Got $1,000? I'd Follow Warren Buffett and Buy Big Oil Stocks While They're Cheap

Description

Big oil stocks went from borderline uninvestible to intriguing dividend options for value-conscious income investors. In numerous prior pieces, I've been urging investors to take on a contrarian position in the big oil stocks while the herd had given up on them in favour of the green energy stocks.

"If we are due for a rotation back to value in 2021, oil stocks could be made great again, probably at the expense of the bubbly EV and green energy plays that have seen their valuations swell to absurd heights." I wrote in a prior piece. "Now, don't get me wrong. I still believe that green energy is the future and that fossil fuels are in secular decline. That said, the timeline of the transition from fossil fuels to renewables has been greatly exaggerated of late."

At the time, many big oil players had robust operating cash flows, with more than enough resilience to stay solvent in a "lower-for-longer" oil price environment.

Still, the secular downtrend of fossil fuels was more than enough of a reason for young investors to stay out of the space. Now that value is making a comeback while growth sours, I think there are many reasons to get back into the oil trade while deep-value multiples still exist.

The big oil trade could really start to heat up in late 2021

With the pandemic's recovery in sight, oil prices have started to pick up some serious traction.

WTI now finds itself above the US$67 mark — a level thought nearly impossible last year, when the pandemic sent energy prices into a tailspin. As the green energy bubble begins to burst, and investors start to value real fundamentals, depressed valuations, and resilient cash flows over "growth stories," I think a majority of Canada's battered energy plays could be in a spot to make up for lost time.

Many of the "sexy" renewable plays were overbought, while numerous fundamentally sound big oil stocks were severely oversold. Now that the tables have begun to turn, and value is starting to outshine growth, I'd much rather be in big oil than the renewables moving forward.

Warren Buffett's big US$4.1 billion bet is a massive vote of confidence in big oil

In the fourth quarter of 2020, Warren Buffett placed a huge US$4.1 billion bet on big oil kingpin **Chevron**, likely for its juicy, well-covered dividend and the low price of admission to be had in the stock ahead of an economic reopening.

I think Canadian income investors would be wise to follow in the man's footsteps with names like **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ), which has been blasting off in this latest energy bull market. The 4.4%-yielding dividend stock is now at the crossroads between momentum and value, making the stock an ideal pick for contrarian investors who seek to maximize their upside in the coming cyclical upswing.

The company recently came off another solid quarter that saw operating cash flows just north of $1.71 billion, with production that rose by 8% quarter over quarter. Canadian Natural also hiked its quarterly dividend by 11%. Higher oil prices will be a major boon for the heavy oil kingpin, and I think more such generous dividend hikes will be on the way.

At the time of writing, shares of CNQ trade at 2.7 times sales, 1.4 times book value, and 8.3 times cash flow, all of which are below that of industry averages. If you seek a great dividend, deep value, and a greater shot at outsized gains over the next three years, it's tough to match CNQ's value proposition here.

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