1 Big Number Canadian Natural Resources Limited Keeps Dropping

Description

Despite the fact that oil prices have stayed weak all year, oil companies are making more money on oil production than they were when the year started. That's because the cost of production and the cost of new oil developments have fallen dramatically over the past year. While costs aren't down as much as the price of oil, the reductions have taken away some of that sting.

Canadian Natural Resources Limited (TSX:CNQ)(NYSE:CNQ) is one company that has really seen its costs drop, which is evidenced by the fact that it continues to chip away at its capex budget.

A little bit more off the top

In fact, for the fifth time this year, Canadian Natural Resources is reducing its 2015 capex budget. The most recent cut is fairly minor at $65 million and results in the budget dropping down to $5.44 billion. However, when added to the four other cuts, Canadian Natural Resources has now lopped $3.2 billion from its 2015 spending plan.

This has had an impact on its 2015 production outlook as the company has lowered its production guidance. It now expects to produce between 555,000-591,000 barrels per day, which is less than its initial guidance of 562,000-602,000 barrels per day. Having said that, production is up 11% year over year. Further, given that the oil market is currently oversupplied by upwards of two million barrels per day, there is no need for the company to pump out as much oil as it can.

More of the same in 2016

That factor is also why the company expects to spend even less money in 2016. Its initial guidance for spending is expected to be between $4.5 billion to $5 billion next year. That spending level will align with its expected cash flow and keep its production roughly flat.

However, it is also important to note that about $2.1 billion of that spending will be on phases two and three of the Horizon expansion, which is a major growth project that won't be complete until the end of 2017. In fact, investments are slowly winding down with roughly $1-1.3 billion remaining in 2017 to complete that project, suggesting that capex could head even lower in the years ahead if oil prices remain weak.

Meanwhile, cash flows should head higher because once the expansions are finished the project will add 125,000 barrels per day to the company's production, so this is meaningful future growth.

Investor takeaway

Canadian Natural Resources's capex spending keeps dropping, which is what we want to see in an environment where oil prices are weak. It's putting the company in a position to actually thrive should oil prices remain lower for a number of years.

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1. Editor's Choice

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

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