Oilsands Producers: Up to 100% of Free Cash Flow Will Go to Investors

Description

If you have investments in energy stocks in 2022, particularly **Canadian Natural Resources** (TSX:CNQ) and **Cenovus Energy** (TSX:CVE), don't sell them. The cash-rich oilsands producers have returned 50% of their free cash flow (FCF) to investors this year but promised to return up to 100% next year.

The pledge, however, hinges on hitting net debt targets of $8 billion and $4 billion, respectively. According to industry analysts, the plan to hit these milestones and enrich shareholders is achievable. Because of their ability to generate ample cash, **BMO** Capital Markets analysts say it could happen by year-end 2023.

Long-life, zero-decline assets

Canadian Natural boasts a solid and diversified asset portfolio. The $82.3 billion independent energy producer owns a balanced mix of natural gas, light crude oil, heavy crude oil, bitumen, and synthetic crude oil (SCO) assets.

Its President, Tim McKay, said, "Our large, low-risk, high-value reserves provide us optionality and flexibility to allocate capital to our highest return projects. Our diversified and balanced production maximizes value for our shareholders, as we do not rely on any one commodity type."

Mark Stainthorpe, Canadian Natural's CFO, adds, "The combination of our leading financial results and our top tier asset base provides unique competitive advantages which drive substantial cash flow generation and shareholder returns." Moreover, management said strategic growth capital or acquisitions would not impact shareholder returns.

Canadian Natural still had an FCF of approximately $1.7 billion after paying $2.5 billion in dividends in Q3 2022. In the nine months that ended September 30, 2022, net earnings climbed 83.6% year over year to $9.4 billion. The Board also approved a 13% hike to CNQ's quarterly dividend.

The dividend hike after Q3 2022 marks 23 consecutive years of dividend increases. CNQ currently trades at $74.30 per share (+47.94% year to date) and pays an attractive 4.53% dividend.

Resounding comeback

Cenovus Energy made a resounding comeback after the oil slump in 2020. The $46.4 billion integrated oil and natural gas company had to reduce capital spending and suspend dividend payments due to low global prices. However, management reinstated dividend payments in Q3 2021 because of excellent operational and financial performance.

CVE investors enjoy a 63.2% year-to-date gain ($24.86 per share) in addition to a modest 1.91% dividend. In Q3 2022, cash from operating activities and free funds flow rose 91% and 23% to $4 billion and $2 billion versus Q3 2021, respectively. The company spent $659 million on share buybacks and paid $219 million in variable dividends.

President and CEO, Alex Pourbaix, said, “Solid operating performance at our upstream assets drove another strong quarter for Cenovus, even with increased commodity price volatility.” The company spent $659 million on share buybacks and paid $219 million in variable dividends. He adds that the first variable dividend is part of Cenovus’ shareholder returns framework.

Noble goal

Large-cap stocks Canadian Natural and Cenovus Energy are founding members of the Pathways Alliance. In addition to the promise to enrich investors, these oilsands producers aim to reduce gas emissions by 40% from 2020 to 2035. This noble goal should also attract socially responsible investors.

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