



## Canadian Natural Resources Limited: The Next Dividend to Fall?

### Description

After repeated promises of safety, dividends are being cut all across the energy sector. **Anadarko Petroleum Corporation, Chesapeake Energy Corporation, ConocoPhillips, Encana Corporation, Marathon Oil Corporation, and Noble Energy, Inc.** have all cut their dividends in the past 12 months.

Still, **Barclays PLC** estimates that dividends will continue to consume roughly 26% of 2016 estimated cash flows for the large-cap energy producers it covers. What will be the next dividend domino to fall?

Today, we look at **Canadian Natural Resources Limited** ([TSX:CNQ](#))([NYSE:CNQ](#)) and its 3.2% yield.

### In relatively good shape

By adopting a conservative capital structure when oil was above \$100 a barrel, Canadian Natural Resources positioned itself to withstand the current crisis quite well, especially in comparison to its over-leveraged peers who were paying out aggressive dividends even before things started to crumble. For example, on March 12, 2015 when the company boosted its payout to \$0.23 a quarter, the dividend only yielded 2.7%. Many of its peers, most of which have since cut their payouts, were yielding over 5% at the time.

Giving itself a big margin of safety when times were good has allowed Canadian Natural Resources to play a steady hand throughout the current volatility.

The company also has its financials in order.

Nearly every energy company has struggled to post positive free cash flow numbers in recent quarters. Even if a company found success, it was most likely due to gutting capital expenditures, potentially hurting future production growth once prices improve.

In the past 12 months, however, Canadian Natural Resources generated \$0.48 a share in free cash flow. While it's nothing to write home about, it's certainly contributed to the company outperforming its peer group when prices collapsed.

Seeing as production gains in the past year were near the top of the industry, the company can likely cut capital expenditures further without sacrificing the long-term potential of key projects.

Last quarter, Canadian Natural Resources spent \$886 million on capital expenditures. If it continued this spending rate for 2016, it would only have to spend \$3.5 billion compared to \$9.9 billion in 2014. For 2015, management also anticipates realizing \$945 million in operating cost reductions. With costs coming down across the board, the dividend is starting to look fairly safe, barring a multi-year downturn.

### **Positioning for the long term**

Even if Canadian Natural Resources can't maintain its positive free cash flow generation in the quarters to come, it still has about \$3.4 billion in credit lines to stem the tide. Additionally, its stock price hasn't fallen nearly as much as the industry. With shares still hovering around \$30, raising equity is still a viable option.

Ample credit also means that that company can continue investing in its core projects. The Horizon oil sands project has operating costs of only \$27 per barrel, making it profitable even at \$30 oil. Management believes it will be a great long-term investment, and because development costs have come down dramatically due to falling demand, it's actually cheaper to bring the project online in today's environment.

It's looking like Canadian Natural Resources is the rare energy company that can both sustain its dividend and continue to grow production through attractive capital projects.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

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

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