Canadian Natural Resources Ltd. (TSX:CNQ) vs. Crescent Point Energy Corp. (TSX:CPG): Which Is a Better Bet Today?

Description

The recovery in the oil market is bringing investor interest back to the energy sector, and while some of the country's oil and gas stocks have recovered nicely, others continue to struggle.

Let's take a look at **Canadian Natural Resources Ltd.** (TSX:CNQ)(NYSE:CNQ) and **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) to see if one is an attractive pick today.

CNRL

CNRL's share price held up relatively well through the oil rout, bottoming around $24.50 in early 2016. That was still a 50% haircut during the downturn, but the stock fared much better than many of the other players in the sector.

Investors who stepped in at the low are sitting on some nice gains, as CNRL has recovered most of the losses and now trades at $46.50 per share.

A diversified asset mix is a big reason for CNRL's relative stability. The company owns oil sands, conventional oil, and natural gas assets in Canada. CNRL is also active in the North Sea and Offshore Africa.

The company uses 32% of the natural gas it produces to operate its oil facilities. This is a significant advantage for CNRL, as it provides a built-in hedge for the company in the natural gas market.

The company's vast resource base of low capital exposure projects is also attractive, as it gives management the option to quickly allocate capital to the highest-return opportunities that come up as market prices change.

CNRL reported record Q1 production, supported by higher output at the oil sands operations. Operating costs hit a new low of $21.36 per barrel in the quarter.

Rising prices and reduced expenses resulted in Q1 free cash flow of $880 million after paying the dividends. The company just raised the quarterly payout by 22% to $0.335 per share. That's good for a yield of 2.9%.

CNRL is also buying back shares. Under the current Normal Course Issuer Bid (NCIB), the company can repurchase up to 5% of its outstanding common shares through May 22, 2019.

Crescent Point

Crescent Point was a $45 stock in 2014 with a monthly dividend of $0.23 per share. Today, investors can pick it up for less than $10, and the distribution is down to $0.03.

The company is going through a transition, after investors demanded changes to try to get the stock price moving higher.

A new interim CEO is in place, and management changes are already occurring at senior levels. Once the leadership changes are complete, and the company finishes its portfolio overview, investors should see some action.

In the most recent company report, Crescent Point says the main focus will be on improving the balance sheet and allocating capital in a disciplined manner with the goal of generating higher free cash flow. Crescent Point already started selling non-core assets to reduce debt. The latest agreement is a disposition of property in the Williston Basin for $280 million.

A suspension of the dividend might be in the cards, and investors could even see the company get acquired or merge with another producer now that the founding CEO and two of the long-term senior executives have stepped down. Crescent Point owns attractive properties, so there could be interested parties willing to scoop up the assets while the stock remains out of favour.

Is one a better bet?

Buy-and-hold investors should probably make CNRL the first choice today. The company is firing on all cylinders and is generating significant free cash flow. Crescent Point might be attractive as a contrarian play, but it will take time for the new management team to turn the company around, and while a white knight could arrive, betting on a takeover premium is a risky strategy.

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