This Oil Stock Dropped Over 70%: A Fantastic Buy or Terrible Bust?

Description

The COVID-19 pandemic caused a substantial correction on the Toronto Stock Exchange. At its worst, the S&P/TSX Composite Index fell by 34.34% from the beginning of 2020. In particular, one stock found itself in deeper trouble than the broader market during the same period.

As the novel coronavirus-fueled decline hit its worst, **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) went as low as 73.32% from its price at the start of the year.

After a rally in the markets during May, the surge saw CNQ recover by a substantial margin. At writing, the stock is trading for $24.25 per share, and it is up by more than 120% from its mid-March 2020 low.

Buy for a profit or ditch and cut losses?

Moving forward, the sudden surge makes it look like Canadian Natural Resources could be an excellent asset to help investors make some fast cash. The stock has climbed a lot, but it still has a long way to go before it can reach its former highs.

If you buy the stock at its current price, the conditions improve, and it reaches its pre-pandemic high, you could be in for a 40% profit, despite missing the bottom. But what if the stock does not reach values close to $41?

The current market rally might not be as excellent as it seems on the surface. There are chances that we might witness another decline in the stock market. According to experts, another 40% decline might be on its way soon. If that happens, CNQ investors might lose everything.

The oil market is volatile

If you have been an investor with interest in the oil sector, you are no stranger to the utter volatility in this industry. Due to a slew of reasons, energy producers in Canada, like CNQ, continue to faceseveral challenges.

Currently, the pandemic is destroying the global demand for oil. People around the world are preferring to stay indoors, and there is no unnecessary travel. The demand for crude oil has fallen from 35 million barrels to 27 million barrels per day.

Before the pandemic even struck, the oil industry was already in a rut courtesy of a historic slump in oil prices caused by an oil price war between Russia and Saudi Arabia. While the two have reached a deal, the dwindling demand is keeping commodity prices the lowest they have been in a long time.

Should you buy the stock?

Canadian Natural Resources's profits directly rely on the price of oil. Any changes in value have a drastic impact on their revenues. Oil prices fell below the US$20-per-barrel mark at one point. However, things seem to be looking brighter for the industry, as economies gradually begin to open around the world.

CNQ lowered its cost base in the last few years. The business seems to be in a positive cash flow considering the latest environment. While there is slight positivity there, I do not think that we can see the company reach its pre-pandemic share prices soon.

Foolish takeaway

I don't think Canadian Natural Resources is a billionaire maker. I also do not think it's the most terrible investment. The company has enough liquidity to keep it from hitting $0, but it does not have the kind of cash flow to make it soar. The company does not even have a say in dictating its future.

I would advise patience and caution with the stock.

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