Dividend Investors: Should Canadian Natural Resources Ltd. (TSX:CNQ) Stock Be on Your Buy List?

Description

Canadian dividend investors are searching for reliable stocks to add to their TFSA or RRSP holdings.

Let's take a look at **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) to see if it deserves to be in your portfolio today.

Oil recovery

Oil prices are holding up well after a solid rally that moved WTI from US$43 per barrel in June 2017 to the current price near US$70.

On the bull side, analysts say ongoing supply issues in Venezuela, Libya, and Nigeria will likely keep the market elevated. In addition, U.S. sanctions against Iran are set to begin in November, which could further reduce global supply levels. Iran has said it is considering a move to block oil tankers from passing through its territorial waters in the Strait of Hormuz. If the country follows through on the threat, oil prices could skyrocket.

Bears also have a case to make, suggesting oil prices could fall in the coming months on reduced Chinese imports. A trade war between China and the U.S. is viewed as a real possibility, and this could have a meaningful negative impact on the Chinese economy.

As usual, investors have to be cautious when picking energy stocks. Early 2019 could see WTI oil prices anywhere from US$60 to US$90 per barrel, depending on how things play out in the coming months.

Is Canadian Natural Resources attractive?

The surge in oil prices has significantly increased margins for some of the industry's producers, and CNRL is one of the companies that has benefited. Funds flow from operations in Q2 2018 came in at $2.7 billion compared to $1.7 billion in the same period last year. Adjusted net earnings were $1.28 billion, or $1.05 per share, compared to $332 million, or $0.29 per share.

Of note, CNRL sells most of its production at WTI and Brent prices, which are higher than Western Canadian Select prices.

The company's advantage over its peers lies in the diversification of its product base. CNRL has oil sands, heavy oil, light oil, natural gas, and natural gas liquids assets located in Canada, North Sea, U.K., and Offshore Africa. As market prices shift, CNRL has the ability to move capital to the highest-return opportunities across the resource spectrum.

Management is doing a good job of sharing profits with investors. CNRL raised the quarterly dividend by 22% to $0.335 per share, representing the 18th straight year the payout has increased. At the time of writing, the distribution provides a yield of 3%. The company also increased the number of shares it plans to buy back under the normal course issuer bid program.

CNRL's strong balance sheet gives it the power to make strategic acquisitions. The company took advantage of the downturn to add valuable properties in the Pelican Lake region and recently announced a deal to buy the Joslyn oil sands project.

The bottom line

Oil's relative stability in the face of a rising U.S. dollar is a positive sign, and ongoing supply issues could offset any potential hit to demand in the event of a trade war between the U.S. and China. If you are looking for a buy-and-hold energy pick with a growing dividend, CNRL should be a solid choice today.

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aswalker