Canadian Natural Resources Ltd. Will Cash in on Lower Interest Rates

Description

On Wednesday the Bank of Canada cut its benchmark interest rate by 25 basis points, the second such cut this year. The move was widely called for, and for good reason—Canada's economy is likely in recession, and low oil prices are helping to keep a lid on new investments. Meanwhile, polls indicate that Canadians aren't about to pile on more debt in response to lower rates.

That said, lower interest rates have varying effects on individual sectors and companies. To put it bluntly, some benefit more than others. And it's important for investors to understand which companies benefit most.

On that note, we take a look at one of the main beneficiaries: **Canadian Natural Resources Ltd.** (TSX:CNQ)(NYSE:CNQ).

Still profiting in this environment

To get some context, CNRL is one of the strongest companies in Canada's energy patch, and that allows the company to thrive even when oil prices are low. In fact, the company has typically taken advantage of past downturns by securing lower prices for labour and equipment, and occasionally by buying up cheap assets.

This environment is no different. CNRL continues to ramp up its Horizon expansion, even in the face of lower oil prices, and has negotiated lower drilling rates. It hasn't made any big acquisitions, but you shouldn't be surprised to see one later this year, especially if oil prices remain depressed.

Importantly, lower interest rates won't lead to a surge in new investments by the industry, and there are still some very weak competitors. So, CNRL's game plan doesn't have to change at all.

Debt relief

CNRL's balance sheet is strong, but the company still had nearly $16 billion in debt as of the end of last quarter. Lowering the interest on this debt by 0.25% would save the company $40 million per year.

Granted, it will be a long time before CNRL sees any of that money. It can take a while to refinance debt at lower rates, and about two-thirds of the company's debt is denominated in U.S. dollars anyways. But every little bit helps, and it looks like interest rates will remain depressed for a long time.

A weak loonie

After the Bank of Canada made its decision, the Canadian dollar responded immediately by declining by over USD$0.01 in foreign exchange markets. It's also now looking more likely the U.S. Federal Reserve will raise rates in the United States. That would undoubtedly cause the loonie to sink further.

This is nothing new. At the end of 2012 one Canadian dollar was worth more than US$1. Over the next year the loonie declined to US$0.94, and then US$0.86 at the end of last year. Now, it stands at roughly US$0.77.

This is fantastic news for a company like CNRL, since the company produces practically all of its oil in Canada, while selling the bulk of it to the United States. In fact, each US$0.01 move in the loonie impacts earnings per share by $0.05, even after all hedging activities. So, there's no doubt CNRL is celebrating the Bank of Canada's decision.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

Category

1. Energy Stocks
2. Investing

Date
2025/07/22
Date Created
2015/07/16
Author
bensinclair