



Canadian Natural Resources Ltd. Is Poised to Follow the Path Blazed by Encana Corporation and Cenovus Energy Inc.

Description

According to a report by *Reuters*, **Canadian Natural Resources Ltd.** ([TSX:CNQ](#))([NYSE:CNQ](#)) has held discussions with a range of buyers, including **PrairieSky Royalty Ltd.** ([TSX:PSK](#)) for its royalty assets.

It's a move that, if made, would follow in the footsteps of both **Encana Corporation** ([TSX:ECA](#))([NYSE:ECA](#)), which spun out PrairieSky, and **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)) which also recently made a move to capture the value of its royalty assets. Here's why investors should keep an eye on this interesting development.

What this move would mean

There are really several driving forces behind this reported move by Canadian Natural Resources. First, it would bolster the company's balance sheet at a time when commodity prices are very weak. For example, Cenovus's recent royalty land sale brought in \$3.3 billion. While Canadian Natural Resources's balance sheet isn't nearly as weak as its peers, any extra cash helps during times like this.

Another driving force behind the rash of royalty transactions is the fact that these deals unlock a lot of value.

When Cenovus sold its royalty lands earlier this summer, the gross proceeds represented 16.5% of the company's enterprise value. However, the implied production of 7,800 barrels of oil equivalent per day represented just 2.6% of the company's production. Meanwhile, the associated cash flow of last quarter would have totaled just \$23 million out of what would have been \$624 million of operating cash flow, or 3.7%.

In other words, the sale price was a substantial value uplift for the company.

A sign of things to come?

Another reason why Canadian Natural Resources could be looking to sell its royalty lands could

be because it could use the cash to buy something that would drive future value creation. One possibility is its rumoured interest in bidding for some of **ConocoPhillips's** ([NYSE:COP](#)) Canadian conventional natural gas assets.

Such a move would be similar to what Encana did when it spun out PrairieSky. The company unlocked \$3.7 billion in value with the PrairieSky IPO and the subsequent sell-down of its ownership interest. It then used the cash it received, as well as other cash proceeds from non-core asset sales, to help fund its strategic entry in the Permian Basin of Texas via the \$7.1 billion acquisition of Athlon Energy.

For Canadian Natural Resources, an acquisition of some of ConocoPhillips conventional assets in Canada would fit within its strategic focus of expanding its footprint in these areas, so that it can use its superior scale to drive significant efficiencies to improve costs and cash flow.

Investor takeaway

The oil rout has significantly impacted the value of most oil and gas assets. However, one of the few assets not feeling the impact of the downturn is royalty lands, which are actually valued at a premium these days.

That's why it's no surprise to see Canadian Natural Resources seek to cash in on this premium valuation before the market shifts. It could then use the cash to bolster its balance sheet or buy something it really likes. Because of that, this move would make a lot of sense for the company.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:COP (ConocoPhillips)
3. NYSE:CVE (Cenovus Energy Inc.)
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5. TSX:CVE (Cenovus Energy Inc.)
6. TSX:PSK (PrairieSky Royalty Ltd.)

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Author

mdilallo

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