Take a Cautious Contrarian Stance With Canadian Natural Resources Limited

Description

Canadian Natural Resources Limited (TSX:CNQ)(NYSE:CNQ) is one of the best-run Canadian firms running in the Albertan oil patch. Sure, everyone is incredibly bearish on Canada's energy sector, but if you're bullish on oil and you're looking to make a contrarian bet, then Canadian Natural Resources may be the stock you're looking for.

Foreign and domestic investors are incredibly bearish on the Albertan oil sands right now. There's a huge cloud of uncertainty, and the outlook looks bleak, so why would anyone dare to make a bet on an oil sands operator at these levels?

The risk of going belly up is quite high for smaller operators in the oil sands right now, but that's simply not the case for high-quality producers with more efficient operations. Canadian Natural Resources is arguably one of the safest ways to play a recovery in Canada's energy sector. Its balance sheet is healthy relative to many of its financially distressed peers, even after making its massive acquisition of **Royal Dutch Shell's** oil sands operations.

While other firms are questioning the future of Canada's energy sector, Canadian Natural Resources is doubling down on the oil sands. It's quite possible that in many years from now, the oil sands deal will seem like a genius move.

Solid second-quarter results are something to be optimistic about

In Q2 2017, Canadian Natural Resources released a fantastic quarter, which saw remarkable improvements across the board. Adjusted net earnings from operations were clocked in at $332 million, up from the loss of $210 million experienced during the same quarter last year. Product sales were up to $3.93 billion, up from $2.69 billion during the same period last year. Barrels of oil-equivalent product per day was up over 16% year over year to 913,171.

Although oil prices have been fluctuating around the $50 levels, the management team has been focusing on what they can control to become a better producer for the long term. That means reducing expenses to become even more efficient, which ultimately makes the company more profitable regardless of where oil prices are.

It’s possible that oil prices may remain depressed for a longer period of time, and if this is the case, Canadian Natural Resources is far better off than a majority of the operators in Alberta’s oil patch.

Bottom line

Canadian Natural Resources is a fantastic operator which will realize major long-term synergies from its recent oil sands acquisition. While Canada’s energy sector may still be unattractive to investors, I think it may be a wise decision to take a cautious contrarian stance by buying small chunks of Canadian Natural Resources using a dollar-cost averaging approach over the next few months. While you wait for a rebound, you’ll get to collect a bountiful 2.8% dividend yield, which is sustainable and has more room to grow.

Stay smart. Stay hungry. Stay Foolish.

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