



## Buy This High-Dividend Energy Stock for a 30% Upside

### Description

Good companies believe that a slowdown is a great opportunity to streamline operations, increase efficiencies and drive bargains. **Canadian Natural Resources Limited** ([TSX:CNQ](#)) ([NYSE:CNQ](#)) is applying this principle to the T in recent years.

The markets have not been kind to the energy sector in Canada in recent years. Low oil and natural gas prices have driven down the prices of most players in this sector. CNRL is no exception, with the stock currently trading at \$34.02 at writing, down from its April high of over \$42.

### Great numbers

The numbers for CNRL don't justify its low stock price. The company's cash flow generation has risen from \$2.5 billion in 2017 to \$4.6 billion. CNRL's 2019 June quarter results showed that its net earnings for the period were \$2.8 billion compared to \$982 million in the prior-year period.

The number was high thanks to \$1.6 billion in deferred tax liability after Alberta announced a cut in corporate tax rate from 12% to 8% by 2022.

The company returned \$840 million to its shareholders. It distributed \$449 million in dividends and \$391 million in share buybacks. Capital expenditures in the first half of 2019 were \$190 million less than the original budget, showing good restraint on spending.

### Good buys

CNRL made excellent use of the slowdown to buy good assets for cheap. On June 27 of 2019, the company closed its \$3.8 billion purchase of **Devon Energy's** Canadian oil sands operations. Devon Canada has the capacity to produce 128,000 barrels a day.

CNRL expects the acquisition to result in annual savings of \$135 million. However, President Tim McKay believes that this number is conservative. "From our perspective, we see capturing that \$135

million. I would say it's very conservative at this time and, as we dig into the assets, we always find more opportunities," McKay said.

CNRL's diversified asset portfolio spanning North America, the U.K. North Sea and offshore Africa enables them to generate significant value even in challenging economic environments.

CNRL is the largest independent natural gas producer in Canada and the largest heavy crude oil producer in Canada. The company's oil sands vertical hasn't seen a decline in over 50 years.

## Foolish Call

Analysts have given this stock a thumbs up, with five out of 14 analysts recommending a strong buy, eight recommending a buy, and one analyst recommending that current investors to hold the stock.

Analysts maintain that CNRL is undervalued and expect the stock to gain over 32% in the next 12-months, according to the average target price of \$45.2.

Add to this a record of increasing dividends for the last 19 years, and CNRL looks very attractive indeed. The company declared a second-quarter dividend of \$0.375 that translates into a dividend yield of 4.5%.

Its 10-year dividend growth rate is 21%, and the company has [increased its dividends for 19 consecutive years](#).

A solid balance sheet, an investment grade of BBB+ by S&P and a potential upside of 30% are all solid reasons that make CNRL a bargain buy.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

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

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