



Canadian Natural Resources Ltd. Is Playing With Fire in Alberta

Description

The NDP victory in Alberta was an absolute shock, ending a 44 year reign for the PCs in Canada's most conservative province. It has also led to some big uncertainty for Canada's energy companies.

In response, energy giant **Canadian Natural Resources Ltd.** ([TSX:CNQ](#))([NYSE:CNQ](#)) is taking a rather unusual approach.

A new regime in Alberta

To be clear, the NDP did not win by abandoning its left-wing principles. While campaigning, leader Rachel Notley pledged to hike the corporate tax rate from 10% to 12%. Even more concerning for the energy industry, she pledged a royalty review. Now that she has a majority, she has every intention of following through with those promises.

The royalty review in particular could lead to problems. It was tried a few years ago, but ran into fierce opposition, and the government had to backtrack on many of its changes. Fast forward to today, and the industry is struggling with low oil prices. So, a review could be even more contentious depending on what proposals emerge.

CNRL's approach

Normally, when a new government is elected, big companies play nice. But not CNRL. The company has canceled a planned investor day, one that would have featured detailed presentations from executives. The company will host a conference call instead.

The company elaborated on its decision: "Due to the current uncertainty surrounding the Government of Alberta's review of royalty, taxation, environmental and greenhouse gas policies, detailed future capital allocation plans for each of the company's assets cannot be finalized at this time."

So, CNRL is sending a very strong signal to Ms. Motley.

How should investors react?

CNRL's strategy is certainly bold, but it could easily backfire. Forging a cooperative relationship with Ms. Notley's government will certainly be harder, and this could lead to tougher treatment down the road. Tellingly, all of the other big energy companies are taking the exact opposite approach.

Remember, the NDP just won a resounding victory in a fair election. And Albertans favour the royalty review by a factor of 2-1. So, if CNRL gets too carried away, it will be seen as fighting democracy. That could spoil the party for the whole industry.

How worried should shareholders be? Well, regarding the NDP's victory, it certainly is a negative for the company. There's no denying that.

Regarding CNRL's tough-guy attitude, I would expect the company to back down soon before things get any worse.

CATEGORY

1. Energy Stocks
2. Investing

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1. Editor's Choice

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

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