TFSA Passive Income: 1 Great Canadian Dividend Stock That Still Looks Cheap

Description

The market bounce is eroding some of the best TSX deals in 2022, but TFSA investors seeking passive income can still find top Canadian dividend stocks to buy at undervalued prices.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) trades near $70 at the time of writing compared to $88 in June. The drop in the price of oil hit the share prices of producers in the past couple of months, but the selloff in CNQ stock looks overdone given the strong profitability at current oil and natural gas prices.

Oil and natural gas outlook

Canadian Natural Resources is widely considered to be an oil stock, but the company is also a major producer of natural gas. In fact, the company is one of the largest producers of natural gas in Western Canada and owns vast untapped land positions in key natural gas basins.

The price of natural gas is currently US$9.25 per million British thermal units (MMBTU), right near the 2022 highs. Rising domestic demand from power producers and soaring global liquified natural gas (LNG) demand due to the war in Ukraine is driving natural gas prices to record levels and there is no reason to expect the strong demand environment will change in the next couple of years. Europe is trying to end its reliance on Russia for energy and utilities around the world are replacing coal and oil with natural gas to produce electricity.

WTI oil is down to US$88 per barrel from US$120 earlier this year. Traders booked profits on concerns a global recession could reduce demand in 2023 and 2024. That might be the case, but oil demand is still expected to grow, as commuters hit the highways again and airlines ramp up capacity to meet strong travel demand.

OPEC recently warned that an oil supply squeeze could occur. The consortium has limited spare capacity to boost supply due to reduced investment over the past two years. The entire global oil sector is in the same boat. At the same time, oil companies facing environmental, social, and governance pressures are content to simply spend what is needed to maintain output and allocate excess cash to debt reduction, share buybacks, and dividends.

Canadian Natural Resources operates oil sands, conventional heavy oil, light oil, and offshore oil production facilities.

Dividends and bonus payouts

Canadian Natural Resources raised the dividend by 28% in 2022. The board has increased the distribution for 22 consecutive years. Profits came in so strong in the second quarter (Q2) 2022 that CNRL is giving investors a bonus dividend of $1.50 per share for the quarter on top of the base quarterly payout of $0.75 per share. The base dividend on its own currently provides a 4.25% dividend yield.

Oil prices could easily move back above US$100 through next year. Even if WTI oil stays in a US$80 to US$90 range, CNQ stock still looks cheap.

Should you buy CNQ stock for passive income?

CNRL has a good track record of increasing the dividend throughout the ups and downs of the oil market. The distribution provides and attractive yield, and investors can benefit from bonus payouts when oil and natural gas prices are at high levels. The recent drop in the price of oil could be temporary, and CNQ stock appears oversold at the current price.

If you have some cash to put to work in a TFSA focused on passive income, this stock deserves to be on your radar.

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Date
2025/09/01
Date Created
2022/08/18
Author
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