3. Prudent cost controls

The company is doing a great job of managing expenses through the downturn in the market. In fact, senior management recently agreed to take a 10% pay cut, which is something you are unlikely to see from other producers.

Canadian Natural announced in January that it would slash 2015 capital spending by $2.4 billion and recently cut another $150 million. Current 2015 guidance is for capital spending of about $6 billion. The reductions in spending should enable the company to deliver positive free cash flow in 2015.

4. Shareholder returns

Canadian Natural has a great track record when it comes to rewarding shareholders. Through a combination of dividend increases and share buybacks, the company continues to pay its stockholders well. While most of its peers are slashing their dividends, Canadian Natural actually just *increased* its payout.

The new annualized payout went up by two cents to $0.92 per share and yields about 2.4%. The company raised the dividend by 80% in 2014. That growth won't be repeated this year but the latest hike shows investors that the company is confident in its ability to manage costs in the downturn.

Should you buy?

The stock has not sold off as much as its peers. This is due to its strong financial position and the fact that the market still thinks the slump in oil prices will be short-lived. If the oil rout drags out, or we see WTI prices fall below $40 per barrel, Canadian Natural Resources could test the $30 mark. This would give new investors an even better entry point.

If you believe in the long-term oil-and-gas story, you should consider owning this stock.

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1. Editor's Choice

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