Invest Like Warren Buffett and Profit From the Market Crash: 1 Top Canadian Oil Stock to Buy Today

Description

Warren Buffett, also know as the Oracle of Omaha for his stock picking prowess, is one of the best-known investors of all-time. By following a series of relatively simple criteria and making contrarian investments in quality companies with solid growth prospects and wide economic moats, he has amassed a fortune, which sees him ranked among the top-10 richest people in the world.

While investing in the stock market is a daunting prospect for many investors, by following the tenets of Buffett's theory and investing for the long term, it is possible to avoid the considerable volatility being witnessed and still create considerable wealth.

Key to Buffett's philosophy is to invest in quality companies with solid growth prospects and wide economic moats that are trading at attractive valuations. This makes market corrections, such as the one now occurring, the time to acquire quality stocks.

Quality stocks

At the end of 2019, Buffett's two largest Canadian investments were **Suncor** and **Restaurant Brands International**. While they are quality investments let's take a closer look at one Canadian company which, after losing 19% since the start of 2020, is attractively valued and easily meets Buffett's criteria. That stock is **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ), which, for many reasons, is a superior investment to Suncor.

Canadian Natural is not only Canada's largest oil sands producer, but it is a cash flow-generating machine, reporting substantial free cash flow, despite the prolonged slump in crude that has existed since late 2014.

For 2019, Canadian Natural forecast annual free cash flow before dividends, share purchases, and acquisitions of a whopping $6.2 billion, and it is ranked as one of the top-tier free cash flow yield companies in its industry. The reason for this is quite simple: Canadian Natural owns a large portfolio of quality long-life, low-cost oil sands assets.

Unlike conventional or shale oil sands operations, oil sands assets upon being commissioned, have exceptionally low decline rates, meaning they require the investment of less capital to sustain production. This sees Canadian Natural having a combined corporate decline rate for all its oil sands and conventional oil operations of around 10%, which is significantly lower than many shale oil companies, where the corporate decline rate can be 30% or higher.

As a result, Canadian Natural's maintenance capital requirements per barrel of oil produced are 77% lower than its industry peers.

Typically, oil sands operations also have lower operating costs than other forms of unconventional oil production such as shale oil. This is reflected in Canadian Natural's low operating expenses of $11.76 per barrel of oil produced for the first nine months of 2019 compared to **Crescent Point's** $12.59 per barrel and **Whitecap's** $12.38 per barrel. Oil sands are also significantly less risky than shale oil, because there are no decline, reservoir, or reserve-replacement risks.

Canadian Natural plans to use the substantial free cash flow generated by its operations to strengthen its balance sheet and fund further share repurchases, because management believes that the market isn't recognizing the company's fair value.

Foolish takeaway

Canadian Natural has lost a whopping 19% since the start of 2020, leaving it attractively valued and creating an opportunity to acquire a quality energy stock at a deep discount to its indicative fair value. The company's appeal is enhanced by its solid balance sheet and sustainable dividend, which Canadian Natural has hiked for the last 19 years straight to be yielding just over 4%.

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