Canadian Natural Resources (TSX:CNQ): A Top Stock to Buy Going Into a Recession

Description

Shares of Canadian energy giant **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) have been cooling off since peaking back in May. The stock is off around 19% from its peak, just shy of the $90 per-share mark. Undoubtedly, the rapid retreat in the price of oil is a significant reason CNQ has taken a bit of a breather after one of its best runs in recent memory.

Though energy prices could continue to plunge going into year's end, as broader inflationary pressures ease, it's still worth stashing a cash-rich energy giant in the core of your Tax-Free Savings Account (TFSA) or Registered Retirement Savings Plan (RRSP) if you're not yet ready for a rate-induced recession.

Undoubtedly, central banks are starting to take the fight against high inflation seriously. Though inflation has crept subtly lower in recent months, it's difficult to gauge what inflation's next move will be. If it creeps higher, the hawkish commentary from the U.S. Federal Reserve and Bank of Canada could get louder. And if inflation isn't backing off fast enough, investors shouldn't expect anything but continued hawkishness from central banks.

Investors increasingly jittery over inflation

Indeed, inflation is a nasty beast and has already been plaguing the world economy for far too long. Though cooler CPI numbers could spark further relief, I think that many investors hoping for lower inflation may not be prepared for an environment where inflation takes the stairs lower, rather than an elevator. With U.S. inflation still in the 8% range, there's a long way to go before we reach normalized inflation — and perhaps a long way until the Fed is ready to stop the rate hikes and consider a few cuts.

In any case, the trajectory of rates is not soothing to investors. Regardless, energy stocks, like Canadian Natural Resources (my favourite Canadian energy play right now), can help act as a bit of a hedge against high inflation and an ensuing recession.

Even if oil prices were to fall below the US$70 mark, Canadian Natural and its peers would still be raking in considerable amounts of cash flow. In a high-rate world, cash flow is what you want to target, not unprofitable growth companies, which could continue to free fall if rates rise much higher from here.

Higher energy feeds higher inflation

Undoubtedly, higher energy prices are helping fuel high inflation. If energy prices continue to retreat, there's a real possibility that inflation could take an elevator, rather than the stairs, lower. On the flip side, if energy prices don't head much lower from here, today's slate of valuations on energy stocks seems way too low.

Despite solid quarters and rosy prospects with oil north of US$75 per barrel, CNQ stock trades at 7.35 times trailing price to earnings (P/E). While slightly lower oil prices could make it tougher to stack up against quarters directly in the rear-view mirror, I think the P/E is way too depressed. Net earnings for the year's first half came in at a whopping $6.6 billion. That's more than double on a year-over-year basis!

Indeed, the pace of recent net income growth is bound to slow with the recent cooling of energy prices. But until oil nosedives below pre-pandemic levels, CNQ will continue to be a cheap cash cow (less than five times cash flow) that's to be bought on any dips.

The bottom line on CNQ stock

Oil and gas may still not be the sexiest place to invest in a world looking to go renewable. However, there's no denying the ample cash flows and the less-correlated potential returns going into recession. If energy prices stay elevated and inflation takes the stairs lower, CNQ stock is a name that can pay off.

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