



## Why Canadian Natural Resources (TSX:CNQ) Is the Most Undervalued Oil Stock

### Description

If you're like me and are watching oil stock prices with both dread and excitement, I'll bet you haven't had much sleep lately. It seems like each day there is another headline screaming why you should be buying up as many oil stocks as you can and the next day selling them all!

The word that I keep reading again and again is *glut*. This frankly gross word describes both the large amount of oil Western Canada is stuck with at the moment and how you might feel about the amount of oil stocks you own. Any can feel like too many.

But it's time to take a deep breath and realize that although this glut sounds awful (and, sure, right now it is), this overproduction isn't permanent. That's why right now is the best opportunity to find an energy stock that is cheap, reliable, and flexible in this volatile market.

### Enter Canadian Natural Resources

**Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)) had a banger day on Dec. 5 after the company released its financial plans for 2019. Analysts and investors alike were impressed by CNR's reaction to the overproduction of oil. CNR announced budget cuts of \$1 billion because of poor oil prices, bringing its budget down to \$3.7 billion, below last year's \$4.6 billion price tag.

The company's planned output of crude and natural gas for 2019 could be as much as 861,000 barrels per day, with only 16% of its budget aimed at increasing its output and the remainder being used to keep finances steady.

However, CNR is optimistic after Alberta premier Rachel Notley's announcement that the province is working to buy rail cars to transport up to 325,000 barrels of crude per day. So, if the market improves, the company will be ready to invest an additional \$700 million in 2019, adding to production in 2020 and beyond.

## Earning it

CNR has a history of staying strong in the face of volatility, focusing on its financial health that has kept long-term investors from selling. Over the past year, the company's [earnings growth reached almost 50%](#), with a price-to-earnings ratio of 11.6.

With its growth pretty much non-existent until 2020, CNR has focused on providing shareholders with [a strong dividend yield](#) of nearly 3.74%, one of the strongest among oil sands producers.

## 2019 and beyond

The dividend yield is great now, but the future looks bright for CNR too. The company recently purchased 70% working interest in the Athabasca Oil Sands Project for the bargain-basement price of \$60,000 per flowing barrel.

It also has its Jackpine Mine field trial to look forward to in 2020, along with its new bitumen processing unit. The portable pilot project separates 500 tonnes per hour of bitumen from sand in the mining pit instead of needing to be transported to be processed. The tests will continue in 2019, with plans for a commercial-sized plant in 2020. This could cut mining costs by up to \$3 per barrel and greenhouse gas emissions with less trucking.

## Bottom line

CNR hasn't been bulletproof against the slump in oil prices, but it has to be one of the strongest investments you could make right now. The company has proven that while it can be flexible in this volatile market, it's ready in case Keystone XL and Trans Mountain pipeline are up and running.

Even after the jump in share prices on Dec. 5 of over 12%, this stock is massively undervalued. At a discount of almost 20%, this stock is a steal for investors — one that should see some major growth in the long term and strong dividends much sooner.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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