



This Sounds Like the Perfect Opportunity for Canadian Natural Resources Limited

Description

According to a recent report by **Reuters**, U.S. oil and gas giant **ConocoPhillips** ([NYSE:COP](#)) has decided to sell some of its Canadian conventional natural gas assets. The assets could fetch as much as US\$2 billion and are part of the company's plan to unload up to US\$8 billion in North American gas assets as it focuses its attention on oil-rich shale plays. While the auction will likely draw several interested parties, these assets sound like a perfect fit for **Canadian Natural Resources Limited** ([TSX:CNQ](#))([NYSE:CNQ](#)).

Drilling down into ConocoPhillips's plan

Last fall, ConocoPhillips unveiled a new strategy, which it believed would fuel double-digit annual returns for its shareholders in an increasingly uncertain commodity price environment. At the forefront of that strategy was an aim to use its growing cash flow to increase the dividend, buy back stock, grow production, and pay down debt. That said, the company wanted to jumpstart that strategy by selling between US\$5 billion and US\$8 billion in primarily North American natural gas assets, using the cash to repurchase US\$3 billion in stock with the rest earmarked for debt repayment.

The reason ConocoPhillips wanted to jettison some of its gas assets is because these assets were not expected to drive growth going forward and were therefore non-strategic to its vision. Because of their lack of growth, the market didn't give the company much, if any, credit for these assets. So, by selling them, the company could unlock some stranded value for its investors.

Where Canadian Natural Resources could come into play

While ConocoPhillips plans to unload a variety of gas-related assets across the continent, it has a substantial gas portfolio in Canada that it appears willing to sell. According to the Reuters report, these assets are in western Canada in areas such as the Deep Basin, the Clearwater and Kaybob-Edson region, and the Plains.

These are all areas where Canadian Natural Resources has extensive land holdings. In fact, when ConocoPhillips sold some of its western Canadian assets two years ago, Canadian Natural Resources was one of the buyers.

Canadian Natural Resources expects to generate a tremendous amount of free cash flow this year thanks to the improvement of commodity prices, falling costs, and the recent completion of Phase 2B at Horizon. Under its current budget, the company expects to generate \$1.7 billion of free cash flow after funding capex and paying its \$1.1 billion dividend. It plans to allocate that capital across a variety of priorities, including potentially increasing growth spending, paying down debt, or making acquisitions.

If Canadian Natural Resources goes the acquisition route, these assets would certainly fit within its strategy, which is to be opportunistic in acquiring assets that add to existing core areas where the company can provide immediate value.

Those criteria were one of the drivers of the company's 2014 acquisition of **Devon Energy Corp.'s** ([NYSE:DVN](#)) Canadian conventional assets. The company paid \$3.125 billion to acquire lands that were "all located in western Canada in areas adjacent or proximal to Canadian Natural's current operations." Because of that, Canadian Natural Resources could combine its assets and infrastructure in the region and capture "synergies to more effectively and efficiently operate once fully integrated."

ConocoPhillips's Deep Basin assets in particular would be an excellent fit because it's not only one of the largest operators in the region, but it also controls significant infrastructure, which would enhance its position in the area where it controls significant land and infrastructure.

Investor takeaway

Canadian Natural Resources has a history of taking advantage of opportunities to scoop up conventional oil and gas properties in western Canada that others no longer want and combining them with its own assets to make something greater. It would appear that another opportunity is on the horizon now that ConocoPhillips is looking to unload some of its properties in the country.

If a deal does come together, it will enable Canadian Natural Resources to put its growing cash flow stream to good use in creating more value for shareholders over the long term.

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