



## Canadian Natural Resources (TSX:CNQ) Stock: \$0 or \$40?

### Description

**Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)) stock is in trouble. At the nadir of the coronavirus correction, shares were down 80%!

Recent weeks, however, have brought relief. Year to date, shares are down by just 30%, thanks to a sudden surge in May. Yet this roller-coaster ride has forced many investors to rethink their investment.

Looking ahead, Canadian Natural looks like a great way to make some fast cash. The stock remains well off its former highs. If conditions normalize, shares could [zoom](#) past the \$40 mark, leading to a quick 40% profit.

But not every future is rosy. It's not hard to see this company returning to hard times. In some scenarios, equity holders could lose [everything](#).

So, which is it? Will Canadian Natural stock be a fantastic or terrible investment in the second half of 2020?

### This market is crazy

It has always been difficult to be an oil investor. These days, it's *especially* difficult. The number of challenges facing energy producers like Canadian Natural looks unprecedented.

The first headwind, of course, is the coronavirus pandemic. "Global oil demand is being destroyed as the coronavirus forces people around the world to remain indoors and avoid all unnecessary travel," warned *Bloomberg* in April. Demand for crude soon fell by 27 million to 35 million barrels a day.

This historic slump in demand had the potential to force oil prices down by 50%. Canadian Natural's profit is a direct function of oil prices, leaving it extremely vulnerable. Unfortunately, there was another domino about to fall.

To counter the plunge in demand, Saudi Arabia proposed cutting production to balance pricing. Russia

refused.

According to *Al Jazeera*, Saudi Arabia “retaliated in March by lowering the price it charges for crude and announcing it would pump oil with abandon — moves designed to steal market share from higher-cost producers like Russia and United States shale oil firms.”

Oil prices eventually fell below the US\$20-per-barrel mark. Recent weeks, however, have brought reprieve. Economies are slowly reopening, adding a new demand driver for oil. Saudi Arabia, meanwhile, has proven more willing to play ball.

## Should you buy Canadian Natural stock?

Oil prices last week touched US\$40 per barrel. Is now the time to buy CNQ stock? Let’s look at the facts.

Canadian Natural has done a terrific job lowering its cost base in recent years. Management has positioned the company to survive in a lower-for-longer pricing environment. Including the 6.6% dividend, the firm has a free cash flow breakeven of US\$31 per barrel.

At current prices, the business looks cash flow *positive*. It will have no trouble surviving. But I don’t think that’s enough to propel the stock price back above \$40. That’s because these cash flow figures don’t account for reserve replacements or long-term maintenance capital expenditures.

If a company claimed it was cash flow positive but wasn’t replacing its inventory, you’d want the cost of new inventory factored into the equation. The same goes for Canadian Natural.

When you include the cost of replacing its production with reserves, the business likely needs oil prices of US\$40 per barrel or more to break even. At current prices, that means the company is actually cash flow *negative*.

Unless you’re an extreme oil bull, expect CNQ stock to continue sinking lower. Due to liquidity, a \$0 stock price won’t occur anytime soon, but the company’s inability to dictate its own future should scare off prudent investors.

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2. Dividend Stocks
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## **Author**

rvanzo

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