



Should You Buy Canadian Natural Resources Limited After its Q2 Earnings Beat?

Description

Canadian Natural Resources Limited ([TSX:CNQ](#))([NYSE:CNQ](#)), one of the largest independent crude oil and natural gas producers in the world, announced better-than-expected second-quarter earnings results before the market opened on August 6, and its stock has responded by rising over 1% in the trading sessions since. The stock still sits more than 30% below its 52-week high of \$47.53 reached back in August 2014, so let's take a closer look at the results to determine if we should consider establishing positions today.

Lower commodity prices lead to year-over-year declines

Here's a summary of Canadian Natural Resources's second-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Adjusted Earnings Per Share	\$0.16	\$0.08	\$1.04
Revenue, Net of Royalties	\$3.42 billion	\$3.36 billion	\$5.37 billion

Source: *Financial Times*

Canadian Natural Resources's adjusted earnings per diluted share decreased 84.6% and its revenue, net of royalties, decreased 36.3% compared with the second quarter of fiscal 2014. These very weak results can be attributed to the steep decline in commodity prices over the last year, which led to the company's average realized selling price of crude oil and natural gas liquids decreasing 39% to \$53.09 per barrel, and its average realized selling price of natural gas decreasing 39.5% to \$3.06 per thousand cubic feet in its exploration and production segment.

Here's a quick breakdown of eight other notable statistics from the report compared with the year-ago period:

1. Total production decreased 1.5% to 805,547 barrels of oil equivalents per day
2. Production of natural gas increased 8.9% to a record 1.78 billion cubic feet per day

3. Production of crude oil and natural gas liquids decreased 6.6% to 509,047 barrels per day
4. Adjusted net earnings decreased 84.5% to \$178 million
5. Total product sales decreased 40.1% to \$3.66 billion
6. Cash flow from operations decreased 42.9% to \$1.50 billion
7. Cash flow from operations decreased 42.7% to \$1.37 per diluted share
8. Net cash provided by operating activities decreased 47.7% to \$1.29 billion

Canadian Natural Resources also announced that it will be maintaining its quarterly dividend of \$0.23 per share, and the next payment will come on October 1 to shareholders of record at the close of business on September 11.

Should you buy or avoid Canadian Natural Resources?

It was a weak quarter overall for Canadian Natural Resources, but the results did come in above analysts' expectations, so I think the slight rally in its stock is warranted. I also think it could head much higher from here because I think commodity prices will recover in the next year, because the stock trades at inexpensive forward valuations, and because the company has shown a deep dedication to maximizing shareholder value through the payment of dividends, which will continue to attract investors.

First, I think commodity prices will recover over the next 12 months, with the price of oil heading back towards about US\$65 per barrel and the price of natural gas heading back towards about US\$3.50 per thousand cubic feet, which will lead to higher sales and overall profitability for Canadian Natural Resources.

Second, Canadian Natural Resources trades at 60.7 times fiscal 2015's estimated earnings per share of \$0.54, which seems sustainable for the time being, but it trades at just 26.7 times fiscal 2016's estimated earnings per share of \$1.23, which is very inexpensive compared with its long-term growth potential. It is also worth noting that if oil and natural gas prices recover, the company's earnings estimates would rise as well, which would make its forward valuations even more attractive.

Third, Canadian Natural Resources pays an annual dividend of \$0.92 per share, which gives its stock a 2.8% yield at today's levels. The company has also increased its annual dividend payment every year since it first began paying dividends in 2001, making it one of the top dividend-growth plays in the energy sector.

With all of the information provided above in mind, I think Canadian Natural Resources represents one of the best investment opportunities in the energy sector today. Foolish investors should strongly consider beginning to scale in to positions over the next couple of trading sessions.

CATEGORY

1. Energy Stocks
2. Investing

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

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