



Canadian Natural Resources Ltd (TSX:CNQ) Is Ready to Make This Multi-Billion-Dollar Acquisition

Description

Canadian Natural Resources ([TSX:CNQ](#))([NYSE:CNQ](#)) has had a rough ride. Over the past five years, shares have fallen by 4% versus a gain of 13% for the TSX index. Its recent struggles have been well documented.

Last year, Canadian oil sands producers were hit with a perfect storm of negative news. Most companies are still reeling from the effects. With sentiment near multi-year lows, it's clearly a buyer's market. That's what makes the latest news from **Devon Energy** ([NYSE:DVN](#)) so interesting.

On February 19, Devon announced that it would be selling or spinning off its oil sands assets in Canada. Whoever buys these assets could be getting some great projects at fire-sale prices. Canadian Natural Resources is primed to capitalize on this limited-time opportunity.

Oil sands projects may sell at deep discounts

When Devon revealed that it would be selling its oil sands assets, valuations for the properties ranged widely. For example, an analyst at **CIBC** estimated they would sell for between \$3.5 billion and \$5 billion. An analyst at Eight Capital, for comparison, predicted they would fetch \$7-9 billion.

Who is right? It all depends on market appetite.

The CIBC analyst was sure to note that these assets are "attractive" and, more importantly, provide "a large base of concentrated production with a long resource tail." Market conditions are the worst they've been in years, however. The CIBC analyst ended his research note by reiterating that "this is a challenging market to divest Canadian oil assets."

So, while the normalized value of these assets may be \$7-9 billion, a forced sale could conceivably only raise around \$4 billion. That's good news for whoever is buying. Looking across the industry, Canadian Natural Resources appears to be the most probable suitor.

Not so fast

While Canadian Natural Resources may be getting a steal on these assets, the long-term troubles plaguing oil sands assets remain. As I [wrote](#) in January, there's a possibility these assets are worth \$0 over the next decade.

Oil sands are tough operations for a few reasons.

First, oil sands production is deemed "heavy," meaning it needs additional processing to be converted to higher-priced output. More refining means higher costs. For example, Canadian Natural Resources needs oil prices to surpass US\$40 per barrel to break even — that means earning a 0% return on all of its investment. Other North American producers, particularly those in higher-quality regions, have breakeven prices down to US\$20 per barrel or lower.

The second headwind for oil sands producers comes from regulation. This type of oil production wreaks havoc on the environment. Whatever your views on this are, this reality can invite sweeping changes in the regulatory environment at any time. For example, next year, new marine regulations will limit the sulfur content in shipping fuel to 0.5%. According to the Canadian Energy Research Institute, 600,000 barrels per day of oil sands production may be rendered unprofitable. That represents 20% of industry-wide production.

Should you buy Canadian Natural Resources stock?

Resource-extraction companies are always highly capital intensive. Even at the best projects, millions of dollars (sometimes billions) need to be reinvested each year just to sustain production. Oil sands projects represent some of the worst projects in the world based on breakeven prices.

Even if Canadian Natural Resources scores a good deal by sweeping up Devon's assets, I wouldn't be a long-term holder of this stock.

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