



Which Is the Best Investment: Canadian Natural Resources Ltd. or Encana Corporation?

Description

Energy stocks are starting to rebound and investors are wondering which names are going to offer the best returns.

Canadian Natural Resources Ltd. ([TSX:CNQ](#))([NYSE:CNQ](#)) and **Encana Corporation** (TSX:ECA)(NYSE:ECA) are possible picks. Let's take a look at the two companies to see which one is a better bet right now.

Canadian Natural Resources Ltd.

When it comes to a quality mix of assets, Canadian Natural Resources Ltd. (CNRL) is probably unmatched in the energy sector.

The company's oil properties include the full range of light, medium, and heavy conventional plays, plus oil sands assets. In addition, CNRL produces significant amounts of natural gas and gas liquids.

The diverse asset mix provides the company with exposure across the spectrum and this helps balance out revenues when one product hits a slump. CNRL also owns 100% of most of its properties, which gives it important capital flexibility.

The company has the ability to shift capital quickly to its highest-return assets because it doesn't have locked-in commitments on its facilities with other partners. This is important because markets continuously offer opportunities, but only nimble players can take advantage of them.

The company is doing a great job of controlling costs in the current downturn. Management just took a 10% pay cut and the company slashed \$2.4 billion from its 2015 capital-spending plan.

Despite the capex reduction, CNRL still expects to increase production by 7% in 2015. The company recently increased its annualized dividend by two cents to \$0.92. The distribution yields about 2.3%.

Encana Corporation

Encana is in the process of shifting its focus from natural gas to oil. The decision was initially made when shale production hit the natural gas market hard and oil prices were extremely high. Today, gas prices are still in the tank, but oil markets have also hit the skids.

Whether by bad luck or bad judgment, Encana has sold off its gas assets at low prices and bought new oil properties at market highs. Generally, that's not a good strategy for success and the stock has paid the price.

Encana's shares are down more than 50% in the past five years, and have fallen more than 35% since October.

Management is working hard to cut costs. Head count has been reduced by 25% and a culture change is well under way to make the company more efficient at all levels of the operation.

Despite heavy cuts to capital expenditures, the projected cash flow for 2015 is still likely to come up short if oil and natural gas prices remain weak. Oil recently moved above Encana's WTI guidance of \$50 per barrel, which is a positive sign, but natural gas prices are significantly lower than the \$3.00 per million British thermal units (MMBtu) target. At the time of writing, WTI is at \$55/bbl and natural gas is \$2.60/MMBtu

Encana finished 2014 with US\$7.8 billion in long-term debt. That's a heavy load for a company that only has a market cap of US\$10.6 billion.

Which should you buy?

Canadian Natural Resources should deliver positive free cash flow in 2015 and the distribution is safe. Encana still has a lot of work to do in its turnaround efforts and further weakness in the oil and gas markets could put the dividend at risk. At this point, Canadian Natural is a safer bet.

CATEGORY

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2. Investing

TICKERS GLOBAL

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