Contrarian Investors: This Leading Canadian Energy Stock Has Huge Upside Potential

Description

The recovery in equity markets to start 2019 has removed many of the deals that were available at the end of 2018. However, there are still opportunities for contrarian investors in a few sectors that remain out of favour.

Let's take a look at one unloved stock that might be an interesting pick today for your portfolio.

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ)

CNRL owns oil sands, conventional oil, offshore oil natural gas, and natural gas liquids production assets and resources in Canada, the North Sea, and Offshore Africa.

The company is widely viewed as owning the best resource portfolio in Canada, and management has a knack for allocating capital to the best-return opportunities as market prices shift. Sole ownership in most of the sites is a big bonus and provides the company with important flexibility to make quick capital decisions.

CNRL reported record results for 2018, supported by rising production and higher prices. Adjusted funds flow in excess of net capital outlays came in at $4.36 billion and free cash flow, after dividend payments, was just under $2.8 billion.

In short, this company is a cash flow machine.

The board declared a 12% increase in the dividend for 2019. The new quarterly payout of $0.375 per share provides a yield of 3.7%. In addition, investors know how CNRL will use excess cash going forward. The board has put a plan in place that will see the company allocate residual free cash flow to share buybacks and debt reduction on an equal-weighted basis. This is the cash that is left over after the capital program and dividend payments are covered.

Oil prices have bounced 50% off the late 2018 lows and more gains could be on the way. Disruptions in Libya and Venezuela are combining with output cuts by Saudi Arabia to support the recovery. Some pundits see WTI moving toward the US$70 mark this year. At the time of writing, WTI trades for US$64 per barrel. The heavy discount on Western Canadian Select oil has also evaporated in the wake of Alberta's move to limit production in the province.

Pipeline bottlenecks remain, but that situation should eventually get resolved. Trans Mountain and Keystone XL continue to face opposition, but federal governments on both sides of the border are determined to get the projects built.

Should you buy?

CNRL trades at $40 per share. That's up 33% from the December 2018 low but still well below the $49 the stock hit last summer. If you have some cash on the sidelines and are looking for a buy-and-hold contrarian pick for your portfolio, CNRL appears attractive today.

CATEGORY

1. Energy Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Energy Stocks
2. Investing
3. Stocks for Beginners

Date
2025/08/24
Date Created
2019/04/17
Author
aswalker