Dividend Investors: Will This Energy Stock Cut Its 6.6% Dividend Yield?

Description

While other companies are slashing dividends, **Canadian Natural Resources Ltd.** (TSX:CNQ)(NYSE:CNQ) is holding their dividend steady. At the stock price of $25.35 as of this writing, the dividend yield is a robust 6.62%.

First-quarter results

As expected, the decimation of the oil and gas industry weighed heavily on the company's first quarter results. Canadian Natural Resources reported an adjusted loss per share of $.19. In the same period last year, the company posted an adjusted profit of $.53 per share. Total revenue dropped to $3.36 billion.

For the quarter, Canadian Natural reported production of 1,178,752 barrels of oil equivalent per day (BOE/d), up 13.9% from the same period in 2019. The company's oil and natural gas liquids (NGLs) output increased to 938,676 barrels per day (Bbl/d) from 783,512 Bbl/d a year ago.

Good news for investors

Despite the declining year-over-year revenues and earnings, investors liked what they heard regarding the company's commitment to continuing its dividend. Shares in the company have rallied significantly from their March low of $9.80.

Canadian Natural returned $444 million in dividends and $271 in stock buybacks. At the end of the quarter, the company's free cash flow totaled $55 million, after adjusting for capital expenditures and dividend payments.

Capital expenditures

The company's total expenses increased to $5.9 billion from $4 billion the previous year.

The company cut its 2020 capital expenditures by an additional $280 million, bringing the total estimated capex for 2020 to approximately $2.7 billion. Due to the uncertainties surrounding the oil and gas industry, this number has been slashed $1.4 billion from the company's original 2020 outlook.

Similar to most companies in the energy sector, Canadian Natural is highly leveraged to the price of oil. The company's debt from the previous quarter rose from $18.6 billion to $19.9 billion. As of March 31, the company had $1.1 billion in cash and cash equivalents.

Commitment to investors

Canadian Natural is committed to maintaining its dividend payout to investors, while other companies like **Suncor Energy** (TSX:SU)(NYSE:SU) have cut their dividend.

Suncor's operating costs are higher than Canadian Natural. In its last quarter, Suncor took a write-down of approximately $2.8 billion, related to lower forecast oil prices for production from its Fort Hills oil sands mine in northern Alberta.

This write-down affected Suncor's bottom line and was part of the reason the company was forced to cut its dividend.

So far, Canadian Natural has not charged off any assets and has been able to maintain the dividend.

The bottom line

This is not the first time that the oil and gas industry has been in trouble. Keep in mind that this industry is very cyclical, even in the best of times. The oil war and the COVID-19 global pandemic have added pressure on the industry.

Canadian Natural, however, has demonstrated its ability to survive even in the worst of times, as evidenced by the company's 20-year history of dividend increases.

While investors may be tempted by the 6.6% dividend yield and the company's commitment to maintain its dividend, investors should recognize that the price of oil will likely continue its volatility.

If the price of crude goes below $20, shares of Canadian Natural could dip again, perhaps into the mid-teens.

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Date
2025/08/18
Date Created
2020/05/26
Author
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