



At What Price Is Canadian Natural Resources Ltd (TSX:CNQ) Worth Buying?

Description

Canadian Natural Resources ([TSX:CNQ](#))([NYSE:CNQ](#)) stock currently trades at \$31 per share, the same price it traded at back in 2006. If you've been a buy-and-hold investor, you're likely wishing for a time machine.

Wall Street analysts have gotten the stock wrong for nearly a decade. In 2016, **Royal Bank of Canada** named Canadian Natural its "top pick," revealing a price target of \$50 per share.

Since that call, shares have returned roughly 0%, remaining 20% below RBC's price target.

After delivering terrible returns for more than a decade, proving dozens of analysts overly optimistic, at what price should you actually buy Canadian Natural stock?

Canadian oil is in trouble

Warren Buffett has often said "if you aren't thinking about owning a stock for 10 years, don't even think about owning it for 10 minutes." It's very difficult to make a 10-year pitch for Canadian Natural.

The first problem affects nearly all of its domestic competitors: limited transportation infrastructure.

In 2018, Canadian oil prices cratered following a glut of supply. Pipelines and terminals were overloaded, giving surging oil production nowhere to go. Local producers bid to the death in order to export their output, causing prices to fall by more than 50%.

Alberta instituted a mandatory production cut to re-balance the market, but this saga won't be ending any time soon.

While many short-term fixes will continue to support local selling prices, the fundamental cause of the recent collapse (oversupply) will only grow worse for at least a decade.

Through 2030, Canadian oil production is set to rise nearly every year. New pipelines need to be built

to prevent another supply glut.

In 2021, Enbridge's XL Pipeline is expected to come online, but it's still uncertain whether this possibility will finally become a reality. Even if it does enter service, the market is expected to be oversupplied again within 12 months.

Surging production from both Canadian Natural and its competitors means the industry is reliant on external factors to succeed, like new pipelines. Trusting a company that can't control its own future is a big risk.

Limited pipeline capacity is only the beginning of Canadian Natural's problems. Over the next few years, it's not clear how the company's lower-quality, higher-cost output can survive.

The biggest concern stems from international oil majors like **Exxon Mobil**, **Chevron**, and **Royal Dutch Shell**, which are all actively growing their presence in the U.S., particularly in low-cost, high-quality regions. Breakeven prices on these new projects are expected to approach US\$15 per barrel, a level not seen outside the Middle East.

Current estimates peg Canadian Natural's breakeven price at US\$40 per barrel. And remember, the company often has realized prices much lower than the overall market considering its disadvantageous position in capacity-constrained Canada.

High costs and discounted selling prices don't suggest a rosy future for the company.

No price is acceptable

There's a decent chance that the net present value of Canadian Natural's assets is close to \$0.

If better-financed companies like Exxon and Chevron can actually hit US\$15 per barrel costs, a huge amount of cheap oil will enter North American markets.

Meanwhile, Canadian Natural would struggle to remain cash flow positive as prices dipped. Given transportation constraints, Canadian prices could breach US\$30 per barrel or less, not unlike last year's rout.

Perhaps Canadian Natural can pull a rabbit out of its hat, but I'd expect yet another lost decade for the company's stock. With plenty of other beaten-down oil stocks to choose from, I'm not buying Canadian Natural at any price.

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