This TSX Stock Just Hit a Strong Sell Signal

Description

High dividend yields aren't always the best reason to buy a stock. Even if the stock is reporting positive earnings growth, it may still be dead weight in your portfolio. Here's why.

Take **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) as an example. In the past few years, the corporation has only modestly increased its debt level by 30%. This bodes well for the risk of a stock. Currently, CNQ's long-term debt is highly rated has BBB+ by Standard & Poor and the outlook is stable.

Oil is becoming outdated

The bad news about this stock is that it is in a dying industry. Its natural gas division should perform reasonably well, as natural gas is considered to be relatively friendly to the environment. Nevertheless, natural gas sales represent only 7.24% of the corporation's total production with crude oil comprising the rest.

Given oil price manipulation by Big Oil in North America, OPEC, and the strengthening Saudi Arabian alliance with the United States, Canadian Natural may be overinvesting in outdated energy technology. For Canadian Natural Resources to perform well on the Toronto Stock Exchange in the next 10 years, it needs to continue innovating with the energy sector as a whole. This means it needs to start investing less in oil and more in renewable energy.

Oil price setting has lost power

Big Oil is losing. The cartel's political clout is struggling to compete against lawsuits and grassroots activism eroding the present net value of ongoing investment projects. Not only do these issues add to the projects current expenses and delay revenue payoffs, but these legal troubles also cause significant stock market risk for shareholders.

Compounding these problems, Iran has been noncooperative in colluding with OPEC and North

American oil interests to restrict oil production and artificially raise prices. In July 2019, OPEC exempted Iran from curbing oil output. This decision was mainly an admission that the industry is no longer willing to risk costly conflict over oil profits.

Big Oil may be starting to understand that their industry needs to allow more competition in the market. This competition includes renewable resource alternatives like electric-powered vehicles, wind power, and solar energy.

Foolish takeaway

Canadian investors with higher risk tolerance and more substantial appetite for high dividends may be tempted to invest in high-dividend issuers like CNQ or **Enbridge**. But it is never a good idea to invest in dying technology. Eventually, CNQ, along with Enbridge and OPEC, will have to reduce earnings reliance on oil and increase the percentage of sales attributed to renewable resource divisions.

Oil companies are similar to **BlackBerry**. For those who remember, BlackBerry phones were popular in 2003, and the stock traded at under $7 per share. By some miracle, by 2008, near the launch of the iPhone, and at the start of the 2008 global financial crisis, the stock’s market value skyrocketed to over $130.

Today, BlackBerry again sells for around $7.15, offers no dividend, and to stay alive it pivoted its business development strategy to enterprise software and the Internet of Things (IoT). Innovation drives the economy; the only way for Big Oil to maintain some power is to stop fighting industry trends and follow it instead.

CATEGORY

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

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks

3. Investing
4. Stocks for Beginners

Date
2025/07/02
Date Created
2019/09/11
Author
debraray