Canadian Natural Resources's (TSX:CNQ) Q1 Results: What We Learned

Description

When **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) announced its first-quarter results earlier this month, it included a few nuggets that were not only relevant to their investors but also anyone betting on the energy sector at large.

Paying close attention to these quarterly earnings calls can pay dividends for diligent investors.

If you have money staked on energy companies, especially Canadian Natural, you'll want to read these highlights.

Everyone wants free cash flow

You've probably noticed a shift in the focus of most oil companies these days. While in years past, most operators focused on production growth, the only thing companies seem to talk about today is free cash flow.

Listening to the conference calls of nearly every energy company — from **Encana** and **Husky Energy** to **Crescent Point Energy** and **Suncor Energy** — this metric is all you hear about.

Due to mounting debt loads, surging industry-wide production, and intensifying competition, the focus on free cash flow makes a lot of sense. In this regard, Canadian Natural is no different.

The very first point Executive Chairman Steve Laut made on the company's conference call referred to Canadian Natural's ability to remain free cash flow positive.

"Canadian Natural's long-life, low-decline asset base, combined with our effective and efficient operations, make Canadian Natural very robust," he said. "As a result, we generate significant free cash flow."

As the call went on, he doubled down on this point.

"As we move through the year, at the current strip, we target our quarters to only get stronger, generating very robust free cash flow," he insisted. "Canadian Natural's ability to generate significant and sustainable free cash flow sets us apart from our peers."

As long as we remain in a lower-for-longer oil price environment, expect to hear more of the same from every competitor. Be sure to dig into the numbers yourself to see if the free cash flow claims are really what they appear to be.

Supply continues to mount

Every oil company is touting its ostensibly unique ability to generate free cash flow, even though more and more competitors are claiming the same thing. A similar phenomenon is happening for production growth.

While increasing output isn't as big of a focus as it's been in the past, it's still something companies like to mention frequently.

After reiterating for an umpteenth time that Canadian Natural is free cash flow positive, Steve Laut highlighted the growing production per share.

"There are very few E&P companies that can deliver substantial, sustainable, and growing free cash flow and at the same time deliver production growth per share," he said.

That statement may be true on a per-share basis, but dozens of competitors are still ramping supply. That's a big problem for pricing.

Pricing in Canada, particularly Alberta, struggled last year, as burgeoning supply caused local prices to plummet as much as 50%. The cause was a lack of pipelines and transportation infrastructure.

Unfortunately, supply should continue to grow nearly every year until at least 2030. With seemingly every company claiming either stable or growing output, this will remain a problem for the entire industry.

Companies like Canadian Natural will try to frame it in a positive light, but it's a classic tragedy-of-the-commons scenario.

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rvanzo