



Canadian Natural Resources (TSX:CNQ): The Best-in-Class Energy Stock Today

Description

Recession fears continue to impact on oil prices. You can throw in easing supply tensions and moderate demand outlook for the weakness of oil markets lately. As of this writing, Brent (US\$96.72) and West Texas Intermediate (US\$90.77) crude are below US\$100 per barrel.

Kazuhiko Saito, an oil analyst from Fujitomi Securities, said, "The oil market is expected to stay under pressure, with fairly high volatility, due to worries over a potential global recession." Some industry experts say fears of demand destruction is the reason for the bearish sentiment.

Oil will still rebound

Energy continues to dominate on the **TSX**. Unsurprisingly, since [investing in oil stocks](#) is the most profitable option today despite the potential impact of an economic downturn on demand. The sector's year-to-date gain is 43.7% after advancing 7.6% in one month.

Analysts from **Goldman Sachs**, the **Royal Bank of Canada**, Barclays, and UBS expect prices to rebound later this year. They predict oil to trade between US\$110 and US\$130 per barrel by year-end 2022. If you own shares of **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)) or CNR, hold them. If not, consider taking a position right now.

Best-in-class

CNR started operations in 1973 and is now a senior oil and natural gas producer in North America. Its market cap stands at \$83.6 billion. This best-in-class, large-cap energy stock won't disappoint investors. The edge over other oil companies is financial discipline and a strong balance sheet.

Tim McKay, President of CNR, said, "Our world class asset base is strategically balanced across commodity types so we can be flexible and capture opportunities throughout the commodity price cycle to maximize value for our shareholders." He adds that the company is truly a robust and resilient energy company for several reasons.

A substantial portion of CNR's unique and diverse asset base consists of long-life low-decline assets. This means the assets have significant, low-risk, high-value reserves. Moreover, they require lower maintenance capital than most other reserves. At \$72.39 per share, investors enjoy a year-to-date gain of 38.2%.

Strong execution and soaring profits

According to management, strong execution across the company's operations has resulted in substantial free cash flow generation in the first half of 2022. As usual, it was driven by the top-tier, long-life, low-decline assets. Undoubtedly, the oil sands producer benefited from higher synthetic oil prices. But, more importantly, the company's cost controls and efficient capital allocation across its drilling and production operations are boosting profitability. In the six months ended June 30, 2022, net earnings jumped 126% to \$6.6 billion versus the same period in 2021. Noteworthy, this marks two years of steadily increasing quarterly profits.

Cash flows from operating activities increased 60% year over year to \$8.8 billion, while free cash flow reached \$6.7 billion. Because of the strong financial position, the Board of Directors approved a special dividend (\$1.50 per share) payable on August 31, 2022.

You must be a shareholder on record as of August 23, 2022, to receive it. The regular dividend is an attractive 4.14%. Going forward, management plans to allocate 50% of FCF to share repurchases. The other 50%, minus any strategic growth capital or acquisitions, will go to the balance sheet.

Expect growing dividends

CNR is a well-managed energy company with broad exposure to Canadian oil, one of the country's top resources. If energy demand builds up again and oil prices remain high, expect continuing dividend hikes.

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