



Why Canadian Natural Resources Is Soaring Right Now

Description

Canadian Natural Resources ([TSX:CNQ](#))([NYSE:CNQ](#)) stock has [skyrocketed](#) over 90% since the pandemic-driven slump in March 2020. These types of returns are in line with the market.

However, for a commodities-focused company like CNQ, those are pretty decent returns. Currently, Canadian Natural trades around the \$40 mark. However, I think there's plenty of upside with this stock.

Let's dive into why.

Recent earnings have been top-notch

The Calgary-based company has delivered strong performance via its recent earnings. For the first quarter ended March 31, CNQ recorded a profit of approximately \$1.38 billion. This amounted to \$1.16 per share, versus a loss of roughly \$1.3 billion in Q1 2020.

That's quite a turnaround.

Of course, the commodity environment is a heck of a lot different today than it was a year ago, and this is certainly reflected in these results.

Regardless, Canadian Natural is now showing what kind of a cash flow machine it can be in good times. For investors who believe the party in commodities isn't over, there's plenty of upside on the table to capture today.

Canadian Natural's revenue growth rate on a year-over-year basis was off the charts this past quarter. Investors need to remember that the denominator in this equation was significantly hit by the pandemic. Accordingly, we may see a period of impressive earnings on the horizon. However, next year may be a different story.

For now, Canadian Natural's cash flow projections of approximately \$6 billion in 2021 stand on their own. Indeed, this stock is now printing money in a big way. This cash flow is expected to be used to

reduce debt and shore up its balance sheet. Thus, the company doesn't seem intent on making big acquisitions or increasing Capex right now. For long-term investors, that's a good thing.

Bottom line

Energy and commodities-based businesses like Canadian Natural stand to benefit in times like these. Of course, a certain amount of forward-looking anticipation is built into CNQ's valuation right now. Some might say that such stocks have likely already priced in a positive commodity price environment into this stock right now.

I'm not so sure. I think investors in this sector have been burned before. Commodities are highly cyclical, and when the clock strikes midnight and everything turns into pumpkins and mice, commodities investors holding the bag don't feel well for what can be a prolonged period of time.

Accordingly, I don't see Canadian Natural's valuation as overly onerous right now. In fact, I think there's a healthy amount of pessimism priced in at these levels today.

Accordingly, those looking for a high-quality commodities play may want to consider this stock. It's on a run, but I don't see anything to suggest this run will stop anytime soon.

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TICKERS GLOBAL

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