This Canadian Stock Could Be an Excellent Buy Amid Rising Oil Prices

Description

Amid the steep sanctions on Russian oil by the United States and the European Union, crude oil prices have crossed US$120/barrel mark. Meanwhile, oil prices could rise further amid rising demand due to the easing of COVID-19-related restrictions in China. Jeremy Weir, CEO of the global commodities trading firm Trafigura, has warned that oil prices could rise to US$150/barrel in the coming months before cooling off. Higher oil prices could benefit oil-producing companies, such as **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ).

The company has returned over 62% this year amid favourable market conditions. So, let's assess whether Canadian Natural Resources is an excellent buy at these levels.

Solid first-quarter performance

Canadian Natural Resources had posted a solid first-quarter performance last month, with its adjusted net income rising by over 176% to $3.38 billion. Its average natural gas production had increased by 26% to 2,006 million cubic feet per day. The increase was primarily due to strong drilling results and increased production volumes due to acquisitions. Meanwhile, its average liquids production had declined by 3% due to facility restrictions.

The company had realized higher crude oil and natural gas prices than its previous year's quarters amid the Russian invasion of Ukraine and subsequent sanctions, OPEC+ members adhering to its production cuts and rising demand. Compared to the last year's quarter, average WTI crude oil and natural gas prices increased by around 63% and 57%, respectively. The improvement in its operating efficiency and lower interest expenses amid a decline in debt levels drove its financials during the quarter.

Having discussed its first-quarter performance, let's look at its growth prospects.

Canadian Natural Resources's growth prospects

Amid the disruption of the supply chain due to the ongoing war and rising demand, oil and natural gas prices are projected to remain elevated in the near to medium term. Meanwhile, Canadian Natural Resources plans to strengthen its production capabilities and has $3.6 billion for capital investments this year. It targets to drill approximately 11 wells per quarter while also making strategic acquisitions.

Supported by these investments, Canadian Natural Resources expects its average oil production to increase by 60,000 barrels of oil equivalent per day compared to the previous year. The management hopes to raise its production by 63,000 annually from 2023 to 2025. With a liquidity of $6.1 billion, the company is well positioned to fund its growth initiatives. So, I believe the company's near- to medium-term growth prospects look healthy.

Dividend and valuation

Canadian Natural Resources has an impressive track record of rewarding shareholders by raising the dividend. It has increased its quarterly dividend for the previous 22 years, with its forward yield currently standing at 3.5%. Despite the recent surge in its stock price, Canadian Natural Resources trades at an attractive NTM price-to-earnings multiple of 7.3.

Bottom line

Although Canadian Natural Resources's stock price has increased by over 62% this year, I expect the rally to continue, with oil and natural gas prices remaining elevated. So, I believe Canadian Natural Resources would be an excellent buy right now despite its recent surge. Meanwhile, analysts are also upbeat on the stock, with 12 of the 21 analysts issuing "buy" ratings. Analysts' consensus price target represents an upside potential of around 10%.

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