



## Is Canadian Natural Resources (TSX:CNQ) a Screaming Buy for its 7% Yield?

### Description

**Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)) is an oil sands kingpin that took a more favourable direction (at least through the eyes of income investors) than its integrated peer **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) amid this [crisis](#). Canadian Natural kept its dividend intact, while Suncor succumbed to the pressure, slashing its payout by a staggering 55%.

While both firms have stable balance sheets relative to many of its smaller brothers in the oil patch, Canadian Natural and Suncor are both at the mercy of exogenous factors that dictate the price of Canadian crude. Following the COVID-19 crisis, energy stocks have taken a beating. With muted demand likely to last for years, many operators, Canadian Natural included, have had to move forward with moves to batten down the hatches.

Indeed, the tides could be out on the Albertan oil patch for a longer duration. And if that's the case, Canadian Natural ought to be viewed as an untimely investment. With a [shareholder-friendly](#) management team that's willing to swim to great lengths to insulate its shareholders from the hailstorm in the oil patch, though, I view the 7%-yielding dividend as relatively safe over the medium term. Still, if a best-in-breed player like Suncor can slash its dividend, no dividend in the sector ought to be viewed as entirely secure. Canadian Natural has a considerable amount of debt sitting on its balance sheet, but its liquidity position remains somewhat sound with a 0.83 current ratio.

### Canadian Natural hops on the Painted Pony

More recently, Canadian Natural acquired Painted Pony Energy (formerly Painted Pony Petroleum). The tuck-in deal that gives Canadian Natural some pretty stellar natural gas assets that can help Canadian Natural batten down the hatches without having to resort to excessive cuts. Warren Buffett seems very bullish on the long-term outlook for natural gas, as demonstrated by his acquisition of natural gas assets earlier in the year. Canadian Natural paid \$455 million for Painted Pony, a price tag that I believe is nothing short of a steal.

While Suncor is battening down the hatches by further improving its financial flexibility amid the crisis,

Canadian Natural seems to be taking advantage of bargains within counter-cyclical industries. Suncor may have let its shareholders down with the “prudent” decision to reduce its dividend, and it wouldn’t be too far-fetched to imagine that most disappointed Suncor investors have ditched the name in favour of the seemingly more shareholder-friendly Canadian Natural, which is bagging distressed bargains amid this crisis.

## Foolish takeaway

Only time will tell if Canadian Natural’s counter-cyclical “hedging” M&A approach will be better than Suncor’s more prudent balance sheet-bolstering moves. In any case, I am a fan of Canadian Natural’s PONY scoop-up and think the firm walked away with one of the best bargains of the year.

The move will allow Canadian Natural to better insulate its shareholders from excessive volatility in the oil patch. At the time of writing, CNQ shares trade at 0.86 times book value, making them a solid bet for long-term investors who want to give themselves a raise with CNQ’s reasonably well-covered dividend.

Energy dividends may not be the safest in the world. Still, when it comes to CNQ, I think management is too shareholder-friendly to announce a dividend reduction, even if it is the best course of action amid the turmoil in the Albertan oil patch.

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2. NYSE:SU (Suncor Energy Inc.)
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