



## Is Canadian Natural Resources Ltd. (TSX:CNQ) Ready to Soar?

### Description

Oil has surged sharply in recent days to see North American benchmark West Texas Intermediate (WTI) firm by 12% over the last the month, while the international benchmark Brent has gained a mere 4%. That can be explained by the price differential between WTI and Brent [converging](#) in recent weeks because of emerging North American supply bottlenecks and OPEC's decision to boost its oil output, which has increased the attractiveness of North American oil companies.

One that has failed to keep pace with WTI is **Canadian Natural Resources Ltd.** ([TSX:CNQ](#))([NYSE:CNQ](#)). The oil sands producer has only firmed by just over 6%, or roughly half of WTI's gains.

### Now what?

The reasons for Canadian Natural Resources stock lagging behind WTI are quite simple. Markets continue to be worried about the deep discount applied to Canadian heavy oil Western Canadian Select (WCS). While it has eased in recent days, it is still at over US\$21 per barrel, which has led to claims among some analysts of an emerging crisis in Canada's energy patch.

Nonetheless, this shouldn't deter investors from boosting their exposure to crude and adding Canadian Natural Resources to their portfolio.

The company owns and operates a diversified portfolio of oil assets that hold oil reserves of 10 billion barrels valued at \$70 per share or 50% greater than its market price, thereby indicating a considerable potential upside on offer for investors.

The value of those reserves will expand because of higher oil prices.

You see, their value was calculated using an assumed average WTI price for 2018 to 2022 of US\$67.49 per barrel, which is lower than the current spot price of US\$72.89 a barrel.

Notably, Canadian Natural Resources' operations remain highly profitable even after considering the impact of the discount applied to heavy crude on its financial results. For the first quarter 2018, net earnings doubled compared to the equivalent period in 2017 to \$583 million.

The combination of higher realized prices for oil and condensate along with a focus on controlling costs was primarily responsible for this solid result.

Management's confidence in the company and the potential to unlock value for investors is underscored by the announcement that Canadian Natural Resources intends to purchase up to 61 million shares of its own stock. A strategy has also been implemented to create value for investors by strengthening the company's balance sheet as well as boosting investment in exploration and development of its diverse asset base. And that, along with a forecast production increase of 17% year over year for 2018 and firmer oil, will give Canadian Natural Resources earnings a solid boost, which should cause its stock to appreciate.

### So what?

While investors wait for the company's stock to soar, reflecting the value of its oil reserves as well as the profitability of its growing oil output, they will be rewarded by its regular and sustainable dividend yielding 2.6%. It is only a matter of time before Canadian Natural Resources' stock soars because of the [improved outlook for crude](#) and the company's planned stock buyback.

### CATEGORY

1. Energy Stocks
2. Investing

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2. TSX:CNQ (Canadian Natural Resources Limited)

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matttdsmith

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