Will Canadian Natural Resources Ltd (TSX:CNQ) Go to $0 in 10 Years?

Description

On January 9, **Chevron** and **Occidental Petroleum** invested in a Canadian company called Carbon Engineering, which makes technology that removes greenhouse gases like carbon dioxide directly from the air. The idea is to convert atmospheric gases into substances that can aid in enhanced oil recovery.

"It's not sufficient to reduce emissions," says Carbon Engineering CEO Steve Oldham. "We have to start removing the CO2 we've already put in the atmosphere."

While this goal seems altruistic, it's largely driven by the fear of diminishing profits. If regulation regarding emissions increases, rising costs could render huge projects economically nonviable. One of Carbon Engineering's earliest investors, **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ), knows this risk firsthand.

While many investors applauded the company's investment in cutting-edge carbon-capture technology, the deal could be an admission of failure. Over the next decade, Canadian Natural could see large swaths of its production go bust.

Canadian Natural is facing extinction

Most of Canadian Natural's production comes from oil sands facilities. These types of properties have always been controversial, mainly for environmental reasons, but poor economics were always bound to catch up with the company.

Production from oil sands is problematic in several ways. First, the quality of the oil is significantly lower than other, lighter forms of oil. This means that it needs to be processed more than competing energy production, raising costs. Many oil sands producers, including Canadian Natural, need US$40 per barrel or more oil prices to break even. Other North American producers, with exposure to higher-quality oil, have breakeven prices down to $20 per barrel or even less.

Because oil sands production needs to be processed more, it must be transported to refineries.

Unfortunately, refinery access close to many oil sands facilities is sparse. This forces many producers to pay additional costs to transport their output across provinces, or sometimes even countries, to get their oil ready for market. This is yet an additional cost many competitors don't need to deal with.

Watch out for this deathblow

Not only must oil sands producers pay more to refine and ship their output, but they've been forced to sell at a discount in recent months. "Canadian crude has become the most discounted oil on the planet," reported *The Globe and Mail* in November. "Today's rock-bottom prices are a warning … that the oil sands' best days are already in the rear-view mirror."

In its latest quarterly conference call, Canadian Natural management said that it would be halting some oil sands production due to weak selling prices.

Most worryingly are new rules that could render 20% of oil sands production uneconomical. In just 11 months, new marine regulations will drastically reduce the sulfur content that is allowed in shipping fuel, moving to 0.5% from 3.5%. According to the Canadian Energy Research Institute, nearly 600,000 barrels per day of oil sands production (about 20% of all projects) would be shut down due to a lack of profitability.

This major headwind — some would call it a deathblow — is set to crush Canadian Natural, yet few investors seem to be talking about it. While the stock may not hit $0 over the next decade, there's little doubt that the company is facing its most challenging conditions in its history. Investors beware.

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