



A Top Stock for Contrarian Investors

Description

Contrarian investors are constantly search for stocks that are out of favour with the market yet have the potential to bounce back and deliver fantastic returns.

The strategy comes with risk, as [cheap stocks](#) often get a lot cheaper before they recover. Sometimes they simply disappear on a takeover, and other times the rebound might not materialize for years.

Nonetheless, a timely pick of an unloved market leader can pay off for a patient investor, and it makes sense to buy stocks that at least offer solid dividends. In this way, you get paid well to wait for better days to arrive.

Let's take a look at one top energy stock that might be an interesting choice for your contrarian buy list right now.

Canadian Natural Resources

Canadian Natural Resources ([TSX:CNQ](#))([NYSE:CNQ](#)) is a giant in the Canadian energy sector with vast resources covering the full range of the oil and gas product spectrum, including oil sands, heavy oil, light oil, offshore oil, natural gas, and natural gas liquids.

The company has a strong balance sheet and uses its financial firepower to buy strategic assets when attractive opportunities arise. For example, CNRL recently purchased the Canadian assets of **Devon Energy** for about \$3.8 billion.

CNRL raised its dividend by 12% for 2019 and is buying back up to 5% of its outstanding shares under the current share-repurchase plan. The quarterly dividend of \$0.375 per share provides an annualized [yield](#) of 4.5%.

Oil and gas prices remain under pressure, but CNRL is still able to produce strong results. The company generated adjusted funds flow of \$2.2 billion in Q1 2019, exceeding its net capital expenditures by \$1.3 billion.

Part of the improvement came as a result of higher Western Canadian Select (WCS) prices that occurred after the Alberta government put a rule in place to curtail production. WCS rose from US\$11 per barrel in late 2018 to above US\$55 in early April and has held above US\$40 for most of the time since hitting the 2019 top. WCS currently sits at US\$45.

The stock now trades at \$33 per share compared to \$47 a year ago. When commodity prices start to move higher, CNRL's share price could take off.

Should you buy?

CNRL can generate decent results at existing market prices and has the potential to be a free cash flow monster when oil and gas prices improve.

Volatility in the energy markets should be expected, but you get paid an attractive and secure yield while you wait for the next rebound. If you have some cash on the sidelines, CNRL might be an interesting contrarian pick today.

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2. Investing

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