Get a 10% Yield From This Oil Stock

Description

A great way to make extra income from stocks is to sell cash-secured puts to buy stocks that you don't mind owning and then write covered calls on those same stocks to generate extra income until the stocks are sold.

Ideal stocks for this strategy are trading near 52-week lows, possess strong balance sheets, and command higher premiums.

One stock that certainly meets these criteria is **Canadian Natural Resources Ltd.** (TSX:CNQ)(NYSE:CNQ). With a market capitalization of around $40 billion, CNQ is one of the largest Canadian oil producers.

It is diversified geographically, with operations throughout North America, in the North Sea, as well as off the coast of Africa.

CNQ also has the venerable distinction of being one of the few oil and gas producers not to cut its dividend during the commodity crisis that began to ravage much of the Canadian oil sector a few years back.

In fact, while the other companies were forced to cut their dividends, CNQ proceeded to raise its payout.

After a series of dividend increases, including a 12% increase announced in March, the annual payout has risen to $1.50 a share, or about 4.41% at the current share price.

The stock, at a price-to-earnings ratio of 16 times trailing earnings and a price-to-book ratio of 1.26 is not expensive in the least. It's also proven that it's still making money. In the first quarter of 2019, CNQ increased adjusted funds flows by 82% year over year.

The company had also been keeping its share count relatively steady, repurchasing 6,650,000 common shares for cancellation.

Now imagine the yield you will produce if you use options to boost your income. As of this writing, the stock sits just around $34. I would say buying the stock at $34 is a decent value, so I would sell a $34 strike put.

If you sell a September 20 put at a strike of $34, you will earn a premium of about $1.50 a share. Just think: after expenses your dividend will be pretty much doubled, resulting in a dividend of over 8% if you happen to pick up the shares and hold them.

But it doesn’t end there. You also have the choice to sell calls on the shares you now own. If you pick up the shares at $34 and the shares sit around that level, you can sell a call.

A call with a four-month expiry, such as the current November 15 call option, will gross you another $1.08 a share, which would push your yield above 10%, with your only risk being that you would have to sell the shares should it go above $36 before expiry.

What if I don’t pick up the stock?

This is the best part of the strategy. Should CNQ rise above the $34 strike on the put options before expiry, the options will expire worthless and you will keep the entire premium. That’s right — you will earn the entire year’s dividend in a month without having to hold the stock.

Depending on the share price at that time, you can decide whether you will sell more puts or simply wait for the stock to pull back to do it all over again.

It’s a great time to have options

CNQ is at a great point for selling options. As it’s an oil producer, it tends to command higher option premiums than do traditional low volatility stocks and sectors such as consumer staples.

But its operational capabilities have been excellent and its dividend has been very stable and growing for years, making this a relatively stable stock in a volatile sector.

But as it’s in the commodity space, I don’t mind selling the shares should my covered calls get exercised. This is a strategy I am planning on putting into action soon. The time is right to capture a high yield from options on CNQ.

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