Canadian Natural Resources Limited Just Reminded Us Why Low Oil Prices Are Here to Stay

Description

Canada's energy patch has truly become a sink-or-swim environment, and this was reinforced Wednesday when **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ) reported third-quarter results.

CNRL has certainly taken some positive steps, and it looks like the company should be able to survive in this low oil-price environment. That should please its shareholders. But at the same time, CNRL's results should send out a warning to anyone investing in an oil company.

Coping with the downturn

When looking at CNRL's results, it's clear that the company has adjusted to its new reality. At the company's North American light crude oil properties, operating costs per barrel have fallen by 19% year over year. At the heavy oil properties, the number has fallen by 21%. And over at Horizon, operating costs per barrel have fallen by 27%.

This hasn't all come from efficiency gains. In this environment, CNRL has been able to negotiate fiercely with energy-service firms for lower drilling rates, and it has also been able to cut salaries.

But the company is not stopping there. It cut its 2015 capital budget for the fifth time and also set a 2016 budget that is even lower than this year's.

Remarkably, CNRL has been able to grow production by 11% so far this year, despite all these budget cuts. The Horizon expansion is also progressing well, and the company expects phase three to be completed by the end of 2017.

Not the only ones

CNRL is not the only producer posting these kinds of results. All across the country, we are seeing energy companies–large and small–cutting expenses, reducing capital budgets, and growing production.

For example, **Suncor Energy Inc.** increased production by 9% in the most recent quarter, all while cutting oil sands per-barrel operating costs by 13%. Meanwhile, **Cenovus Energy Inc.** is expecting $400 million of cost savings this year, all while third-quarter oil sands production increased 17%.

We're seeing similar patterns in the United States. **EOG Resources** has cut its capital budget by 42%, yet crude oil volumes have ticked up by just over 5%. **Continental Resources** plans to grow production by 25% this year, all while reducing drilling and completion costs by 25%.

A contradiction

All of these companies have been saying the same thing for about a year. The message is quite simple, and goes something like this: "We are managing the downturn through cost cuts, and we are well prepared for when prices rebound."

Do you see the contradiction? Energy firms are all saying they're coping with lower oil prices, yet at the same time, they're claiming prices will rebound.

In reality, as long as energy firms such as CNRL are able to adjust to lower oil prices, then lower prices are here to stay. Energy investors, be warned.

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Date
2025/07/20
Date Created
2015/11/05
Author
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