Canadian Natural Resources Limited: Is the Dividend Secure?

Description

Over the past decade, **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ) has consistently raised its dividend, despite wild gyrations in the company's stock price. Now with a dividend yield of 2.5%, can Canadian Natural Resources sustain its payout despite oil remaining under US$50 a barrel?

generate_fund_chart
Image not found or type unknown

Low prices are no problem

The company has interests in three major properties.

First is its Horizon mining and bitumen extraction venture that entered production in 2008. After an expansion project is completed in 2017, production should hit 126,000 boe per day. The second most important project is its thermal facilities, Kirby and Primrose, which produce roughly 118,000 boe per day. Finally, its Pelican Lake oil sands project is expected to hit 60,000 boe per day production by the end of 2016.

This year, the company will spend $3.6-3.9 billion in capital expenditures, primarily to expand its current asset base. Current reserves are estimated at 9.04 billion boe with an estimated reserve life of 34 years.

As one of Canada's largest oil producers, Canadian Natural Resources has been able to invest in large-scale projects like these that have impressive production cost breakevens. On its latest conference call, CEO Steve Laut reiterated that the company is "built for low commodity prices."

This year, incoming cash flows are expected to completely cover capital expenditures and dividends, even down to US$30 a barrel. Even if prices don't improve, the firm would generate $2.1 billion in excess annual cash flow by 2018, even after project spending and dividends. With oil recently hitting US$45 a barrel, the company has plenty of cushion in maintaining both its growth initiatives and dividend payout.

Positioned for long-term growth

While many companies in the industry have been forced to sell assets at fire-sale prices to stay afloat, Canadian Natural Resources has leveraged its size and balance sheet to continue investing in worthwhile projects. The company has a BBB+ credit rating from **Moody's** and still has $3.4 billion in committed credit facilities.

Ample access to capital should allow the firm to continue transitioning its production towards its three major projects, all of which have attractive production costs and long-life, slow-decline production bases. In 2007, only 30% of production came from these three projects. By 2018, that should reach nearly 70%.

Not cheap

Because it's positioned so well, shares of Canadian Natural Resources aren't cheap; the stock trades at the same price it did back in early 2014, when oil was above $100 a barrel. It could still be a solid long-term pick for patient energy investors, but it likely won't be a major winner. If you're looking for a lucrative home run, check out our latest "double down" pick below.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/26
Date Created
2016/04/29
Author
rvanzo