# Citigroup Inc. Thinks Canadian Natural Resources Limited Is a Buy. Is it?

## Description

This week **Citigroup Inc.** (NYSE:C) analyst Robert Morris upgraded shares of **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ) to "buy," citing improved debt metrics and a growing divergence between the market's valuation and the true value of the company.



With the stock down 7% in the past five days alone, should you listen to analysts and jump in?

**Fundamentals are deteriorating, but is it really that bad?**

The selloff in energy names is, of course, due to tumbling oil prices. It remains a tricky situation as falling selling prices pressure profits, which in turn force many companies to cut spending to preserve balance sheets. Lower spending hinders future production, which can exacerbate the situation.

For many debt-ridden producers, it's a vicious downward cycle that often ends in bankruptcy or a forced sale. Canadian Natural Resources is in no such position. Oil prices tumbled from an average of over $80 a barrel in 2014 to just $40 a barrel in 2015. Still, cash flows only fell from $9.6 billion to $5.9 billion.

While this is certainly a big fall, it's more than manageable. The company was able to save over $6 billion in capital expenditures in 2015, all while boosting production. Maintaining production while cutting project spending is an impressive feat.

This feat was made possible because spending in other critical areas such as research and development was maintained. Since 2009, Canadian Natural Resources has boosted research and development spending from just $125 million to over $450 million, making it the leading investor in technology of all Canadian producers. This spending will more than pay for itself in the future by boosting productivity, reducing operating expenses, and unlocking additional reserves.

**Some big production is set to come online**

By reducing capital expenditures from $12 billion in 2014 to only $5.5 billion in 2015, some investors may worry about future production. Fortunately, Canadian Natural Resources has a project profile that should ensure climbing production in spite of reduced spending.

For example, capital spending in 2016 is expected to fall again to under $5 billion. Still, another major project (Horizon oil sands) should be completed this year, allowing costs to fall another $1 billion in 2017. As capital spending continues to fall, the Horizon oil sands project will add 45,000 barrels a day of production in 2016 and another 80,000 barrels a day in 2017.

In total, this will boost production levels by 20% based on 2015 levels–not bad for a company saving billions of dollars in the meantime.

**Buy or sell?**

Shares of Canadian Natural Resources don't appear to be overpriced, even with oil under $35 a barrel. While the company (and investors) will need higher prices in the future to maintain profitability, it's well positioned to survive another year of depressed revenues. If you expect oil prices to rebound in the next year or two, an investment in Canadian Natural Resources makes sense.

**CATEGORY**

1. Energy Stocks
2. Investing

**TICKERS GLOBAL**

1. NYSE:C (Citigroup Inc.)
2. NYSE:CNQ (Canadian Natural Resources)
3. TSX:CNQ (Canadian Natural Resources Limited)



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rvanzo