



Canadian Natural Resources Ltd. Is Poised to Benefit From This Key Trend

Description

Canadian Natural Resources Ltd. ([TSX:CNQ](#))([NYSE:CNQ](#)) is one of Canada's largest energy producers by revenue, but it lacks a key advantage of its fellow large-cap peers. Due to its lack of significant refining and upgrading assets, it is required to sell a large portion of its production directly to customers as bitumen or heavy oil.

The problem with this is that heavy oil trades based off the Western Canadian Select (WCS) Benchmark, which trades at a discount to both Western Texas Intermediate (WTI), and the international Brent crude that companies like **Suncor** can realize because of their upgrading and refining assets. To make matters worse, bitumen (which comprises about 16% of Canadian Natural's production) trades at a discount to WCS.

Fortunately, things seem to be changing. WCS prices are up nearly 75% since March 2015, and these prices may be here to stay. Here's why WCS are improving, and why Canadian Natural is uniquely suited to benefit.

Why Canadian heavy oil prices have rebounded

Canadian heavy oil, priced based off the WCS benchmark, has seen tremendous price appreciation in the past month and a half. The benchmark bottomed on March 17th at US\$30/bbl, and is currently sitting at US\$51.70/bbl, a 72% increase.

As a result, the differential between WCS and WTI is only US\$7.56, and differentials this low have not been seen consistently since 2010. Comparatively, the differential averaged US\$19.40 in 2014. This closing differential is due to the fact that WCS has increased nearly twice as much as WTI since March 17th, and it has been the top performing North American benchmark by a long shot.

One of the major reasons for this is because WCS has been benefiting from greatly improving market access recently due to new pipeline access to the critical U.S. Gulf Coast refining market, which has a total of 9.2 million barrels per day (BPD) of refining capacity, nearly three million of which is specifically for heavy, Canadian-style crude.

Just recently, **Enbridge** began filling its 570,000 BPD E2H pipeline, which will allow more oil to be shipped from Edmonton to storage terminals in Hardisty. Further south, Enbridge recently completed the 600 mile Flanagan South pipeline project, which connects the existing Enbridge mainline system to the key marketing hub in Cushing, Oklahoma. This pipeline transports 585,000 BPD and could potentially expand to 880,000 BPD.

Enbridge recently began operating the 850,000 BPD Seaway pipeline, which allows Canadian crude access to Gulf refineries. Combining this kind of unprecedented market access with booming refining demand, thanks to five-year high refinery utilization rates, Canadian Natural is poised to benefit.

Canadian Natural is Canada's largest heavy oil producer

As Canada's largest producer of heavy oil, Canadian Natural produced approximately 332,000 BPD of heavy oil and bitumen in Q1 2015, representing 37% of overall production.

Canadian Natural produces multiple types of heavy crude. These include primary heavy crude through its assets at Lloydminster, Alberta, which has extremely low operating costs. Canadian Natural also has exposure to heavy oil extracted through enhanced recovery methods at its Pelican Lake asset, where it uses advanced polymer flooding technology to extract heavy oil at extremely low operating costs.

Finally, Canadian Natural produces significant amounts of bitumen through its thermal in situ oil sands projects. Bitumen comprises about 14% of Canadian Natural's total production, and trades at a discount to WCS due to the fact it is semi-solid, and does not flow unless diluted. Canadian Natural works to maximize the value of its bitumen by blending it with various crude oil streams to create a product that can sell at WCS prices.

The result is that Canadian Natural is poised to benefit from improving WCS prices. Analysts at **TD Bank** estimate that a US\$5/bbl increase in WCS prices would add approximately 8% to Canadian Natural's cash flow, meaning Canadian Natural could see double-digit cash flow increases in Q2 2015 if prices persist.

CATEGORY

1. Investing

TICKERS GLOBAL

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

Category

1. Investing

Date

2025/08/26

Date Created

2015/05/15

Author

amancini

default watermark

default watermark