Why Canadian Natural Resources Stock Zoomed 75% in 2021

**Description**

While TSX stocks at large soared 20% in 2021, Canada's biggest energy stock, **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ), gained a massive 75% last year. Interestingly, the steam is still left in many energy stocks, including CNQ, mainly due to the bullish oil price environment in 2022.



## CNQ: What led to such an outperformance in 2021

Canadian Natural is a $63 billion diversified energy producer that aims to produce 1.24 million barrels of oil per day in 2022. Canadian energy companies witnessed a huge earnings dent in early 2020 due to the pandemic. However, as crude oil prices jumped from negative levels to US$75 last year, energy companies saw massive earnings recovery.

Canadian Natural reported a net income of $5.1 billion in the last 12 months against a loss of $435 million in the same period in 2020. Such a solid financial performance drove handsome dividend growth as well.

In November 2021, Canadian Natural increased its dividend by a notable 25% year over year. Early during the pandemic, the company kept its dividend-growth streak unbroken in 2020 when suspending dividends became the norm.

Canadian Natural's 10-year dividend growth exceeds 20% CAGR, well above global peers. CNQ stock yields 4.3% at the moment — higher than TSX stocks on average.

Canadian Natural aims to return excess cash to shareholders in 2022 with higher dividends and share buybacks. Accordingly, it has been repurchasing 1% of common shares outstanding, or 11 million shares per quarter.

## CNQ stock for 2022

Apart from the cash distribution, the company has been aggressively repaying its debt, strengthening its balance sheet. It intended to reach $15 billion in debt by the end of 2021. At the end of 2020, it had total long-term debt of $20 billion.

If oil and gas prices remain fairly high against 2021, expect a remarkable jump in CNQ's free cash flows in 2022. The company could consider strategic acquisitions in that case, which would unlock substantial value for shareholders in the long term.

CNQ stock has been a solid wealth creator since the pandemic lows. Importantly, despite the steep rally, the stock is trading 11 times its earnings. That indicates a considerable discount relative to peers as well to its historical average.

If the company sees free cash flow growth as expected, we could see valuation re-rating in CNQ this year.

## Bottom line

Energy stocks were a big no-no during 2014-2020. The pandemic-led weakness highlighted the same. However, they have been an astounding growth story so far since then.

You still have not missed the bus if you think energy stocks have rallied much and are currently trading at record levels. The rally could well continue on the expectations of higher energy prices amid full re-openings. The discounted valuation in the case of CNQ stock highlights an enormous growth potential for the future.



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