Value Investors: This High-Quality Dividend Grower Is Embarrassingly Cheap

Description

After a bear market that has lasted for half a decade now, something very interesting is happening inside Canada's energy sector.

Oil and natural gas stocks are exceptionally cheap. Even the large producers are inexpensive, the companies with the best assets and strongest balance sheets. These are the stocks you want to own if you're going to bet on the energy sector, since they give better protection on the downside.

Let's take a closer look at one such stock, and profile just how cheap it is. If the price of crude oil cooperates, this company's shares could skyrocket — all while offering a safety net just in case the commodity doesn't cooperate.

Canada's best oil stock?

While the rest of the sector was reeling, **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) was busy putting cash to work.

The company was busy bolstering its position in the oil sands during some of the darkest days for the sector, as management took advantage of low prices to load up on assets. It spent $3.8 billion to acquire assets from **Devon** Canada in 2019, adding to the assets acquired from **Shell** in 2017 for more than $12 billion.

Together, these deals made Canadian Natural Canada's largest oil producer, and the eighth-largest non-government owned energy producer in the entire world. 2020 should see the company produce up to 1.2 million barrels of energy every day.

One of the major advantages to being concentrated in the oil sands is these are long-life assets with decades of reserve life left. Investors don't have to worry about the company taking on the risk of finding new drilling sites, giving Canadian Natural Resources a lot of flexibility right now.

Because the company is so disciplined in its acquisition approach, its balance sheet is still in good shape and it's gushing cash flow. 2019's full-year results aren't in yet, but the company should generate some $6 billion in free cash flow. And 2020's results are expected to be even better, with free cash flow expected to come in somewhere around $7 to $7.5 billion, depending on what oil does.

Remember, this is a company with a $48.7 billion market cap, putting shares well under 7x forward free cash flow. That's exceptionally cheap for Canada's largest oil producer.

Management is putting this cash flow to work in a few smart ways. The company paid off more than $2 billion in debt last year, and its balance sheet flexibility will be a good thing the next time an interesting asset comes up for sale. The firm is also giving back to shareholders by increasing the dividend and spending close to $1 billion buying back its own stock.

Get paid to wait

Canadian Natural Resources has quietly become one of Canada's top dividend stocks. Despite the rout in the energy market, the company has an enviable history of raising its dividend.

It has hiked its dividend for 19 consecutive years, with a 20th year nothing more than a formality at this point. The latest dividend increase was 12%, and its 10-year compound annual dividend growth rate is flirting with 20% annually. In other words, these are not token bumps; they're serious business.

The company spends approximately $1.5 billion each year on dividends, a small fraction of its free cash flow. It's poised to continue raising its 3.6% payout for years to come.

The bottom line

Canadian Natural Resources checks off all the boxes. The company is well run and almost universally regarded as one of the finest energy producers in Canada.

It has great oil sands assets that offer upside potential if energy prices continue to recover. And the company is generous to shareholders, with a fantastic dividend growth record.

Add all this up and this stock is a very compelling investment opportunity today. You won't want to miss out on this one.

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