



Why Canadian Natural Resources Limited Is Really Looking Forward to the Future

Description

It's a tough being an oil company right now. Commodity prices have fallen to the point where most companies aren't generating enough cash flow to match their spending needs to keep production flat, let alone grow it. That's certainly the case at **Canadian Natural Resources Limited** ([TSX:CNQ](#))([NYSE:CNQ](#)), which recently had to cut its spending guidance yet again in response to weak oil prices.

However, when Canadian Natural Resources looks further ahead, it sees a much brighter future, even if oil prices don't recover.

2016: A transition year

In response to the continued weakness in oil prices, Canadian Natural Resources recently announced that it will cut its spending even further in 2016. The company now plans to spend between \$3.5 billion and \$3.9 billion, which is down from its prior guidance of \$4.5-5 billion that it gave last November. That's after cutting its budget several times last year by a total of \$3.4 billion, bringing its final spending total to \$5.2 billion.

All of these spending cuts are taking a toll on the company's expected production. While it was able to spend more than enough to grow its production last year, tallying an 8% year-over-year increase, that won't be the case in 2016. In fact, production is expected to fall 2% at the mid-point to 809,000-868,000 barrels of oil equivalent per day (BOE/d), which is below its initial target of 840,000-850,000 BOE/d.

Having said all that, 2016 is really a year of transition because more than half of its planned spending is being geared towards the completion of its Horizon oil sands expansion project. Phase 2B of that expansion is expected to be complete by the end of this year, with the final Phase 3 expected to be complete by the end of next year.

2017 and beyond: A bright future

Once those two phases are done, Canadian Natural Resources expects its production and cash flow to soar, even if oil prices remain low. In fact, by the end of this year the company sees its cash flow fully

covering its capex and dividends going forward, even if oil is \$30 a barrel. That's because it will no longer be spending capital on Phase 2B.

Looking ahead to 2017, the picture brightens even further.

In 2017 Phase 2B will not only no longer be consuming capital, but it will be delivering both production and cash flow. That phase is expected to deliver 45,000 barrels a day in production, which, at a \$43 oil price, would fully cover capex and dividends plus deliver an additional \$865 million in free cash flow.

Further, once Phase 3 comes online at the end of 2017, the company will add another 80,000 barrels a day of production, which will push its free cash flow up to an expected \$2.1 billion in 2018 at a \$45.50 oil price.

That excess cash flow gives Canadian Natural Resources a lot of options. It can significantly increase its dividend, start buying back stock, make acquisitions, and even pay down debt. Further, that cash flow could be exponentially greater if oil prices actually recovered closer to the \$70-90 a barrel that the industry needs in order to start growing production again.

Suffice it to say, Canadian Natural Resources expects to be a cash flow machine once the Horizon expansion project is finished.

Investor takeaway

For the most part, 2016 is expected to be a wash for Canadian Natural Resources. Due to weak oil prices, cash flow and production are going to be light this year. However, that all changes by the end of this year once Phase 2B of Horizon comes online and starts generating cash flow.

Meanwhile, 2018 is shaping up to be a really robust year because it will benefit from a full year of both Phase 2B and Phase 3, which will generate substantial free cash flow even at low oil prices.

It's that long-term outlook that has Canadian Natural Resources very excited about what lies ahead.

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