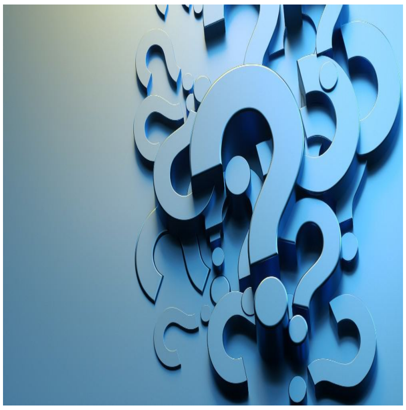

Is Canadian Natural Resources (TSX:CNQ) Stock a Buy Today?

Description

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) remains a leader in the Canadian energy sector, but the stock is down 50% in the past two months due to the crash in oil prices.

Oil outlook

The price of WTI oil traded for US$63 per barrel in January. The near-term futures contract recently turned negative. At the time of writing, oil trades at US$$17 per barrel.

The combination of demand reduction caused by coronavirus lockdowns and a price war between Russia and Saudi Arabia caused the oil crash. A global supply glut is quickly filling available storage facilities. Analysts fear storage capacity could run out in May. In that scenario, oil prices could once again go negative.

An OPEC+ agreement to curb supplies by 10 million barrels per day (bpd) did little to help the market. Pundits say demand is down as much as double that amount. The longer the lockdowns persist, the more likely it is that oil prices will remain near multi-decade lows.

The near-term outlook certainly isn't positive.

Opportunity

The current price is well below the break-even level for most producers. As a result, involuntary production cuts are on the way.

At the same time, demand should start to pick up.

China already started opening its economy. Europe and the United States, which are the other majoroil-consuming markets, are likely past their pandemic peaks. Discussions around getting the economy back on track are underway, and we should see businesses start to open again in the coming weeks.

The trend is expected to continue through the summer. Ideally, some shift back to relatively normal economic activity in the major economies will occur by the end of 2020.

Shale production in the United States is expected to drop significantly. It is unlikely much of the closed operations will resume unless oil surges back above US$50 per barrel. Even if that happens, it will take time to get things going again. As the global economy starts to recover, oil demand should surge, so there is a chance the world could actually see a short window of time where oil supply becomes tight.

Is CNQ stock attractive?

Canadian Natural Resources, often referred to as CNRL, operates a diversified portfolio of oil and gas assets. The company has oil sands, conventional oil, and offshore oil facilities. In addition, CNRL is also the largest independent natural gas producer in Canada.

Alberta natural gas prices have actually held up well in recent months and the futures pricing is above last year's levels.

CNRL has the flexibility to shift capital spending around its diverse asset base to take advantage of the best returns as market conditions change. On the oil side, the oil sands mining and upgrading assets represent 45% of liquids production and have operating costs of just US$13 per barrel.

In the March 18th update, the company said it had reduced capital spending for 2020 by roughly 25% or $1 billion to just under $3 billion. Despite the spending cuts, CNRL maintained its target average annual production guidance of 1.137-1.207 million barrels of oil equivalent per day (BOE/d).

Additional adjustments are expected in light of the extended downturn in oil prices, but CNRL should be able to ride out the slump. The company has roughly $5 billion in cash and available operating lines.

The board raised the dividend by 13% for 2020. The quarterly payout of $0.425 per share provides an annualized yield of 8.7%. CNRL increased the distribution in each of the past 20 years, even through the downturn during the Great Recession.

Should you buy CNQ stock today?

Ongoing volatility should be expected, especially while storage capacity concerns hang over the oil market. However, CNRL's dividend should be safe through the end of 2020, and any rebound in the global economy could drive oil prices and the stock higher.

The IMF is predicting strong global growth in 2021. As such, contrarian investors might want to add CNQ stock to their portfolios while the shares still trade below $20.

It wouldn't be a surprise to see the stock price back above $30 in the next 12 months.

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