Oil Crash 2020: Canadian Natural Resources (TSX:CNQ) Stock Remains a Top Pick

Description

Canadian Natural Resources Ltd. (TSX:CNQ)(NYSE:CNQ) stock has been struggling in this oil market crash. This is to be expected, of course. But we should not forget the strengths that this company offers. Because it is these strengths that make it a quality energy stock with significant promise — promise that comes in the form of dividend income and promise that comes in the form of potential capital appreciation.

Yesterday, Canadian Natural Resources earnings were released. In this earnings result, there were some surprises along with some reminders. Mostly, we were reminded of what sets Canadian Natural Resources stock apart from its peers.

Canadian Natural Resources stock is the energy stock to buy in an oil crash

In its earnings result, Canadian Natural Resources showed its resiliency. Yes, earnings and cash flows dropped significantly because of the sharp drop in oil prices. But at the end of the day, free cash flow, even after dividends paid, was positive.

And the company's breakeven oil price is an industry-leading US$30 to US$31. To the surprise of many, Canadian Natural kept its dividend unchanged. This is huge at a time when even energy giants like Suncor Energy is cutting its dividend, this stands out.

This may be cause for alarm for some. Surely, the second quarter will be far more difficult that the first quarter. And surely, Canadian Natural Resources will need the cash.

But on the flip side, this demonstrates the company's confidence in its ability to survive even in cyclical lows. In fact, Canadian Natural's 20-year history of dividend increases has already shown us that.

Canadian Natural Resources stock is backed by strong financial health

At a time like this, Canadian Natural Resources has $5 billion of liquidity, with $1.1 billion of cash. The company has always kept a low risk balance sheet with reasonable debt leverage ratios. Certainly, the next quarter will be rough. The company has and will continue to use its investment grade credit rating to get it through these difficult times.

In the quarter, Canadian Natural increased its credit facilities by $250 million, while its capital spending was reduced and came in below expectations.

Canadian Natural Resources has other levers to pull in this oil crash

Canadian Natural Resources' asset base is resilient. Its long-life, low-decline assets mean that there is comparatively low capital expenditures associated with it. Also, the company is diversified and flexible. Its natural gas business has been in the background recently, as oil prices far outshone natural gas prices.

But recently, natural gas prices are starting to show some life. This, combined with the destruction in oil prices, has made Canadian Natural up its spending on natural gas assets. This has been beneficial in the first quarter, bringing strong cash flows to the company's bottom line.

Canadian Natural Resources has the ability to add low cost natural gas production as prices continue to improve. The payback here is a healthy six months.

Canadian Natural Resources stock: cleaning up its act

Management has repeated its commitment to an approximately 25% cut in emissions in the next few years; the company is also reducing fresh water intensity. This drive toward sustainability is another key factor contributing to what I think is Canadian Natural Resources' long-term viability.

Foolish bottom line

Despite Canadian Natural Resources' many company-specific strengths, the macro environment is brutal. But these strengths are worth a lot. We as investors can gain exposure to the company's lucrative asset base and strong operational management record.

There is significant upside here when the cycle turns. Buying a quality stock when it is in the throes of cyclical lows often proves to be a very profitable choice.

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