



This Stock Has the Best 6% Yield in the Oil Sector

Description

Heading into March of this year, my investing allegiance was behind **Suncor Inc.** ([TSX:SU](#))([NYSE:SU](#)) when it came to the large oil stocks. After all, Warren Buffet himself invested in the company; it's an integrated oil giant and had a great dividend that grew over time. Out of all the oil stocks in Canada, I felt the most comfortable with this one as a long-term hold.

Then Suncor did something that greatly saddened me. It slashed its dividend in half, destroying one part of that investment that I greatly appreciated. I understand why they did it, but I have to admit I expected the oil company to be able to weather the storm and maintain its payout if any of them could.

No cut to the dividend yet

Now, I decided to try another large dividend-paying oil producer, **Canadian Natural Resources Ltd.** ([TSX:CNQ](#))([NYSE:CNQ](#)). In contrast to Suncor, the dividend on this oil company remains intact. Currently, it has a yield of over 6%, an income that is very attractive while I wait for an oil sector recovery.

Will it be the last of the great oil dividend-payers left standing? It's too early to tell. For now, we have another quarter of clarity. CNQ managed to maintain its payout through the last collapse, and now it has maintained it through one of the most volatile quarters in history, giving me some confidence [in the dividend](#) going forward.

Value, value, value

It's a seemingly broken record, but there *is* value in the oil patch. Earlier, that value was the domain of the junior players. There were still people investing in the big ones at that point. Now, the entire oil patch is littered [with cheap stocks](#).

I've run out of bandages for trying to cover all the cuts I've received from these falling knives over the past couple of years. Stocks like CNQ continue to get cheaper all the time. Right now, this oil giant is trading at 0.90 times book value, an extremely low valuation for such a great company.

I won't even bother to mention its price to earnings at the moment since earnings have dropped off a cliff due to the pandemic lockdown.

I'm not the only one seeing value in the name. Apparently, Saudi Arabia's sovereign wealth fund has amassed a 2.6% stake in CNQ. They know oil, so they must see value in the company even if others do not. They will also most likely be a stable, long-term holder of the shares adding security to the position.

Balance sheet

The biggest threat to CNQ's dividend is its debt load, which isn't surprising given the company's debt and weak balance sheet that is frequently the undoing of previously stable payouts. As of its Q1 2020 report, CNQ has almost \$20 billion in long term debt. Fortunately, it also has about \$1 billion in cash to offset immediate concerns.

It also has the ability to capitalize on an oil turnaround to a greater degree than western Canadian junior producers. The company's operations span the globe, allowing it to diversify away from a dependency on Western Canadian Select (WCS) pricing.

The bottom line

I stated two reasons to buy shares of CNQ, the dividend, and the value. As for the dividend, I would not depend on it as being entirely secure. Certainly, the fact that the dividend remains in place when others, including Suncor, have cut is encouraging. But as we've seen, even the mightiest dividends can fall, especially in the commodity space.

I think that CNQ is a great way to invest in the oil sector, and the dividend has held so far through two major oil collapses in the past decade. I would not buy this as an income stock, but rather as a way to invest in a great company at a reasonable price.

When oil demand returns, a company like CNQ will be ready to take advantage.

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