



Should Canadian Natural Resources Limited Be Your Top Energy Pick?

Description

Canadian Natural Resources Limited ([TSX:CNQ](#))([NYSE:CNQ](#)) just announced strong Q4 2016 numbers and a huge acquisition.

Let's take a look at the oil and gas giant to see if it deserves to be in your portfolio.

Earnings

CNRL generated \$990 million in free cash flow in Q4 2016, as efforts to reduce operating costs and stronger oil prices helped boost the bottom line.

Most of the excess cash was used to reduce the company's debt position.

Net earnings for the quarter came in at \$566 million compared to \$131 million in the same period last year.

Operating highlights

CNRL completed Phase 2B at its massive Horizon oil sands site in October and has ramped up demand to design capacity. The project delivered record-low annualized operating costs of \$25.20 per barrel last year.

Phase 3 is 90% complete and expected to go online in Q4 2017, adding 80,000 barrels per day of production.

Horizon's capital costs totaled \$1.92 billion in 2016 — below estimates and under budget. The company expects to spend \$1.05 billion in 2017 to complete Phase 3.

CNRL owns additional assets including oil sands, conventional oil, and natural gas production.

Liquidity

CNRL finished 2016 with \$7.4 billion in available credit facilities, of which \$3 billion was available.

The balance sheet is in good shape with debt-to-book capitalization at 39%. This is within the company's target range.

Acquisition

CNRL just announced an agreement to buy oil sands assets from **Royal Dutch Shell** for \$7.2 billion.

The deal will boost CNRL's resource base in the oil sands region and "increase the reliability of the company's sustainable cash flows," according to a statement made by President Steve Laut.

Dividend growth

CNRL raised its quarterly dividend in Q4 2016 and just topped it up by an additional 10%. The new payout of \$0.275 per share provides a yield of 2.6%.

This is one of the few energy companies that has been able to raise its payout through the oil rout, and more increases could be on the way as the new assets begin to contribute to cash flow.

Should you buy?

Oil might be in for a volatile time in the coming months as investors try to decide if OPEC supply cuts are going to be substantial enough to offset rising U.S. production. Recent movements in the oil price suggest a correction might be on the way.

If you are a long-term oil and gas bull, CNRL should definitely be on your radar. At this point, however, I would wait for the next pullback to start a new position in the stock.

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aswalker

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