



## Investor Alert: This Energy Stock Is Yielding Over 7%!

### Description

If you're uncertain how to proceed in these dangerous times, you are not alone. Many investors are uncertain. And that is okay, because [these are highly uncertain times](#). The one [thing you can do with some certainty, though, is to invest in value](#).

Value comes in different forms, though, and it is not always easy to spot. Take **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)) stock. Canadian Natural Resources is an energy stock. It is an oil and gas producer. This is an industry that seems to be persistently unpopular and forever doomed. The oil and gas industry certainly has its hurdles, but what if these commonly held beliefs are not accurate?

What if Canadian Natural Resources stock, yielding 7.25%, is one of the best buy opportunities today?

## Canadian Natural Resources stock: A quality energy stock, despite its industry

Let's assume for a second that despite best efforts, the world will need oil and gas for at least a little while longer. Let's assume that the shifting tide toward clean energy prompts big changes in the oil and gas industry. It is already happening. Big oil and gas companies are cleaning up their act. Technology and desire for change are leading the way.

Canadian Natural Resources certainly has a lot of work ahead in 2020. The company was already surviving a prolonged downturn in the oil and gas industry, only to be met with the coronavirus pandemic and oil price wars. With all the odds stacked against it, you may not have expected the company to still be the \$27.7 billion energy giant that it is today.

But the fact is that Canadian Natural Resources is a high-quality energy stock that excels operationally and financially. Canadian Natural Resources's asset base is resilient. Its long-life, low-decline assets mean that there are comparatively low capital expenditures associated with it. Also, the company is diversified and flexible.

The company is also on good footing financially. Canadian Natural Resources has \$5 billion of liquidity, with \$1.1 billion of cash. It has always kept a low-risk balance sheet with reasonable debt leverage ratios.

## **A 7.25% dividend yield is backed by impressive cash flow generation**

Last quarter, Canadian Natural Resources posted positive free cash flow (after dividends), despite the sharp drop in oil prices.

Two things are important to take note of here. Firstly, despite the significant deterioration in cash flows, Canadian Natural Resources still posted positive free cash flow, even after dividends. Secondly, the company kept its dividend unchanged. After Suncor slashed its dividend, this may have surprised many. I see it as a testament to the quality of this energy stock.

Today, WTI oil prices are approaching \$40. This is 240% higher than April lows. And Canadian oil prices are looking just as good, seeing similar increases over this period. Canadian Natural Resources's cash flow will benefit significantly from this oil price increase.

## **What does the future hold?**

None of us has a crystal ball to tell us what the future holds. All we can do is look at some facts and let them guide us. There are a few facts to focus on that I think are paramount to my buy case for CNQ stock.

First, the world will need oil and gas for quite some time. Yes, the industry is slowly being replaced by clean energy, but the day when this huge industry is no longer needed is far away. Second, the oil and gas industry has been cleaning up its act. Management has repeated its commitment to an approximately 25% cut in emissions in the next few years. They are also reducing fresh water intensity.

## **Foolish bottom line**

There is significant upside in energy stock Canadian Natural Resources 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. Plus, you get a 7.25% dividend yield.

### **CATEGORY**

1. Dividend Stocks
2. Energy Stocks

3. Investing

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1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)

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