Is Canadian Natural Resources Ltd (TSX:CNQ) the Berkshire Hathaway Inc. (NYSE:BRK.B) of Energy?

Description

Berkshire Hathaway (NYSE:BRK.A)(NYSE:BRK.B), led by famed investor Warren Buffett, is known as a terrific allocator of capital.

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By owning multiple insurance businesses, Berkshire has benefitted from what Buffett terms "permanent capital." In any given month or year, the holding company has billions in capital to invest in any attractive opportunity.

Over the years, Buffett has used this permanent capital to build incredible wealth for Berkshire shareholders. His most notable winners have been blue-chip stocks like **American Express**, **Wells Fargo**, and **Coca-Cola**.

That's why I paid close attention when I read a well-researched post arguing that **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) was the Berkshire Hathaway of the energy industry.

Can Canadian Natural really build immense wealth using the Berkshire Hathaway model?

Here's the argument

Canadian Natural Resources won't emulate Berkshire Hathaway by buying an insurance company and managing an investment portfolio. Rather, it will use internal cash flows to buy energy assets on the cheap, becoming a niche value investor.

With sentiment for Canadian energy projects near all-time lows, there's never been a better time for Canadian Natural to execute this strategy.

Last year, supply gluts forced Alberta to institute mandatory production cuts. Small, debt-laden operators have seen their share prices crushed by 50% or more. While this provides Canadian Natural with opportunities to scoop up entire companies at a discount, it's also creating the chance to buy specific assets at fire-sale prices as competitors focus on preserving cash.

Being the only buyer in a severe bear market can arguably allow Canadian Natural to grow quickly at prices that would make even Warren Buffett envious.

There's one catch

There's only one problem: Canadian Natural Resources has never shown an ability to capitalize on industry woes.

For example, consider the industry-wide collapse in 2014, where oil prices plummeted from US$120 per barrel to under US$40 per barrel. That year, Canadian Natural stock fell from $46 to around $30. Most of its competitors saw price declines that were far worse.

The following year, acquisition rumours picked up heavily, especially following **Suncor Energy's** $4.3 billion bid for Canadian Oil Sands. Then came a report that Canadian Natural was nearing a $1 billion deal to buy oil sands assets from **ConocoPhillips**.

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Ultimately, however, Canadian Natural was a net seller that year after selling some royalty assets to **PrairieSky Royalty** for $1.8 billion.

Wait, there's another catch

Throughout its history, Canadian Natural has been a proven destroyer of shareholder wealth. For nearly 15 years, it has produced a cumulative return of roughly 0%.

Even if that changes, with the company suddenly capable of buying quality assets at rock-bottom prices, its future remains bleak. Oil sands projects are simply doomed.

In March, I wrote how companies like **Exxon Mobil**, **Chevron**, and **Royal Dutch Shell** will crush Canadian oil sands operators over the next decade and beyond. While those companies are targeting all-in production costs of just US$15 per barrel in the U.S., Canadian peers are stuck with breakeven points of US$40 per barrel or more.

Oil sands projects have been money-losing initiatives for more than a decade. Buying them on the "cheap" won't change that.

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