Better Buy: Cenovus Energy Inc. vs. Canadian Natural Resources Limited

Description

Oil touching $50 a barrel in recent weeks has the potential create significant value for investors in oil stocks. However, not every oil stock is the same, which is certainly the case when comparing **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) and **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ). When we drill down a bit deeper, there's one clear winner between the two as the better buy for the long term.

Battle of the balance sheets

After what has happened over the past two years, one of the most important factors for an investor to consider before buying an oil stock is the balance sheet. Here's how these two stack up:

Company	**Credit Rating**	**Total Debt**	**Debt/Enterpri Value**
Cenovus Energy	BBB/Ba2	$4.7 billion	32%
Canadian Natural Resources	BBB+/Baa3	$12.7 billion	29%

Data sources: Cenovus Energy and Canadian Natural Resources

As the chart shows, Canadian Natural Resources has a stronger credit rating and less debt as a percentage of its enterprise value. That gives the company a lot more flexibility to raise capital at more favourable rates. That being said, Cenovus Energy has a cash-rich balance sheet, which certainly reduces its reliance on the capital markets at the moment.

As such, this one really could go either way. However, given that cash is king, I'd give Cenovus Energy the points in this battle.

Drilling into the portfolios

At its core, Cenovus Energy is an oil sands producer with roughly 56% of its total production coming from the oil sands. The rest of the company's production is roughly split evenly between conventional oil and natural gas assets in Canada. Further, it owns a 50% ownership stake in two refineries in the U.S.

Canadian Natural Resources, on the other hand, has a much more balanced portfolio. Not only is its production split roughly evenly between heavy oil (including both oil sands assets and thermal oil assets), natural gas, and conventional oil production, but its assets are spread across the globe as it operates in Canada, the North Sea, and offshore Africa.

That diversified portfolio really provides a vast, balanced resource base for Canadian Natural Resources to develop, which, in my opinion, gives it a leg up on Cenovus.

A look at the upside

Cenovus Energy has a number of oil sands assets that it is developing in stages with its partner **ConocoPhillips**. For 2016 the partners are working to complete phase F at their Christina Lake facility and phase G at Foster Creek. Beyond that the partners have additional phases at both of those facilities that can be developed as well as a number of phases at Narrows Lake.

On top of that, Cenovus has two wholly owned sites, Telephone Lake and Grand Rapids, that can be developed in the future. That said, at the moment the visible growth is coming from the aforementioned expansions of Christina Lake and Foster Creek, which are expected to grow oil sands production from an average of 275,000 barrels per day last year to 300,000 barrels per day this year.

Canadian Natural Resources, meanwhile, is currently in the middle of a major expansion of its Horizon oil sands mine. The first phase is expected to start up by the end of the year, and the second phase will come online by the end of next year, adding 125,000 barrels per day in production. The company expects this production to drive strong cash flow with current projections implying a $2.1 billion free cash flow run rate by 2018 at a $45.50 oil price.

In addition to that, the company has a significant portfolio of natural gas and conventional oil assets in North America to develop as well as a number of high-return development opportunities offshore Africa.

While Cenovus Energy has strong upside from the manufacturing approach it is taking in the oil sands, Canadian Natural Resources has much more visible near-term upside. Not only is the company nearing the completion of its Horizon project, but it has a number of development opportunities that can be exploited as oil prices increase. That, in my opinion, makes it the winner in this category.

Investor takeaway

While both companies have solid balance sheets, Canadian Natural Resources has a much more diversified portfolio and visible upside as it completes the expansion of Horizon. Add it up and Canadian Natural Resources is the better buy for investors looking for a long-term oil play.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:CVE (Cenovus Energy Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:CVE (Cenovus Energy Inc.)

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