Oil Shock: Canadian Natural Resources (TSX:CNQ) Stock Soars 13% in a Day … Should You Buy?

Description

Oil prices (WTI) rocketed as high as 14% on Monday on news of this weekend's attacks on Saudi Arabia, which brought down a major oil facility. It's projected that the damages will knock out over 5% of the world's oil supply. And should retaliation against those responsible be in order, we could witness an oil shock that could bring oil prices skyrocketing much further, perhaps past US$75 by year-end on the black swan event that nobody saw coming.

Fingers are being pointed at Iran right now, and with geopolitical tensions increasing again, with U.S.-China trade tensions and escalating protests going on in Hong Kong, the magnitude of uncertainty in this market is making it tough for jittery investors.

Energy stocks have been down in the dumps for a considerable amount of time now, but for those who stuck with Steady Eddie dividend payers like **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ), a stock that I've been pounding the table on over the last few months, in spite of the lack of catalysts in the oil patch, you got rewarded big time on Monday, as shares surged 13%.

Sometimes it makes sense to place a bet on a quality market hedge like Canadian Natural in spite of a lack of timely catalysts because like it or not, black swan events do happen, and given how severely undervalued the stock was last week, it made sense for long-term thinkers to get skin in the game at the rock-bottom valuations. That's a massive reason why Canadian Natural was my top pick for September.

"While Alberta's production curtailment extension has sparked another wave of negativity in the oil patch, I do believe that patient investors will stand to be rewarded by going against the grain after the latest sound of selling," I said. "There are few timely catalysts that could propel Canadian Natural or its peers out of their funk. What investors can expect, however, are stable free cash flows that'll continue to support the solid dividend (currently yielding 4.92%) and a rock-bottom price of admission (1.05 times book and 6.2 times EV/EBITDA)."

I didn't see the Saudi attacks coming, but I did notice how ridiculously undervalued the stock was and how it was positioned to correct to the upside on some unforeseen event. Now that the stock has taken off, does it still make sense to place a bet given what's unfolded?

I think it does. Canadian Natural stock is still severely undervalued after surging $7 over the past few weeks. The stock trades at just over seven times EV/EBITDA, leaving a substantial margin of safety to be had for value-conscious investors.

Moreover, further news on the Saudi attacks could result in an oil shock that could send all oil stocks much higher. Stocks in general don't respond well to such oil shocks, so it's vital to have a hedge against such an event. Canadian Natural's price of admission is still very low in the grander scheme of things, and given the geopolitical uncertainties and the odds of an oil shock, it'd be very wise to initiate a sizable position sooner rather than later.

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joefrenette