Canadian Natural Resources Ltd. (TSX:CNQ) Is Attractively Valued and Ready to Soar

Description

While oil has performed strongly since the start of 2018 to see West Texas Intermediate (WTI) rising by over 8%, many of Canada's oil sands operators have failed to keep pace. This is primarily due to the considerable discount applied to Canadian heavy oil known as Western Canadian Select (WCS) as well as concerns about the sustainability and economic viability of their operations.

Nonetheless, while these anxieties are certainly justified, they are overbaked, and this has created a timely opportunity for investors seeking to boost their exposure to crude. One energy major focused on the oil sands that has failed to keep pace but offers considerable upside for investors is **Canadian Natural Resources Ltd.** (TSX:CNQ)(NYSE:CNQ). Since the start of the year, its market value has dipped by 9% despite oil firming, creating an opportunity for investors.

Now what?

Canadian Natural Resources owns and operates a globally diversified portfolio of conventional and oil sands assets. It has net oil reserves of 10 billion barrels valued at $114.5 billion, or $94 per share, which is two-and-a-half times greater than Canadian Natural Resources's current market price. This indicates just how heavily undervalued the company is and the tremendous potential upside on offer for investors.

Importantly, in an environment where oil has risen significantly in value, Canadian Natural Resources is steadily growing its production. For the first quarter 2018, net oil output shot up by an impressive 30% year over year to just over one million barrels daily and was 76% weighted to oil.

That last point is crucial in an operating environment where natural gas prices remain deeply depressed with no sign of a notable recovery for the foreseeable future.

The marked increase in production was predominantly driven by Canadian Natural Resources's flagship Pelican Lake, where production spiked by an impressive 36% year over year. The quality of that asset can't be understated with it delivering a solid after-tax return on capital of 15%.

Disappointingly, Canadian Natural Resources's company-wide netback for the quarter declined by 28% compared to the same period in 2017 to $13.19 per barrel principally because of lower realized prices and higher expenses. The chief culprits for this were a wider price differential for WCS against WTI and weaker natural gas prices.

Nonetheless, Canadian Natural Resources expects 2018 production to grow by up to 22% compared to 2017 to almost 1.2 billion barrels daily before royalties. This — along with a higher price for WCS because of reduced transportation constraints — will giving earnings a solid boost.

Canadian Natural Resources also finished the first quarter with a solid balance sheet, giving it considerable financial flexibility, including the ability to continue financing projects under development. Working capital at the end of the quarter came to $702 million, while the company had cash of $152 million and long-term debt totaling $21.8 billion, which was a manageable three times cash flow.

So what?

Canadian Natural Resources is poised to unlock value and soar because of oil's sustained higher prices, quality assets, and growing production. While investors wait for that to occur, they will be rewarded by its sustainable dividend, which yields 3%; the yield should grow in value as oil prices move higher.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date

2025/08/29
Date Created
2018/06/15
Author
mattdsmith