Canadian Natural Resources Limited: Is the Dividend Safe?

Description

Canadian Natural Resources Limited (TSX:CNQ)(NYSE:CNQ) increased its dividend earlier this year, but investors are wondering if the company will be able to maintain the payout.

Let's take a look at the current situation to see if the distribution might be at risk.

Cost cuts

CNRL has been very proactive in managing its costs throughout the downturn. The company has already reduced its 2015 capital expenditures by $3.2 billion and is planning to keep things tight next year.

The anticipated capital program for 2016 is $4.5-5 billion with about $2.1 billion of that allocated to the Horizon oil sands project.

Management is also reducing administrative costs by implementing pay cuts across the board. Senior leaders are giving up 20% their pay and company's vice presidents are getting a salary haircut of 15%. The rest of CNRL's employees are losing 10% of their paycheck as the firm battles to survive the energy rout.

Production gains

Despite the massive capital cuts, CNRL has actually increased production by 11%. Output in Q3 2015 was 848,701 boe/d, and the company expects 2016 production to be 840,000–850,000 boe/d with a product mix of 65% crude oil and natural gas liquids and 35% natural gas.

Balance sheet

CNRL finished Q3 with a debt-to-book capitalization of 38%, which is well within the 65% allowed under the company's lending covenants.

CNRL also has total credit facilities of $7.48 billion, of which, $3.44 billion was still undrawn as of

September 30.

Asset sales

CNRL just announced a deal to sell its royalty land assets to **PrairieSky Royalty Ltd.**, for $1.8 billion. The deal consists of $680 million in cash and 44.4 million in stock.

Dividend safety

In the Q3 earnings report CNRL said it is committed to maintaining the dividend.

Cash flow from operations in Q3 came in at $1.53 billion and the company spent $1.24 billion on capital programs, leaving $290 million available to cover the dividend.

CNRL paid out $252 million in dividends during the quarter, so the company didn't have to tap the credit line to pay its shareholders.

At this point, the quarterly distribution of $0.23 per share looks safe.

Should you buy?

CNRL has one of the best asset portfolios in the industry. The company is doing a decent job of controlling costs and it looks like the dividend will survive.

If you believe energy prices have bottomed, CNRL is probably a good long-term bet, but the stock has rallied significantly over the past month and the market still looks volatile. Another plunge in crude process could send the stock back down to its recent lows, so I would stay on the sidelines for the time being.

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Date
2025/09/09
Date Created
2015/11/10
Author

aswalker