A Cheap Dividend Stock to Watch in 2020

Description

The Canadian and U.S. stocks markets are trading at new record highs, but some sectors have not participated in the rally.

Energy companies, for example, remain out of favour due to low oil and gas prices and ongoing public and government resistance to new pipelines. The challenges are expected to continue for some time, but the stock prices of many of the industry's top players have fallen to the point where they are starting to attract contrarian interest.

Why?

The downturn has forced the Canadian oil and gas producers to become more efficient with their operating expenditures and capital allocation. As a result, costs have dropped and balance sheets are being cleaned up, allowing the businesses to survive at lower oil prices.

The smaller players that continue to struggle with huge debt problems should still be avoided, but some of the industry's bigger names that pay dividends have the potential to deliver attractive upside next year.

Let's take a look at one energy stock that might be an interesting pick for your 2020 contrarian buy list.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is one of Canada's top energy companies with a market capitalization of $43 billion. It is Canada's largest independent natural gas producer and has oil assets that span the full range of the product spectrum, including light oil, heavy oil, oil sands, and offshore oil.

CNRL holds 100% ownership in most of its assets and facilities. This gives the company the flexibility to move capital around quickly to take advantage of the highest-margin opportunities in the portfolio. Oil and gas prices can be volatile, and having the power to efficiently capitalize on rallies is a strategic advantage.

For example, natural gas prices in Alberta are enjoying a nice recovery and investors should see the impact turn up in CNRL's results in the coming quarters.

CNRL has a strong balance sheet, which is another advantage in the beaten-down energy sector. Management has a keen eye for making strategic acquisitions when the market is under pressure and CNRL's financial clout makes it one of a handful of Canadian companies that can make big acquisitions.

This was evident earlier this year when CNRL spent $3.8 billion to acquire the Canadian operations of Devon Energy. The deal added oil sands and heavy oil operations located close to CNRL's existing facilities, providing an opportunity to leverage economies of scale.

Oil market

Oil prices remain under pressure amid concerns the ongoing trade battle between the U.S. and China will result in a global recession and hit oil demand. The longer the tariffs remain in place, the greater the threat. That said, both countries know they need to find some common ground, and soon.

China cannot risk allowing its economic growth to slow much more due to the potential risks for social unrest. President Trump needs to head into the 2020 election with some big wins to bolster his odds of winning a second term.

As such, we could see some positive news on the trade battle in the new year and that would likely drive the oil market higher.

Should you buy Canadian Natural Resources stock?

The share price currently sits at $37, compared to the $48 it reached in the summer of 2018. Any recovery in oil prices could quickly send the stock back to that level. In the meantime, investors can pick up a solid 4% dividend yield.

If you have some cash sitting on the sidelines, CNRL should be an attractive contrarian pick right now.

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