



Canadian Natural Resources Limited: A Top Pick for an Oil Rebound?

Description

Canadian Natural Resources Limited ([TSX:CNQ](#))([NYSE:CNQ](#)) is one of the few energy companies that actually increased its dividend in 2015.

Let's take a look at the current situation to see if CNRL is strong enough to ride out the oil crisis.

Cost controls

CNRL has done a good job of lowering expenses throughout the downturn. The company originally planned to spend \$8.6 billion in 2015, but falling oil prices forced management to reduce the capital expenditures by \$3.2 billion last year and tighter spending is expected in 2016.

In fact, the 2016 capital program is projected to be \$4.5-5 billion with at least \$2 billion going toward the massive Horizon oil sands project.

Horizon will eventually produce 250,000 barrels per day. The plant is very efficient, with Q3 2015 operating costs coming in at \$27 per barrel, so it makes sense to see the project through despite the weak conditions in the market.

Administrative cost cuts have been implemented across the company with senior management taking a 15-20% salary hit. The rest of the employees are getting 10% less this year, but few are likely to complain given the massive layoffs that have occurred in the patch.

Production outlook

CNRL managed to increase year-over-year Q3 production by 11% to 849,000 barrels of oil equivalents per day (boe/d). Guidance for 2016 is set at 840,000-850,000 boe/d with 65% coming from oil and natural gas liquids production and 35% supplied from natural gas properties.

Oil prices remain near their lows, but a recent surge in natural gas prices could provide some cash flow relief in Q1 if the rally continues.

Balance sheet stability

CNRL is in better shape than many of its peers. The company finished Q3 2015 with a debt-to-book capitalization of 38%, well below the limit of 65% allowed by its lenders. As of September 30, CNRL still had \$3.44 billion in available undrawn credit lines.

The company also recently completed the \$1.8 billion sale of its royalty land assets to **PrairieSky Royalty Ltd.**, with \$680 million coming in cash and the rest paid in PrairieSky common shares. The deal helps strengthen CNRL's balance sheet.

Dividend sustainability

CNRL remains committed to its quarterly dividend payment of \$0.23 per share. In Q3 2015 the company brought in cash flow from operations of \$1.53 billion, which was enough to cover \$1.24 billion in capital expenditures as well as the \$252 million paid out in dividends.

If oil continues to slide through the first half of this year, investors could see the distribution get trimmed, but the dividend looks safe for the time being.

Is CNRL a good bet for an oil rebound?

The company is in solid financial shape and owns one of the best asset portfolios in the patch. The stock isn't cheap, but it is a much safer bet than the companies that could disappear if the rout drags on for another six months or longer.

If you want a conservative bet on a rebound in the oil patch, CNRL is a reasonable pick.

CATEGORY

1. Energy Stocks
2. Investing

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