



Why Canadian Natural Resources (TSX:CNQ) Stock Soared 23% Yesterday!

Description

Canadian Natural Resources ([TSX:CNQ](#))([NYSE:CNQ](#)) stock soared 23% yesterday. Yes, you read that right; it's not a typo. In one day, Canadian Natural stock provided its patient shareholders with a 20% return.

So, what's up? Why did this oil and gas stock rise so dramatically?

Hope for a coronavirus vaccine sends oil higher

Yesterday, **Pfizer** announced that it is making good progress on its coronavirus vaccine. Early results point to a 90% effective rate. This sent stock markets everywhere higher. It also sent oil prices almost 10% higher at one point.

With this vaccine news, we can imagine a return to normal. Increased demand for oil and gasoline would follow. And economic growth could return. As we know, economic growth requires energy and increased activity requires energy.

In a nutshell, Canadian Natural Resources stock soared yesterday, as the macro environment finally worked in its favour. It has always been true that Canadian Natural has top-quality operational excellence and financial management. But in the last many years, the company has been a victim to the macro environment. Yesterday was a welcomed change. Because Canadian Natural Resources handles what is under its control exceptionally well. The problem usually lies in what the company can't control rather than missteps.

Canadian Natural Resources stock rallies because it was too heavily discounted

Canadian Natural Resources stock ended last week just as it has ended many weeks before: severely undervalued. It's undervalued because of weak oil prices and years of underinvestment in pipelines in

Canada. And it's undervalued because of the [move toward clean energy](#), which was also acting as a dark cloud over Canadian Natural Resources stock.

This was the environment that Canadian Natural Resources stock was in for a very long time. And I'm not saying that all of those issues will magically disappear now. I'm just saying that given the extent the unfavourable macro conditions, the discount in Canadian Natural shares has been steep. Sentiment has been rock bottom.

The stock has been trading at a price-to-cash flow multiple of less than four times and [at well below book value](#). The expectations baked into the stock have been excessively pessimistic. And, in my view, this is what has set the stage for such a sharp rise in response to some hopeful news yesterday.

When a stock is trading at such a severely discounted level, any good news can send it skyrocketing, as we saw yesterday. I mean, a 23% rise in just one day of trading is a lot. But in my mind, this was a long time coming. I mean, this is a top-quality company that has continued to churn out huge amounts of cash flow.

Canadian Natural Resources stock is the ultimate oil stock

Canadian Natural Resources stock is Canada's best-in-class oil and gas stock. Its long-life, low-decline assets mean that there are comparatively low capital expenditures associated with it and a high degree of predictability. Its asset base is resilient, diversified, and flexible.

Because of this, the company churns out massive amounts of cash flow, even in hard times. Recent third-quarter cash flow came in at \$1.7 billion, and year-to-date cash flow came in at \$3.4 billion. Free cash flow after dividends came in at a healthy \$467 million.

Motley Fool: The bottom line

Canadian Natural Resources stock rallied yesterday on hopes of a coronavirus vaccine and a return to normal. It's true that the rally might be short-lived, as there are many hurdles that remain. Despite this, it is my view that CNQ stock was due for a rally from unrealistically depressed valuations. I expect more to come, as oil should remain in high demand as we progress along a gradual transition to clean energy.

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1. Coronavirus
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