3 Reasons to Sell Canadian Natural Resources (TSX:CNQ) Stock Now

Description

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) shares haven't budged in nearly 15 years. Sure, there have been spikes and dips along the way, but the stock is currently still trading at 2005 levels.

While many investors are calling for a resurgence, intelligent investors should sell this stock and walk away. Even if you're not invested in Canadian Natural, you'll want to understand this story, for the lessons could impact the rest of your portfolio.

Here's why Canadian Natural stock, as well as many of its peers, could be facing a difficult future.

Where's the money?

Eventually, all companies need to turn a profit. Investors can be convinced to forgo near-term upside for long-term growth, but if earnings don't materialize, it's hard to consider the business a success.

From a profits standpoint, Canadian Natural's history looks impressive. Over the last 15 years, the company has only posted an annual loss twice, in 2015 and 2016.

If the company is delivering on profits, why hasn't the share price moved?

It's important to know that profits are an accounting metric. They don't actually represent actual cash. In many cases, a company can post healthy profits while the underlying businesses are bleeding cash. This is especially true for a capital-intensive business.

At the end of the day, investors can never get their hands on accounting profits. The only thing that matters is cash flow, which represents cold, hard cash.

Since 2004, nearly half of all years saw *negative* free cash flow per share. Cumulatively, the company has only generated US$2.62 in free cash flow per share across 15 years. That's a terribly underwhelming number.

It seems that the company is putting a greater focus on cash flow this year, but if history is any indication, Canadian Natural's business simply doesn't generate enough cash to warrant an investment.

Out of its control

The market is flooding with supply, especially in Canada. Surging output has been putting a big strain on transportation infrastructure, particularly pipelines.

While some upgrades have improved throughput, there's simply not enough infrastructure to support volume growth. That's a big issue considering regional volumes are expected to rise nearly every year until 2030.

Last year, local prices fell by more than 50% as producers became desperate to secure pipeline capacity. Alberta was forced to implement a province-wide production cut to balance the market.

The fact is that Canadian Natural's future is partially beyond its control. If more pipelines aren't built, the company may be forced to limit production, pay more to secure capacity, or shift to pricey crude-by-rail alternatives.

These issues may ultimately be fixed, but betting on a company that relies on other companies for growth is a difficult proposition.

The death blow

Currently, Canadian Natural estimates its breakeven price to be roughly US$40 per barrel. That includes the 4.2% dividend, so management is actually being conservative by factoring that in.

With WTI oil prices hovering around US$50 per barrel, it seems as if the company has a bit of a cushion, but it doesn't. Canadian production typically sells at a sizable discount. Western Canadian Select prices, for example, are just US$40 per barrel.

This discount may widen as oil giants invest heavily throughout North America. **Chevron**, **Royal Dutch Shell**, and **Exxon Mobil** could be producing oil on the continent for as low as US$15 per barrel. That blows Canadian Natural's breakeven price out of the water.

If competing supply hits such rock-bottom prices — a rising probability — oil sands producers like Canadian Natural could be left scrambling.

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Date
2025/08/24
Date Created
2019/06/13
Author
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