

PRESS CUTTINGS

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Great Ideas: Investments to make today

Buy Canadian Natural Resources: the best oil and gas firm you've never heard of

Owned by growth and income funds it generates lots of cash to fund returns to shareholders



CANADIAN NATURAL RESOURCES
 (CNQ:TSX) Price: C\$81.46 Market cap: C\$90 billion

The prosaically named **Canadian Natural Resources (CNQ:TSX)** generates lots of cash which underpins a generous and progressive dividend policy and it provides investors with exposure to some of the highest quality oil assets in the world.

The company has increased its dividend for 23 consecutive years, despite intervening volatility in commodity prices. A recently updated policy says it will allocate 80% to 100% of free cash flow as incremental returns to shareholders, in the form of dividends or share buybacks, when net debt is at or below a threshold of \$8 billion. Last reported net debt was \$12.4 billion.

Based on consensus forecasts the shares trade on a price to earnings ratio of just under nine times and offer a dividend yield of more than 4%.

The stock's recent addition to the portfolio of growth fund **Blue Whale (BD6PG78)** and its position in income-focused investment trust **Middlefield Canadian Income (MCT)** demonstrates the breadth of its appeal.

Middlefield fund manager Dean Orrico says: 'The company has very high insider ownership and a culture of accountability, which in our opinion results in superior and asymmetric shareholder

outcomes in terms of capital allocation, asset execution, return of capital, balance sheet strength, M&A and dilution and ESG (environmental, social, governance) performance.'

Canadian Natural Resources' core assets are situated in Alberta's oil sands. These are large deposits of bitumen – extremely heavy crude oil. The environmental impact of exploiting these deposits has attracted criticism but one factor which is heavily in their favour is their low decline rates and the long and predictable life of reserves.

Production costs are also relatively low – the company's breakeven oil price of \$30 per barrel gives it plenty of headroom at current prices of \$80 per barrel. Maintenance costs are also low.

Across its portfolio, which also includes conventional oil and natural gas fields as well as pipelines and other infrastructure, the company has more than five billion barrels of oil equivalent of reserves with a life running into three decades.

A risk worth weighing is potential political pressure over the amount of water and energy and associated emissions required to develop oil sands. Canadian Natural Resources is attempting to address these concerns with its position in the Pathways Alliance, an association of Canada's six largest oil sands producers aiming to achieve net zero by 2050. [TS]

