



1 Top Energy Stock With Great Dividend Growth

Description

The **TSX Index** looks overbought right now, but investors can still find [undervalued](#) stocks in the energy sector that offer high-yield dividends. Let's take a look at **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)) to see why it might be an interesting stock to buy today.

Canadian Natural Resources overview

Canadian Natural Resources owns a diversified portfolio of oil and gas assets in North America, the U.K., the North Sea, and offshore Africa. In most cases, the company owns the assets outright, rather than having partners. This gives CNRL the flexibility to allocate capital quickly to the sites that have the best profit potential as market prices change for the various commodities.

CNRL has transitioned in recent years to focus on assets with long lives and low resource decline. The portfolio now includes natural gas, heavy crude oil, light crude oil, and oil sands. CNRL is one of the largest independent natural gas producers in Canada and has significant land holdings in key natural gas regions in British Columbia and Alberta.

Natural gas currently trades near its highest level in the past decade, so CNRL is generating strong margins from the gas operations. Oil has also recovered from the 2020 crash and trades higher than pre-pandemic pricing.

Management's goal is to generate reliable free cash flow throughout the turbulence of the oil and gas markets, and that has been achieved even in this uncertain market.

CNRL earnings

CNRL reported strong [Q2 2021 results](#). Cash flow from operations was \$2.54 billion in the quarter and net earnings came in at \$1.55 billion. Free cash flow was about \$1.5 billion after the payment of dividends and capital expenditures.

In the first half of the year CNRL used excess cash to reduce net debt by \$3.1 billion.

Looking ahead, the strong pricing environment for oil and natural gas gave the board the confidence to authorize additional share buybacks of 1% per quarter. In addition, once the company reduces absolute debt to \$15 billion, which is expected to occur in Q4 2021, CNRL will direct 50% of free cash flow to share buybacks with the other half used to continue strengthening the balance sheet.

Dividends

CNRL has a great track record of dividend growth in both good times and during challenging ones. As an example, CNRL raised the distribution by 11% for 2021. The increase early in the year gave investors the confidence to hold the shares and the decision likely contributed to CNRL's strong stock performance in 2021. The shares are up 35% this year.

Investors should see another double-digit increase to the payout in 2022, given the strong profitability outlook for the company through the end of 2021 and next year. Investors who buy the stock at the current share price of \$42.50 can pick up a 4.4% dividend yield.

Should you buy CNRL now?

The stock tripled off 2020 lows but has pulled back a bit. Despite the huge rally, CNRL still looks cheap. If you have some cash to put to work in a dividend portfolio, I think CNRL deserves to be on your buy list right now.

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