5 Things You Need to Know About CNQ Stock

Description

While markets have been on a decline for months now, TSX energy stocks have generously rewarded investors in the last few years. Canada's biggest energy producer by market cap, **Canadian Natural Resources** (TSX:CNQ) has been no exception. Here are five things that make it stand tall in the current markets.

Quality assets and production

Canadian Natural has a 78% liquids-weighted production mix with low-decline assets. It has a proven reserve life index of nearly 30 years, which is higher than its peers' average. It aims to produce 1.3 million barrels of oil equivalent in 2022.

Crude oil has been on the rise since the pandemic and has generated windfall free cash flows for energy producers. Upstream companies produce various types of oils depending upon their assets' geological formation. CNQ has a diversified product mix of light, heavy, synthetic crude oil, natural gas, and natural gas liquids.

Strong positive correlation

CNQ stock has a strong positive correlation with WTI (West Texas Intermediate) crude oil prices. The correlation coefficient between these two in the last three years comes to around 0.6. That means, theoretically, if WTI crude oil price gains by 1%, CNQ stock gains by 0.6%.

Apart from the stock movement, higher oil prices help boost producers' earnings as well. Canadian Natural intends to increase its production by 7% this year compared to 2021. Thus, higher production and higher energy commodity prices will likely continue to aid its profits.

Financial growth

CNQ reported free cash flows of $12.5 billion in the last 12 months, marking a handsome 125% increase against the earlier 12 months. The company utilized these cash flows largely for debt repayments. As a result, its balance sheet has significantly improved, making it all the more investable from the shareholders' standpoint.

To be precise, Canadian Natural had a net debt of $23 billion at the end of 2020, which declined to $13.5 billion at the end of the second quarter of 2022. Declining debt indicates lower outflow on interest expenses and improving profitability.

As oil prices are still in the $90s, oil producers like CNQ will likely see strong financial growth for the next few quarters.

Dividends

As oil producers are flush with cash this year, they have also generously rewarded shareholders with dividends. CNQ increased its regular dividends by 50% this year against 2021. Apart from the regular, it also announced a special dividend of $1.5 per share, taking its total 2022 annual dividend to $4.5 per share.

CNQ kept its dividend-growth streak intact even during the pandemic in 2020, indicating its earnings visibility and balance sheet strength. On the contrary, many energy companies trimmed or suspended their shareholder payouts to save cash. Note that CNQ has increased its dividends for the last 22 consecutive years.

Valuation

CNQ stock has returned 45% in the last 12 months, which is in line with its peers. It is currently trading seven times its earnings and four times its cash flows. CNQ does not look much undervalued on the cash flow front. However, oil price strength and ensuing financial growth could drive the stock higher.

What stands tall in the current environment is CNQ's solid asset base and improving balance sheet. These two will drive its dividend growth and ultimately create handsome total returns in the long term.

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vinitkularni20