



## 2017 Is Shaping Up as a Big Year for Canadian Natural Resources Limited

### Description

**Canadian Natural Resources Limited** ([TSX:CNQ](#))([NYSE:CNQ](#)) is on the cusp of a major turning point. By the end of 2017, it will have completed the last major expansion phase of its Horizon oil sands project, which will provide it with steady production for decades. That said, the company's operations are already turning up thanks to rising oil prices and the recent completion of a previous phase of that project.

These catalysts position the company to generate a substantial amount of cash flow next year, which gives it plenty of options to allocate those funds on behalf of investors.

### An early glimpse into 2017

Canadian Natural Resources recently announced its 2017 budget along with an outlook for the year ahead. The company expects to spend roughly \$3.9 billion on capex next year, which is up slightly from 2017. While the company expects production to increase by 6% year over year, that is primarily due to the recent completion of Phase 2B at Horizon. As such, most of the capital will go towards maintaining conventional output and putting the finishing touches on Phase three of Horizon.

What's noteworthy about Canadian Natural Resources's budget is that the company anticipates fully funding capex and the current \$1.1 billion dividend with plenty of cash left over. In fact, the company's current forecast is that it will generate \$1.7 billion of free cash flow next year based on the assumption that oil will average US\$55.58, while gas will be \$3.06 in 2017.

### What might Canadian Natural Resources do with its cash windfall?

Canadian Natural Resources plans to take a balanced approach to allocating that capital on behalf of investors, which means spreading it across all four of its priorities:

- Balance sheet strength
- Returns to shareholders
- Economic resource development
- Opportunistic acquisitions

At the moment, the first priority is to return the company's balance sheet to a pillar of strength. Leverage crept up to an estimated four times debt-to-EBITDA in 2016 due to weaker oil prices, which is well above the company's target range of 1.8-2.2 times. However, Canadian Natural Resources sees debt falling back within the target range next year due to rising earnings and by allocating some capital towards paying down debt.

Next on the docket will be increasing shareholder returns. The company will likely raise the dividend again next year, which would mark 17 consecutive years of increases. In fact, given its free cash flow projections, next year's increase could be substantially higher than the 8.7% boost the company provided investors last month. It is also entirely possible that Canadian Natural Resources could initiate a stock buyback, especially if the market begins to underappreciate the value it is creating at Horizon.

The company can also increase capex should the market dictate the need for more oil and gas. In fact, the company has the flexibility to increase spending by up to \$525 million on drilling projects as well as potentially sanctioning a \$70 million Horizon debottlenecking project. That said, should commodity prices weaken next year, Canadian Natural Resources has the flexibility to drop spending by as much as \$900 million, which will free up cash flow for other uses, such as bolstering its balance sheet.

Finally, Canadian Natural Resources is always on the lookout for acquisitions that will create value for investors. While the company has a substantial resource base to develop, its strategy is to acquire assets that would complement that asset base. It should have no shortage of opportunities to explore because rival producers will likely look to jettison non-core assets to free up cash to reinvest into core assets now that the market is starting to thaw.

### **Investor takeaway**

Unless oil prices plunge, Canadian Natural Resources should have a great 2017. The company expects to generate substantial free cash flow, which it intends to allocate across all four of its capital-allocation priorities. That balanced approach will enable the company to maximize the value it creates for investors over the next year.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:CNQ (Canadian Natural Resources)
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