



## Momentum Alert: This Canadian Energy Stock Is the New King of the Oil Patch

### Description

Like it or not, the battered Canadian energy stocks of earlier last year are the new [momentum](#) stocks.

Shares of **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)), the new king of the Albertan oil patch, have been unstoppable of late. Led higher by stronger oil prices (WTI could flirt with the US\$70 mark as soon as this summer), Canadian Natural has enriched many contrarians who stood by the name, despite the unprecedented headwinds facing it.

Now that the tables have turned and the stock is above its 2020 highs, all sights are set on the five-year highs just shy of the \$50 mark. The rally has been explosive, and the window of opportunity to pay two quarters to get a dollar is long gone. Still, I find Canadian Natural Resources to be [a great value](#) at these levels, given the trajectory of oil prices and room for the Canadian crude discount to narrow further.

### Canadian Natural Resources: Value, income, and momentum

Canadian Natural is a value, income, and momentum stock all rolled into one. With a considerable amount of “landlocked” assets, higher oil prices could meaningfully accelerate the firm’s growth profile, as the firm looks to ramp up production. Of course, such a growth reacceleration will be conditional on higher oil prices. With WTI making a run for US\$70, though, it seems as though there’s more than enough wiggle room to the downside to justify turning on the spigot.

Moreover, one must discount an upside surprise for oil prices, as demand looks to overwhelm supply heading into year’s end. Amid 2020, many folks ditched the fossil fuel plays in favour of green energy stocks, some of which may have inflated to bubble territory.

### Canadian Natural’s run may just be getting started

Many upside-seeking investors may be headed back to the value-rich fossil fuel plays on the back of higher oil. With rampant inflation, commodities and value are the places to be. And I suspect Canadian

Natural will continue to benefit from broader market trends that favour profits in the now over the promises of greater growth tomorrow.

Now that value and neglected energy stocks are starting to shine, I think that now is as good a time as any to buy Canadian Natural amid its robust rally out of its ominous 2020 depths. The stock still seems too cheap to ignore at just 1.5 times book value, 2.6 times sales, and 11.5 times next year's expected earnings. As a result of the past year of capital appreciation, the dividend yield has compressed down to 4.3%. Still, given the magnitude of dividend growth that could be on the horizon thanks to a more favourable industry backdrop, I'd argue that the dividend is far growthier than most income investors would think.

## The new king of the Canadian oil patch is a great buy

Canadian Natural is quickly earning a reputation for resilience after having kept its dividend intact through the worst of last year while taking advantage of M&A opportunities, as some of its peers played defence by bringing their dividends to the chopping block.

It's not a mystery why Canadian Natural was crowned as the new king of Canada's oil patch. As the firm looks to ramp up production efforts while investing in solvent-enhanced extraction techniques, which aim to bring down production costs, I'd look for Canadian Natural to further widen the gap with its peers in the oil patch.

Canadian Natural is a wonderful business that I believe is deserving of a more premium valuation.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
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### TICKERS GLOBAL

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

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