TFSA Investors: Time to Buy Canadian Natural Resources (TSX:CNQ)

Description

Canadian Natural Resources Ltd. (TSX:CNQ)(NYSE:CNQ) reported first-quarter 2019 results that demonstrate why this stock is a top TFSA pick for exposure to the energy sector and for regular reliable dividend income and strong capital gains potential.

This $45 billion energy giant trades at a price-to-earnings ratio of 15 times this year's consensus expected earnings, and at a price-to-cash flow of less than six times earnings, remaining attractively valued.

Right now, investor sentiment around the energy sector is poor, which isn't a big surprise given the many issues that have plagued the sector.

So many quality stocks like CNQ are seeing a lack of interest, a lack of demand.

Here's what the first-quarter results say about why this should change.

Oil prices significantly higher

This, we already know. But while oil prices have soared since December 2018, they are still down versus one year ago, and energy stocks reflect this.

CNQ stock is trading at around the same level as three years ago and down 18% versus one year ago. Cash flow from operations in 2014 was $8.4 billion. It was $10.1 billion in 2018.

Also, what strikes me about this energy stock's price chart over the last few years is that it is relatively steady, while of course being backed up by its strong cash flows and dividend.

Cash flow party

While production was down sequentially due to the mandated production curtailments, Canadian Natural continued to impress with its cash flows.

First-quarter cash flow came in at $2.24 billion, 82% higher sequentially and only marginally lower than first quarter 2018, when oil prices were higher.

Recall that in the fourth quarter of 2018, the company generated $1.2 billion in cash flow, or $1.02 per share, despite the Canadian oil differential widening dramatically during the quarter.

Returning cash to shareholders

With 15 years of consecutive dividend increases behind it and a current dividend yield of almost 4%, Canadian Natural clearly has a strong track record of being a solid and reliable dividend-paying stock for TFSA investors.

In the first quarter of 2019, CNQ increased its dividend by 12%.

Another reflection of management's confidence in its ability to continue to generate strong cash flows is the company's continued buy back of its stock, repurchasing 6.65 million shares in the quarter, and 4.05 million shares already being repurchased in the second quarter.

Final thoughts

For TFSA investors, Canadian Natural is a top energy stock to own for its strong dividend yield, its strong track record and its upside to rising oil and gas prices.

When sentiment turns positive for the energy sector, Canadian Natural has big upside due to its top quality operations and its strong cash flow generating capability.

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Date
2025/08/18
Date Created
2019/05/10
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