



Don't Let Weaker Oil Stop You From Buying This Cash Flow Machine

Description

Oil remains highly volatile with energy markets reacting sharply to good or bad news that has the potential to affect the demand for energy. After Brent spiked to a multi-year high of over US\$75 per barrel earlier this month, because of fears of war between Iran and the U.S., it has plummeted to US\$59 per barrel over fears that the coronavirus outbreak will cause economic growth and hence demand for energy to wane.

While the outlook for crude remains uncertain and difficult to predict, it shouldn't prevent you from adding oil sands giant **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)) to your portfolio. The oil sands giant outperformed the broader market in 2019 gaining 25% compared to the **S&P/TSX Composite Index's** 19%. There are signs that after declining by almost 6% since the start of 2020 Canadian Natural Resources is attractively valued, making now the time to buy.

Cash flow machine

Canadian Natural Resources is a highly appealing investment because of its diversified portfolio of assets, which include quality low-decline-rate, low-cost oil sands operations. This particularly important, because, unlike shale oil or conventional oil assets, they have extremely low decline rates, meaning that they require substantially less capital to be invested to sustain production.

As a result, they have low operating costs and high netbacks. For the third quarter 2019, Canadian Natural's oil sands mining and upgrading business had reported operating costs, excluding natural gas, of \$18.43 per barrel, which is around a third of the average realized price for heavy crude and bitumen. This, along with higher realized prices for Canadian heavy crude, because of Alberta's mandatory production limits, gave Canadian Natural's profitability a solid boost and saw it deliver record funds flow from operations of almost \$2.9 billion, which was 2% higher year over year.

More importantly, Canadian Natural Resources [generated](#) quarterly free cash flow of a whopping \$1.5 billion, which was an impressive 58% greater than a year earlier. The oil sands giant used that tremendous free cash flow to reduce debt by a notable \$1 billion.

Earnings as well as cash flow will continue to grow in 2020. Canadian Natural Resources has forecast that total production will grow by around 5% year over year to as high as 1.2 million barrels, which will be 80% weighted to oil and other petroleum liquids. The additional cash flow generated will be used to develop existing assets and continue strengthening the balance sheet.

Growing dividend

The strength of Canadian Natural Resources's operations and focus on delivering value for shareholders is underscored by it hiking its dividend for 19 years straight to yield a very juicy 3.9%. The company's ability to generate tremendous amounts of free cash flow means that not only is the payment sustainable, particularly when the 43% payout ratio is considered, but will support further dividend hikes.

Canadian Natural Resource is also actively reducing its share count by undertaking a share buyback, which saw it acquire just over five million common shares during the third quarter.

The company has embarked upon that strategy, because management believes its current market value doesn't accurately reflect Canadian Natural Resources's fair value. A lower share count will boost the company's earnings per share and market value.

Foolish takeaway

Canadian Natural Resources is an attractive play on [higher oil](#). The oil sands giant is a cash flow-generating machine, which is focused on delivering considerable value for investors and has proven capable of doing so, even in the current difficult operating environment. When that is considered in conjunction with Canadian Natural Resources's attractive valuation and steadily growing dividend, it makes now the time to buy.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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

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