

FINANCIAL POST

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Canadian Natural Resources Ltd an investor darling for analysts even amid oil price slump

By Geoffrey Morgan



Ryan Jackson/Postmedia News fileCNRL has posted guidance that shows that it could post a rare decline in oil and gas production in the coming year.

CALGARY – Canadian Natural Resources Ltd. is an investor darling, with analysts from energy-focused investment firms such as FirstEnergy Capital Corp. and stock pickers from global firms like Barron's frequently naming its stock among their favourites in the energy sector.

Even with oil prices plummeting, 19 of 25 analysts surveyed by Bloomberg say the company is a "buy" and when CNRL reports its fourth-quarter results Thursday, the analyst crush is unlikely to change.

"It's a reputation for being able to control their costs and manage the business in the downturn," **Veritas Investment Research** vice-president **Sam La Bell** said in an interview, explaining the appeal of CNRL.

"One of the reasons that [CNRL] does better is it has this big Horizon [oil sands expansion] project starting up in two to three years, so they have this sunk cost that's already been spent and they have this producing asset that's going to start up and it's going to bring with it a lot of cash flow," **Mr. La Bell** said.

He added that he is somewhat "negative on the valuations" because CNRL's stock price hasn't corrected following the collapse in oil prices to the same extent as its peers.

Benchmark oil prices have fallen more than 50% since June, with the West Texas Intermediate closing at US\$50.52 per barrel Tuesday.

CNRL share price has dropped from a 52-week high of \$49.57, hit when oil prices were above US\$100 per barrel, to \$36.91 at the end of trading on Tuesday.

RBC Capital Markets analysts expect the company Thursday to post a 20% drop in realized oil prices and a 5% drop in realized natural gas prices in the fourth quarter over the preceding quarter, according to a research note sent to clients this week.

The bank also expects CNRL to post cash flows of about \$2.16 billion for the quarter and to provide an update on the company's 2015 spending program, which it trimmed by \$2.4 billion, or 28%, on Jan. 12 in response to the drop in oil prices.

CNRL has posted guidance that shows that it could post a rare decline in oil and gas production in the coming year.

"The market's not necessarily going to punish you for that because nobody thinks you should be spending money this year anyway — because you're using up drilling opportunities at a low commodity price that is probably not economic," **Mr. La Bell** said, adding he expects the company to announce further reductions to its capital spending program.

Analysts will also be looking for an update on whether CNRL will spin off its royalty lands — following in the footsteps of Encana Corp., which raised more than \$4 billion in an IPO and secondary offering of PrairieSky Royalty Ltd. in 2014.

RBC analysts said the value of CNRL's royalty lands could reach \$2.2 billion.