



## Should You Buy Canadian Natural Resources (TSX:CNQ) Stock on the Pullback?

### Description

Oil and gas stocks are down significantly from the June highs. [Tax-Free Savings Account \(TFSA\)](#) and Retirement Savings Plan (RRSP) investors who missed the rallies in energy stocks earlier this year are wondering if **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)) and its peers are now [undervalued](#) and good to buy.

### Oil market outlook

Oil trades for US\$80 per barrel at the time of writing compared to the 2022 high above US\$120 it hit earlier this year. The war in Ukraine initially drove up oil prices on supply fears, as traders tried to figure out if sanctions against Russian oil would be put in place, and if so, how successful they might be at keeping Russian oil off the global market.

Since then, fears about a global recession have overpowered the war premium in the market. Investors worry that a deep and extended recession is on the way due to soaring interest rates. The U.S. Federal Reserve and other central banks around the world are raising interest rates to try to get inflation under control. Economists have a wide range of views on the outcome for the global economy over the next 12-18 months. Some see a soft landing and a quick rebound while others are much more pessimistic, saying the rate hikes will go too far and trigger extensive economic carnage.

The thought in the oil market is that a deep recession would curb oil demand. That's probably true, but there are other forces at play that could drive the price of oil back above US\$100 in the coming months.

China's COVID-19 lockdowns have contributed to the reduction in oil demand. The Chinese economy is struggling, and there is going to be pressure for the government to get economic activity back on track. This will require easing the COVID-19 restrictions, which could begin near the end of this year. A rebounding Chinese economy would provide a big boost to oil demand.

At the same time, airlines around the world are ramping up capacity to meet a recovery in travel demand. Several recent announcements of large orders for new planes is a good indicator of where the sector is headed. An economic downturn will slow the pace of the surge, but jet fuel demand is

going to steadily grow and the further easing of border restrictions will extend the rebound in air travel.

Companies are now calling millions of employees back to the office. This will drive up gasoline demand in the coming months and sales could quickly surpass 2019 levels. People who have new flexible schedules that allow them to work from home for one or two days might decide to drive when they need to go to the office rather than take public transport. In addition, many people still aren't excited about being crammed like sardines in busses and on subways while COVID-19 is still circulating.

On the supply side, oil executives and analysts warn that there is limited capacity for oil producers to ramp up supply to meet rising demand. This is largely due to deep cuts in exploration and development expenditures over the past 30 months. In addition, strict emissions targets will make it harder for large new production sites to get the green light.

Near-term volatility is expected, but there is a good chance that oil prices will rebound from current levels in the coming months and stay high for several years.

## Should you buy Canadian Natural Resources stock?

Canadian Natural Resources trades for close to \$63.50 per share at the time of writing compared to \$88 in June.

Investors who buy the stock at the current level can get a base dividend yield of 4.7%. The board paid out a bonus dividend of \$1.50 per share in August as a result of strong second-quarter 2022 results. Another special bonus could be on the way for the third quarter, even with the pullback in oil and gas prices.

CNRL has raised the dividend in each of the past 22 year and increased the payout by 29% in 2022. The stock looks oversold right now and you get paid well to wait for the rebound. If you have some cash to put to work, CNQ stock deserves to be on your radar.

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