Investors: Here Are Many Reasons to Own Canadian Natural Resources Ltd. (TSX:CNQ)

Description

At the time of writing, the price of oil is holding firm at just over $53.00 (WTI) and just over $42.00 (Western Canadian Select). And although oil prices have rallying as of late as a result of geopolitical unrest in countries such as Venezuela, they've sent investors on a wild goose chase, as volatility has been the norm.

Canadian Natural Resources Ltd. (TSX:CNQ)(NYSE:CNQ) stock serves to mitigate this risk and volatility by virtue of the company's large and stable asset base; maintenance capital requirements are low, and the company's long life and low decline asset base boasts a 10% corporate decline rate.

It is these characteristics that have driven CNQ's record of free cash flow growth and stability over the long haul.

Therefore, investors should consider this dividend stock for their TFSA or RRSP portfolios for the following benefits:

CNQ is a free cash flow machine

In the first nine months of 2018, Canadian Natural has seen a 50% increase in funds from operations, free cash flow after dividends of approximately $3.1 billion, and a sharp improvement in oil sands mining operating costs to $22.90 per barrel.

Based on a WTI oil price in the low $50s, management is forecasting 2019 free cash flow of $2.9 billion, and at oil prices closer to the $70 range, they are forecasting free cash flow of $4.6 billion.

Growing dividend

Over the last 18 years, Canadian Natural stock has provided its shareholders with consecutive annual dividend increases.

At $1.32 per share, the dividend has grown at a compound annual growth rate (CAGR) of 22% in the last 10 years and a CAGR of 21% since its inception in 2004.

During this 15-year period, we've seen really high oil prices, but also some struggles along the way, and CNQ has stood strong.

The current dividend yield is 3.85%.

Still not sure?

For more risk-averse investors, bond yields are climbing higher, making them an increasingly attractive alternative to the stock.

If you are not convinced about where the price of oil is heading, and if you would prefer an even greater reduction in risk, this could be something to consider as well. CNQ's senior unsecured bonds are rated Baa2 by Moody's after a recent upgrade. A Baa2 rating is the ninth highest rating in Moody's Long-term Corporate Obligation.

This rating means the following: moderate credit risk, and the debt is medium grade and therefore may possess certain speculative characteristics.

The 2026 bonds have a yield of 3.5%

Final thoughts

In summary, while Canadian Natural Resources stock has a relatively safe profile in my view, with an attractive dividend growth and free cash flow profile, many investors still do not feel comfortable with the risks.

Therefore, the bonds may also be worth considering for your TFSA and/or RRSP portfolios.

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