1 Top TSX Dividend Stock That Still Looks Cheap

Description

The huge surge in the TSX Index this year has many stocks trading near all-time highs. Despite the massive rally off the 2020 market crash, some top dividend stocks still appear undervalued today.

Let’s take a look at **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) to see why it deserves to be on your buy list.

Canadian Natural Resources overview

The company is a giant in the Canadian energy sector with a market capitalization of $51 billion. CNRL arguably owns the best portfolio of assets and reserves in the oil and gas sector, including oil sands, offshore oil, conventional light and heavy oil, natural gas, and gas liquids facilities.

The company is one of the largest natural gas producers in the country. This is often overlooked by investors who see the stock as more of an oil bet. Natural gas prices have soared to their highest point in more than a decade, and the momentum looks set to continue through 2022.

Strong international demand for liquified natural gas (LNG) bodes well for CNRL, as its large natural gas operations in British Columbia and Alberta are strategically located to supply planned west coast LNG facilities. Canadian and U.S. natural gas prices are already very profitable for CNRL, but the international markets offer even higher potential margins.

Natural gas is quickly becoming the go-to fuel for countries, as they look to transition from coal and oil at power generation facilities. Renewable energy sources, such as wind and solar, are preferred for long-term power supplies, but they can be unreliable when the wind dies down and clouds block the sun. In short, these energy sources can struggle to meet demand and the world is realizing that natural gas might be the top bet for back-up power generation.

This is the case in Europe this year where soaring power demand is causing electricity prices to spike. Renewables can't keep up and natural gas supplies are also tight, making gas-fired power currently expensive as well.

Dividends

CNRL raised its dividend by 11% for 2021, and investors could see an even larger increase to the payout in 2022. Investors who buy the shares today can pick up a 4.4% dividend yield and wait for the next distribution hike, which should be generous in 2022. In fact, it wouldn't be a surprise to see the payout increase by more than 20% next year.

Should you buy CNQ stock?

CNRL currently trades near $43 per share. That's more than triple the 2020 low and effectively back to where the stock traded before the pandemic. The easy money has already been made, but this stock could still move meaningfully higher through next year if oil and natural gas prices hold or extend the 2021 gains.

CNRL has a strong balance sheet that gives it the power to make strategic acquisitions to drive growth. Management isn't shy when it comes to doing large deals, and a big purchase in 2022 is certainly possible ahead of anticipated consolidation in the energy sector.

CNRL expects to generate more than $7 billion in free cash flow in 2021. In short, this company is a cash machine at current oil and natural gas prices. If you are an oil and natural gas bull and want to buy top dividend-growth stocks, CNRL deserves to be on your buy list.

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