Should You Buy Canadian Natural Resources Limited After its Latest Acquisition?

Description

Canada's energy sector is becoming less attractive to international investors of late. **Royal Dutch Shell**, an Anglo-Dutch multinational oil and gas firm from the Netherlands recently made some huge divestments from its oil sands portfolio by selling US$7.25 billion worth of assets to **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ).

The Canadian oil patch has been a tough place to invest thanks partially to Rachel Notley, the premier of Alberta. Kevin O'Leary referred to her as a "toxic cocktail of mediocrity and incompetence" and believes that she is making the Canadian oil patch a very unattractive place for international investors. I believe he's right on the money, and it's likely why Royal Dutch Shell dumped a majority of its stake in its oil sands projects.

Many pundits are seriously starting to worry about Canada's energy sector. Rafi Tahmazian, a senior portfolio manager at Canoe Financial, stated: "For the first time ever in my career I've had to be fearful of Canadian energy policy as a Canadian energy investor."

The Canadian energy sector is extremely out of favour right now, but I believe it presents a huge opportunity for value investors to go bargain hunting. Sometimes it pays to be contrarian, and if you're a long-term investor that can stomach short-term pain, then the energy sector is the place to be. As Warren Buffett once said, "…be fearful when others are greedy, and greedy when others are fearful." Now is the time to be greedy, while others are panicking.

Now might be a terrific time to buy shares of Canadian Natural Resources, as the company ups its stake in oil sands. The deal is set to be closed in mid-2017 and is expected to drive free cash flow and earnings through the roof over the next few years.

Canadian Natural Resources is riding some positive momentum that is expected to carry over into2017 and beyond. The company reported terrific Q4 2016 results where it saw $990 million worth offree cash flow thanks to lowered operating costs and higher oil prices. Going forward, the company canbe expected to continue to drive operational efficiencies through various initiatives. Many pundits also believe that oil prices could continue to climb to the $60 level by the conclusion of 2017.

Takeaway

Canadian Natural Resources is a high-quality play on Canada's oil patch. I see huge long-term synergies being unlocked from its the recent acquisition of Royal Dutch Shell's assets. Free cash flow is likely to surge over the next few years, and this will go right back to shareholders in the form of an upped dividend.

The company is a dividend-growth king which has upped its dividend by leaps and bounds over the last decade. It's got a healthy balance sheet and will be able to weather the storm if oil decides to crash again.

I'd recommend buying a small portion of shares now with the intention of buying more on any pullbacks that may happen this year. Volatility can be expected, but if you can stomach it, you'll do very well in a few years from now.

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