Contrarian Investors: Is It Time to Buy Canadian Natural Resources (TSX:CNQ) Stock?

Description

The Canadian energy sector is struggling with low oil and natural gas prices, and investors have pretty much given up on the industry.

Large international companies continue to unload their holdings amid lost faith in the government's ability to build the pipelines needed to get oil to international markets. Few analysts specialize in the oil patch due to a lack of investor demand for their expertise — and income investors who historically propped up the former energy dividend darlings have moved on to other sectors.

Add in volatile prices to the mix and you can see why the market has pretty much turned its back on Canadian energy stocks.

Opportunity?

The patch is littered with casualties, especially companies that took on too much debt in the glory days and can't get out of trouble. Those stocks should be avoided. However, a few companies have managed to maintain strong balance sheets; these businesses have actually thrived through the downturn of the past five years as they added strategic assets at rock bottom prices.

While nearly all energy stocks (good and bad) have taken a hit due to the negative sentiment toward the industry, some appear oversold right now and have the potential to generate significant returns for investors willing to step in at an uncomfortable time and wait for better days to arrive.

Let's take a look at **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) to see why it might be an interesting contrarian pick right now.

Cash flow

Oil and natural gas prices remain under pressure, but CNRL continues to generate strong cash flow.

Adjusted Q1 2019 funds flow from operations came in at $2.2 billion. The company reported $1 billion in net earnings and $860 million in free cash flow after capital expenditures and dividends.

Assets

CNRL has a diverse assets base with resources and production covering the full range of the hydrocarbon spectrum. The company is the sole owner at most of its sites, giving management the flexibility needed to shift capital quickly to take advantage of movements in commodity prices.

Production for the first quarter was 1.04 million barrels of oil equivalent per day (BOE/d) with 54% being crude oil, natural gas liquids, and synthetic crude oil. Heavy crude oil added 22% and 24% came from natural gas production.

Dividends and share buybacks

CNRL raised the dividend by 12.5% for 2019 and is splitting its excess free cash flow between share buybacks and debt reduction.

The company's current dividend provides a yield of 4.3%.

Should you buy?

The stock trades at $35 per share compared to just under $50 last summer. Energy prices remain volatile, but buy-and-hold investors might want to take a contrarian position in the stock today. Oil could rally through the end of the year on OPEC supply reductions, meaning that investors get paid a solid return to wait in the event the market takes longer to recover.

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