



How Is Canadian Natural Resources Limited Managing the Downturn?

Description

As a major oil and natural gas producer, **Canadian Natural Resources Limited** ([TSX:CNQ](#))([NYSE:CNQ](#)) has been scrambling to adjust to lower commodity prices. Even after a major rebound last month, shares are still down roughly 20% in the past 18 months.

One major hurdle that management has dealt with is a relatively high debt load; for every barrel of oil produced, the company has about \$15 worth of debt. It's also fighting lower production levels, falling internal cash flows, and difficult capital expenditure requirements.

What's the company's plan to handle persistently low oil prices?

Image Source: YCharts

Survival mode ... for now

Canadian Natural Resources anticipates generating \$3-3.4 billion in cash flow this year, roughly half that of 2015. The trouble is that the company also faces a capital expenditure budget of \$3.5-3.9 billion that swallows up any excess cash flow. Further cutting that budget may not be possible, however, as production is projected to fall from 852 m/boe per day to possibly just 806 m/boe per day. Based on management's own estimates, things don't look so rosy.

There is a silver lining. Those projections are based on \$36 oil. With prices now closing in on \$40 a barrel, expect the company's results to come in above previous expectations. Capital expenditures are likely capable of falling by 2018 as well, given the expansion initiatives at its Horizon project are wrapped up.

In 2017 alone, that project will require \$1 billion in capital. By 2018, management expects that only \$2.6 billion in annual capital expenditures are necessary to maintain flat production. So the company is not only expected to benefit from the gradual recovery in oil prices, but it should lower cash costs significantly along the way.

Management has also done a fine job ensuring adequate funding sources through at least 2019. It has

\$3.4 billion in available credit facilities, a rebounding stock price (allowing it to sell additional equity), and an investment-grade credit rating.

While other competitors are struggling to ensure their survival for another 12-18 months, Canadian Natural Resources shareholders can sleep easy knowing that the underlying financials remain strong, barring a continued multi-year period of sub-\$35 oil prices.

Management is in for the ride

Perhaps most encouraging is that management has put their money where their mouths are; they own roughly \$1.4 billion in company stock (2.6% of outstanding shares). This provides a strong motivation for management to perform with shareholder interests in mind, as they themselves are significant shareholders.

With a large, diversified asset base transitioning towards longer-life, low decline reserves, it's tough to see Canadian Natural Resources not performing well if oil can stage a meaningful and sustained rebound.

Others are starting to notice as well. **JP Morgan** recently upgraded shares, citing its confidence that "the company has a top-tier sustaining capex profile with the ability to flex its balance sheet within its target leverage range in the current period of higher capital spending and low commodity prices."

Basically, the company can continue to survive the current downturn and has the financing and projects in place to capitalize on a rebound. That's a great combination for energy investors.

CATEGORY

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

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