



## Does Canadian Natural Resources Limited Belong in Your Portfolio?

### Description

The oil rout has erased billions in investor wealth, and many energy companies are on the verge of disappearing.

Some analysts say investors should steer clear of the entire industry, while others see a rebound on the horizon and think now is the time to start a new position.

Based on the resiliency of its stock, **Canadian Natural Resources Limited** ([TSX:CNQ](#))([NYSE:CNQ](#)) appears to be weathering the storm reasonably well, but it might not be clear sailing ahead.

### Earnings and cash flow concerns

In the first quarter of 2015 CNRL received much applause from the market when it bucked the trend and actually increased its dividend. The hike was minimal, just a half cent per share, but that didn't really matter given the fact that most of its peers were slashing their payouts.

As oil prices recovered through the second quarter, the market expected CNRL to report solid numbers, but that didn't happen.

Cash flow from operations for Q2 came in at \$1.5 billion, and CNRL spent \$1.3 billion on its capital programs. That part was fine, but it also dished out \$503 million in dividends, which means the company had to cover a shortfall of about \$300 million in the payments.

To cap it off, CNRL recorded a Q2 loss of \$579 million. Management blamed the big hit on a 20% income-tax hike levied by the new government in Alberta. That certainly had an impact, but the cash flow situation is the main concern.

Will it get worse?

CNRL will report its Q3 2015 results in the first week of November. Investors should brace themselves for a possible shock because oil and natural gas prices were much weaker through Q3 than they were in the second quarter.

If the cash flow gap jumps significantly, the dividend could be at risk, especially if management believes energy prices are going to remain at current levels for an extended period of time.

The quarterly distribution is \$0.23 per share and yields about 3%.

### **Long-term outlook**

CNRL owns one of the best portfolios of energy assets in the country. The holdings include the full range of products including oil sands, conventional heavy oil, light oil, natural gas liquids, and natural gas.

The Horizon Oil Sands project alone contains more than 14 billion barrels of reserves and is expected to reach peak production of 250,000 barrels per day for 40 years.

On the natural gas side, CNRL is one of Canada's top producers. Gas prices are very low right now, and that is hurting profits, but the resource pool is significant, and CNRL has a competitive advantage because it also owns much of the infrastructure that moves the gas to the common-carrier pipeline network.

### **Should you buy now?**

If energy prices are destined to recover, CNRL will do very well, but the short-term outlook isn't great. The market remains volatile and the Q3 numbers could be ugly. I would sit on the sidelines until the cash flow situation stabilizes.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

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

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