1 Top Contrarian Canadian Oil Stock to Buy During the Oil Price Collapse

Description

Another oil price collapse has occurred because of the economic fallout from the coronavirus pandemic weighing heavily on energy demand. The international Brent price is down by a stunning 57% since the start of 2020.

Whereas the North American West Texas Intermediate benchmark has lost 55%. Despite signs that sharply weaker oil is here to stay, however, you shouldn't be deterred from buying oil stocks.

Oil has plummeted to prices not seen since early 2016. Not only did many drillers survive that price collapse, but they also went on to deliver considerable value. While oil sands stocks are on the nose, it's difficult to ignore senior oil producer **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ).

The integrated energy major is particularly resistant to the oil slump and will emerge from the latest price collapse relatively unscathed. After posting a 65% loss for the year to date Canadian Natural Resources is an attractive investment. This is highlighted by the fact that it is trading at an enterprise value of a mere five times EBITDA.

Quality assets

Canadian Natural Resources has demonstrated that even sharply weaker oil won't prevent it from being a free cash flow generating machine. In 2019, where West Texas Intermediate averaged US$57 per barrel, Canadian Natural Resources announced record free cash flow of $4.6 billion.

That was on the back of record production and a focus on controlling costs. While the current oil price collapse will sharply impact cash flow and earnings, Canadian Natural Resources will emerge relatively unscathed. It possesses solid fundamentals including low cost low decline rate assets.

Canadian Natural Resources company wide decline rate is 10% compared to around 30% for shale oil drillers. That means it needs to invest significantly less capital in its operations to maintain production. This, along with low company wide operating costs of $11.49 per barrel, means that it will remain cash flow positive even with West Texas Intermediate trading at US$22 per barrel.

The company's oil sands mining and upgrading assets — its most costly, with operating costs of around US$16 per barrel — will be cash flow positive in the current difficult operating environment.

Canadian Natural Resources proved and probable oil reserves of 14 billion barrels, means that it can dial down exploration and development activities without threatening production.

Protecting cash flow

Canadian has dialed down its 2020 capital expenditures in response to the oil price collapse triggered by the coronavirus. It announced a 27% decrease in spending on exploration and development activities. Notably, that reduction in capital expenditures won't impact Canadian Natural Resources planned annual production.

The energy major anticipates that its oil output will remain unchanged from its original guidance at 1.1 million to 1.2 million barrels daily. That forecast at the upper end is 10% greater than Canadian Natural Resources 2019 annual oil production.

Lower capital expenditures combined with higher production will boost revenues and profitability, helping to offset sharply weaker oil prices. This, along with Canadian Natural Resources' low operating costs should see it remain free cash flow positive. That's an important characteristic to possess amid the current difficult operating environment.

Canadian Natural Resources has maintained its dividend despite the oil price collapse and is now yielding a monster 12%. There are signs that the company will resist cutting the payment. Canadian Natural Resources finished 2019 with a conservative dividend payout ratio of 33%.

This indicates that it would take a significant decrease in net income to force a cut. The senior oil producer's decision to slash capital expenditures will shore up its balance sheet and support the dividend for the foreseeable future.

Looking ahead

Regardless of a recovery being a ways off, Canadian Natural Resources is an attractive contrarian play on higher oil. Canadian Natural Resources solid fundamentals and the fact that it is trading at prices not witnessed since 2005 enhances its investment appeal.

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Date
2025/07/02
Date Created
2020/03/27
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