



Will Canadian Natural Resources Limited Survive Another Oil Plunge?

Description

As with most of its energy competitors, **Canadian Natural Resources Limited** ([TSX:CNQ](#))([NYSE:CNQ](#)) has been hit by the current oil crisis. This year cash flows, earnings, and production are expected to drop. Still, shares are nearing highs set in 2014 when oil prices were above \$100 a barrel.

If oil prices are unable to sustain their latest rebound, are Canadian Natural Resources shareholders set to suffer?

Is bigger better?

With a market capitalization of \$44 billion, Canadian Natural Resources is one of Canada's biggest oil producers. Its production is split fairly equally between heavy oil (35%), natural gas (35%), and light oil (30%). With growing reserves across three continents, many investors have fled to the company's stable outlook and production profile. This year it continued its streak of 15 consecutive years of dividend increases, and shares now yield a respectable 2.3%.

Will its leading size and portfolio diversification continue to prop up earnings and cash flows?

This year capital expenditures are set to fall to about \$3.7 billion, a relatively small decrease from last year's level of \$3.8 billion. Limited spending is expected to push production lower from 564 thousand barrels a day to between 514,000 and 563,000 barrels a day. While this appears to be concerning, the company's management team has prepared well for the future.

Currently, company reserves are estimated to contain over nine billion barrels of oil, resulting in a reserve life of about 34 years.

Two major projects, expected to be finished over the following 12-24 months, will boost current output considerably. Its Horizon bitumen extraction project, with stage two finishing next year, is expected to produce 126,000 barrels of oil per day. The Kirby, Primrose and Pelican Lake oil sands projects, which will all finish by 2018, are expected to produce 180,000 barrels of oil per day. That's would provide a huge jump from current levels.

Cash flow is ready to roar

Canadian Natural Resources should have no problem finishing up its current backlog of projects. The company maintains a BBB+ credit rating from **Moody's** and still has \$2.3 billion in committed credit facilities. At current oil prices, the company should generate roughly \$1 billion in free cash flow after dividends next year with over \$2 billion generated in 2018.

Those figures aren't including any additional improvements in cost structure either. In 2015 the company was able to push operating costs 15% lower from 2014 levels. At its Pelican Lake project for example, it cut operating expenses from nearly \$10 a barrel to under \$8.

Once its Horizon and oil sands projects are completed, cash flow will soar from rising production, falling capital expenditures, and, hopefully, higher oil prices. Because its management team is incentivized to create shareholder value—they currently own over \$1.4 billion, or 2.6% of outstanding shares—expect Canadian Natural Resources to continue outpacing the industry through 2018 and beyond.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Energy Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/08/26

Date Created

2016/06/08

Author

rvanzo

default watermark