Oil Price Outlook: Should You Buy Canadian Natural Resources (TSX:CNQ) Stock Today?

Description

The price of West Texas Intermediate (WTI) oil is down US$10 per barrel in the past three weeks and could retest the 12-month low in the coming days.

This has contrarian investors wondering whether the steep slide is the start of another prolonged dip or simply an overreaction to fears that the coronavirus outbreak could hit global oil demand.

Let's take a look at the current situation and try to determine if one of Canada's top energy companies should be on your buy list right now.

Oil dip

At the time of writing, WTI oil trades at less than US$53 per barrel compared to US$63 on January 6. The majority of the plunge has occurred in the past few trading sessions amid increasing concerns that the coronavirus outbreak that began in China a month ago will continue to spread and hit the global economy.

China's latest update indicates there are more than 2,800 confirmed cases and that the virus has spread to 10 other countries.

The Chinese government has implemented travel bans in at least 10 cities, affecting roughly 40 million people. This occurred just as the Lunar New Year holiday arrived, the busiest travel time of the year for the country.

While the total impact on consumer and business spending remains unknown, tourism revenue is bound to fall. A broad-based hit to the Chinese economy would likely reduce oil demand.

China is the world's second-largest oil consumer and the planet's top importer. The country imported more than 10 million barrels of oil per day last year.

Saudi Arabia said that OPEC is ready to reduce output to help stabilize the oil market if prices continue to fall. For the moment, the comments have not helped to stop the decline.

Are Canadian oil stocks a buy?

The Canadian energy sector is already struggling because of the prolonged downturn that's hit the market over the past five years. Pipeline bottlenecks have made the situation worse and many of the country's former top stocks now trade at a fraction of their previous peaks.

Investors should probably stay away from the producers who have debt problems, but the larger players with strong balance sheets could be attractive buys on a dip.

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is a giant in the Canadian energy sector with a balanced resource base that spans the full hydrocarbon spectrum.

CNRL is the country's largest natural gas producer in Western Canada and also has oilsands, heavy oil, light oil, natural gas liquids and offshore oil production.

Progress is being made on major pipeline projects that have faced extended delays. Trans Mountain and Keystone XL have received positive news in the past two weeks, and the market is feeling more confident they will be completed, giving CNRL and its peers important new access to the United States and global markets.

CNRL has the flexibility to shift capital to the highest-return assets as market prices shift. It also possesses the financial firepower to buy new resources when the market is down.

The company is targeting production growth of 9% and free cash flow of $4.8 billion in 2020. This should support another large dividend increase and additional share buybacks, as well as further debt repayment.

Although the stock is back under the $40 mark, it still trades well above the $30 low it hit in the past year. As such, while I wouldn't jump in today, investors should keep this stock on their radars and consider adding contrarian positions on further weakness.

CNRL has an attractive dividend, so you get paid well to ride out the volatility.

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