Is Canadian Natural Resources Ltd. About to Make a Big Acquisition?

Description

According to a report by Bloomberg last week, **Canadian Natural Resources Ltd.** (TSX:CNQ)(NYSE:CNQ) could be about to make a major acquisition. The company is said to have emerged as one of the bidders for **ConocoPhillips's** (NYSE:COP) assets in western Canada. Such a deal would certainly not be a surprise given Canadian Natural Resources's history of acquiring Canadian assets from U.S. producers.

On the auction block

Earlier this year, it was reported that ConocoPhillips was seeking to sell upwards of 20% of its non-oil sands production in Canada in order to bolster its balance sheet amid the downturn. The company was hoping the asset sale would bring in roughly US$1 billion. That cash would be used to help it pay down some of the debt it took on this year to fund a number of major projects, including its Surmont 2 oil sands project, which just recently delivered first oil.

The assets that are held for sale currently produce 35,000 barrels of oil equivalent per day, though that production is primarily conventional natural gas. Further, the assets are spread across 2.4 million acres in western Canada and are said to be broken into a number of asset packages. Bloomberg's report suggested that Canadian Natural Resources is said to be one of the bidders for at least one of the asset packages.

A strategic fit

The reason Canadian Natural Resources's name isn't a surprise is because the assets are a logical fit given the company's stated strategy. That strategy was displayed last year when the company paid $3.125 billion to acquire **Devon Energy's** conventional assets in western Canada.

In commenting on that acquisition, CEO Steve Laut said that it "fits our strategy of opportunistically adding to our existing core areas, where we can provide immediate value, with the opportunity to add value in the future."

Being opportunistic is a key because these types of assets don't go on the market unless the seller needs the cash. For example, Devon Energy likely wouldn't have parted with its conventional assets in western Canada if it didn't need the cash to fund its acquisition of assets in the Eagle Ford shale. Likewise, if oil prices hadn't fallen, ConocoPhillips might not have even put these assets up for sale, so the opportunity likely wouldn't have arisen.

Further, as for the strategic fit, these assets are very similar in type as what Canadian Natural Resources acquired from Devon Energy, as they are primarily conventional natural gas production in western Canada. As such, the company can likewise add value as it can extract synergies to "more effectively and efficiently operate [the assets] once fully integrated" with its other assets in the region.

In other words, it would be cheaper for Canadian Natural Resources to operate these assets because of the scale it already has in the region. That's a big competitive advantage when oil and gas prices are weak.

Investor takeaway

Canadian Natural Resources's strategy is to be opportunistic in expanding its core assets in western Canada. That's why it's no surprise to see its name emerge as one of the likely winning bidders for ConocoPhillips's conventional natural gas assets in the country.

Such a deal would follow its acquisition of Devon Energy's assets, which enabled the company to add immediate value because it got the assets for a good value and positioned itself to add even more value in the future as it integrates the assets into its system.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

Category

1. Energy Stocks
2. Investing

Date
2025/07/03
Date Created
2015/09/28
Author
mdilallo