Bottom Line: Is Canadian Natural Resources Ltd. a Buy at $32 Per Share?

Description

Canadian Natural Resources Ltd. (TSX:CNQ)(NYSE:CNQ) has a fantastic reputation for cost control and capital allocation. So, you'd think CNRL would be one of the best at coping with such low oil prices.

Well, not necessarily. The company just released results for the second quarter of 2015, posting a loss of $405 million, or $0.37 per share. It seems that no one is immune from the energy sector's troubles.

What else did CNRL reveal in its second-quarter results? And more importantly, should you buy the shares at this price?

Not as bad as you think

First of all, the news isn't all bad for CNRL. Excluding a one-time charge from increased taxes in Alberta, the company actually posted a profit of $0.16 per share, beating estimates by $0.06.

And CNRL has done very well at reducing its costs. In the second quarter, per-barrel costs at its North America light crude oil and NGLs operations decreased by 13% year over year. Meanwhile, costs decreased by 15% for the heavy oil operations, and by 20% at Horizon. In addition, CNRL cut another $245 million from its capital spending program.

Are the shares a buy at $32?

To answer this question, let's start by taking a look at CNRL's reserves. At the beginning of the year the company had reserves of 7.2 billion barrels of oil equivalent valued at roughly $69 billion. Using this number yields a "fair value" of just under $50 per share after deducting debt.

But the reserves value assumes a steep recovery in oil prices. To be more specific, the assumptions include an average WTI oil price of US$65 in 2015, and US$90 in 2017.

Those numbers now seem wildly optimistic. As of this writing, WTI has once again slipped below US$45, and hasn't traded for more than US$65 all year. Even worse, oil prices could easily fall from here—Iran is set to increase its oil exports, and American storage capacity may run out once the summer driving season ends.

Not enough upside

Interestingly, CNRL is trading at about the same level it was in October 2013. But back then, WTI was hovering around US$100 per barrel, and CNRL had just earned $1.07 per share in quarterly profit.

So, even if oil prices recover dramatically, there seems to be limited upside in CNRL's shares. This is likely because so many money managers are switching into the name, eager to dump their weaker energy stocks.

Fortunately, there are much better options for your portfolio. The free report below is a great place to start.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:CNQ (Canadian Natural Resources Limited)

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