Why Canadian Natural Resources's (CNQ) Stock Price Rose 13.2% in December

Description

In December, **Canadian Natural Resources's** (TSX:CNQ)(NYSE:CNQ) stock price continued to benefit from a changing (albeit slowly) Canadian oil and gas environment. Pipelines expansions are being built or are inching closer to being built, and oil and gas prices have been rallying, with the West Texas Intermediate (WTI) oil price up 12% in December and the Western Canadian Select (WCS) oil price up 25%.

All of this pumped up oil and gas stock prices, including CNQ's stock price, which rallied 13.2% in December.

Let's dive deeper into the shift in the Canadian oil and gas industry, which has been getting some good news lately. The Trans Mountain pipeline inches ever closer to construction, crude-by-rail shipments are increasingly providing market access for stranded oil and gas, and the industry in general is finally feeling more hopeful, as the Albertan government has begun to ease production curtailments, and as the industry is slowly getting back to "normal."

Canadian Natural Resources: a quality business in a struggling industry

Canadian Natural Resources's stock price has continued to rally, as these industry developments continued to provide a lift to investor sentiment and stock prices. Maybe the Canadian oil and gas industry is not dead, and maybe the government has little choice but to take action to ensure that Canada's oil and gas resources make it out to the different markets that demand it.

For its part, Canadian Natural's business is firing on all cylinders. Anything that the company has control over (which is most things, except for oil and gas prices and pipeline constraints), they are taking care of exceptionally well. Costs are coming down sharply, the Devon acquisition is increasingly proving to be an excellent one, and, as a result, cash flows are soaring.

In the third quarter, the company generated approximately $2.5 billion in operating cash flow, and in the first nine months of the year, the company generated approximately $6.4 billion in operating cash flow.

Canadian Natural Resources increases its budget: A sign of an improving environment

In December, the company put out a press release regarding its 2020 capital budget. Set at $4.05 billion, $250 million more than 2019 levels, the company's capital budget is expected to drive 9% production per share growth.

These numbers assume that curtailments will continue into 2020, and should these curtailments end (as they are expected to), production would be 10,000-25,000 barrels a day more.

Zero-emissions target drives sustainability

Canadian Natural Resources has set an ambitious target of net zero oil sands emissions over time. At Horizon, emissions have already been reduced by 37% since 2012, illustrating the life-changing possibilities.

Foolish bottom line

Given Canadian Natural Resources's strong free cash flow growth and its financial strength, this stock presents today as very undervalued. With a slowly improving macro environment for the oil and gas industry, this would be a good time to buy.

In closing, I would like to remind Foolish investors of our belief in holding great businesses for the long term. While this belief remains intact, we are also aware that sometimes, short-term stock price movements create opportunities to create wealth. By blending this long-term focus with a keen eye for short-term stock mispricings, we can use both strategies in harmony, and our quest for financial freedom can be fulfilled.

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