



## Does Canadian Natural Resources Ltd (TSX:CNQ) Stock Really Have 10% Upside?

### Description

It seems that the stock market is finally warming up to Canadian energy companies. After a six-month bear market, many notable investors are jumping back in.

Warren Buffett, for example, [scooped up](#) 10.8 million shares of **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) in early March.

It seems that Wall Street analysts are also changing their tunes. In recent weeks, Mizuho Securities initiated coverage of **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)) with a “buy” rating. Its price target is \$45, representing around 10% potential upside.

“Like fellow Canadian major Suncor Energy,” said Mizuho Securities analyst David Clark, Canadian Natural, “is in the sweet spot of the investment/cash flow cycle.” Clark also added that Canadian Natural’s management appears shareholder friendly and has an attractive mix of distillate-rich synthetic oil.

While Canadian oil stocks have been rebounding, major headwinds remain. Does Canadian Natural stock really have 10% upside?

### Don’t just pick any oil stock

Following a rough bear market, it’s not surprising to see investors jumping back into beleaguered Canadian energy stocks. Just be careful about which stocks you pick.

Take a look at Warren Buffett’s investment in Suncor Energy, for example. Suncor has a sizable refinery business that can process a large bulk of its oil production. That’s a key advantage for several reasons.

First, when oil prices fall, crack spreads often widen. Crack spreads are the difference between the cost of unrefined oil and the selling price of processed oil. Basically, it’s the profit that refineries make.

So, when Suncor's profits in its upstream business fall, profits at its refineries actually jumps.

Suncor's second advantage is that it doesn't need to pay third-party refineries to take its product. During Alberta's supply crisis of 2018, many oil producers were selling their output to refineries at any cost given transportation constraints. By controlling its own refineries, Suncor never had to face this problem directly.

In total, Buffett bought a beaten-down Canadian energy stock that doesn't have to deal with most of its industry's problems. Canadian Natural, however, enjoys no such advantages.

## Beware the long-term story

I've never been a big fan of Canadian Natural. "Throughout its history, Canadian Natural has been a proven destroyer of shareholder wealth," I [wrote](#) in March. "For nearly 15 years, it has produced a cumulative return of roughly 0%."

While the stock will remain volatile, with plenty of short-term ups and downs, the long-term trajectory will likely trend lower. The reason is simple: Canadian Natural can't compete in the new era of oil production.

Today, international oil majors like **Exxon Mobil**, **Chevron**, and **Royal Dutch Shell** are building huge projects in the U.S. with breakeven prices as low as US\$15 per barrel. With breakeven levels closer to US\$40 per barrel, it's not clear how Canadian Natural can survive.

Additionally, the challenges with Canada's transportation network won't go away anytime soon. It will take years to build new pipelines, and newly elected premier Jason Kenney said he'll cancel the government's lease of 4,400 rail cars meant to provide emergency crude-by-rail relief to local producers.

In the end, Canadian Natural is stuck between a rock and a hard place. Not only are its assets increasingly noncompetitive, but it simply can't control its own future given it needs to rely on other companies to build new pipelines quickly.

Maybe the stock has 10% in short-term upside, but over the coming years, the story looks bleak.

### CATEGORY

1. Energy Stocks
2. Investing

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1. Editor's Choice

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