# Is Canadian Natural Resources Ltd. (TSX:CNQ) Stock Cheap?

### Description

The recent jump in energy stocks has investors wondering whether the sector has finally bottomed out after the steep pullback that occurred through the middle part of 2019.



Let's take a look at the current situation in the energy market and see if this might be a good time to add **Canadian Natural Resources Ltd.** (TSX:CNQ)(NYSE:CNQ) to the buy list.

## Oil volatility

Oil prices jumped as much as 20% in recent days after a drone attack on Saudi Arabia's oil fields and processing facilities knocked out 5.7 million barrels per day of crude oil production, representing about 5% of global supply.

The market pulled back after the U.S. indicated it would release emergency supplies, as required. Prices also slid once Saudi Arabia confirmed that most of the production would be back on line earlier than analysts had originally anticipated.

At the time of writing, WTI oil is at US$60 per barrel, roughly 10% above its price before the attack.

The event has changed a widespread view in the energy sector that supplies from OPEC leader Saudi Arabia are secure. In addition, there is concern that all of the oil production and supply coming out of the region might be less reliable going forward.

The U.S. is pointing the finger at Iran as the culprit behind the attack. If that proves to be the case, there is a threat that Saudi Arabia could respond with a retaliatory action. This would further destabilize the region and potentially send oil prices back toward US$100 per barrel.

Assuming cool heads prevail and the situation is addressed through diplomatic channels, many pundits suggest that oil is still going to have a new risk premium built into the price. At the very least, the bottom appears to be in place.

# Is CNRL a cheap stock?

The share price of CNRL is up 20% from its 12-month closing low near $30 per share reached in late August. The Saudi attack saw the stock rise from $33.65 to nearly $38 before slipping back to $36, where it currently trades.

At this price, investors are paying just nine times trailing earnings and can pick up a dividend yield of 4.2%.

CNRL arguably owns the best resource portfolio in the Canadian energy sector with oil sands, conventional oil, offshore oil, natural gas, and natural gas liquids facilities and opportunities for exploration in the top regions.

The company has a strong balance sheet and the financial firepower to make large acquisitions when attractive opportunities arise, as we saw with the $3.8 billion purchase of Devon Energy's Canadian assets earlier in 2019.

CNRL generates strong cash flow in current market conditions and any extended increase in oil prices would boost margins and profits.

The board raised the dividend by 12% in 2019, and investors should see steady increases continue. CNRL is also splitting surplus cash flow between debt repayments and share buybacks.



The stock was above $48 per share in the summer of 2018. At the current price, CNRL appears cheap, and investors who buy now can pick up a solid dividend with a nice shot at some big upside in the event oil prices rally through the end of 2019 and into 2020.

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