This Canadian Energy King (and its Fast-Growing Dividend) Is Too Cheap to Ignore!

Description

Canadian energy stocks have been cooling off, while the rest of the TSX Index has been steadily trending higher. Undoubtedly, new highs are within sight, as the robust rally off those first-half lows continues to hold strong. Though many beginner investors are likely scarred from chasing stocks after huge market gains in the back half of 2021, I think cash-heavy investors should not hesitate about topping up their portfolios, given there's still plenty of value out there.

Of course, the markets could reverse course tomorrow. In any case, from a longer-term viewpoint, the risk/reward tradeoff still seems too good to pass up now that momentum is on the side of investors.

While the rest of the market found its footing, top energy plays have begun to lose their lustre in a big way. Falling oil prices (now below US$90 per barrel) are good for markets, as they take a bit of inflationary pressure off this market, allowing central banks a bit more flexibility.

Fears over a worsening of the energy pullback seem overdone

As oil continues its descent, there's some hope that the U.S. Federal Reserve or Bank of Canada won't need to hike as much as many bears thought in the first half. Though the Fed is committed to moving forward in accordance with the latest data, investors should not expect such a wait-and-see approach to be a lifting of the foot off the gas. Indeed, inflation could linger for longer. In prior pieces, I've noted that just because inflation has peaked does not mean it's en route for a steep plunge.

With energy stocks coming off some of their best quarters in recent memory, investors seem inclined to take some profit off the table with the intention of putting it in something else. Oil had its run, and with inflation and energy prices bound to cool, it's only prudent to do a bit of trimming after a year of solid gains.

Canadian Natural Resources: Oversized dividend hike? Yes, please!

Indeed, lower oil prices mean coming quarters could face flat-to-negative quarter-over-quarter growth. That said, many energy firms are still in the best shape they've been in many years. Firms like **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) are gushing with cash, with more than enough to fuel generous dividend hikes over time.

Recently, the dividend was hiked a whopping 28%. That's an incredibly generous raise to many shareholders who've already been spoiled with huge capital gains (around 75%) over the past year!

Even if US$100-150 oil prices move further out of sight, it's unwise to discount Canadian Natural's longer-term potential. It's one of the best-run oil and gas behemoths in Canada and will likely continue trending higher once the worst of this energy-driven pullback is over.

At writing, shares are down around 18% from peak levels — just shy of $90 per share. Undoubtedly, investors are already expecting energy profits to begin to wind down in conjunction with slipping oil prices. Still, at a historically low 7.3 times price-to-earnings ratio, shares of CNQ seem rich with value, even assuming oil fails to hold the US$90 mark going into year's end. It seems like a mild retreat in oil is baked in. And if oil does manage to climb above US$100 per barrel again, CNQ stock could have room to correct upward. In any case, CNQ stock is a terrific way to hedge against persistent inflation, as central banks keep their ears to the data.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. joefrenette
2. kduncombe

Category

1. Energy Stocks
2. Investing

Date
2025/08/17
Date Created
2022/08/16
Author
joefrenette