



Dividend Investors: Has Canadian Natural Resources Ltd. Finally Bottomed?

Description

Canadian Natural Resources Ltd. ([TSX:CNQ](#))([NYSE:CNQ](#)) actually increased its dividend this year, but the stock isn't getting much respect from the market.

Let's take a look at the current situation to see if this dividend-growth champ is now a value play to boot.

Oil prices and Alberta's NDP

Alberta's oil and gas producers are probably going to look back at 2015 as the year they were hit by a perfect storm.

Companies spent the first quarter slashing capital programs, reducing expenses, and cutting dividends in an effort to keep their operating costs as close as possible to breakeven levels.

The industry then found some relief as oil rallied into the second quarter, but the party quickly came to a halt when Alberta announced its election results.

The surprise win by the NDP sent most executive teams back to the drawing board in an effort to re-jig capital programs in the anticipation of higher taxes and impending royalty reviews.

Had WTI oil prices remained at \$60 per barrel, things might have been less stressful, but the recent plunge back below the \$50 mark has analysts and investors alike wondering what the future holds.

Canadian Natural Resources has been impacted by the changes, but not to the same extent as many of its peers.

Diverse assets and flexible capital allocation

Canadian Natural Resources probably has the best portfolio of energy assets in the patch, and the company is in the enviable position of being the sole owner of most of its properties.

Alberta is home to a significant part of Canadian Natural Resources's reserves, which include oil

sands, heavy oil, light oil, and natural gas, but its resource base stretches from vast properties in the liquids-rich region of northeastern British Columbia all the way to Manitoba.

Being the sole owner of its properties gives Canadian Natural Resources the flexibility to move capital quickly when market opportunities arise. If management decides that better returns lie outside Alberta, investors could see the company start to shift more development funds to the properties it owns in the surrounding provinces.

Many companies don't have that luxury.

Lower costs and higher production

Management is doing a good job of containing costs. Capital expenditures have been lowered to accommodate the weak commodity prices and expenses are being cut right across the company.

Canadian Natural Resources expects 2015 operating costs to drop by \$925 million compared with 2014.

At the same time, production is set to increase by 11% this year compared with 2014.

Dividend growth

Canadian Natural Resources has more than tripled its quarterly dividend over the past five years from \$0.075 per share to \$0.23 per share.

The current distribution is very safe and yields about 3%. Investors might not see another increase in 2015, and the payout could remain unchanged next year, but there is little risk of a cut.

Should you buy?

The stock is currently trading at just 1.2 times book value, which is a steep discount to its five-year average of 1.7 times.

If you are a long-term oil and gas bull, Canadian Natural Resources deserves to be one of your core holdings. Shareholders should expect more volatility in the near term, but the solid dividend is a nice reward while you wait for better market conditions.

CATEGORY

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2. TSX:CNQ (Canadian Natural Resources Limited)

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