The Best Energy Dividend Stock for a Decade of Passive Income

Description

Companies that are part of the energy sector have delivered outsized gains to investors in the last 18 months. While it was the worst-performing sector in 2020, the reopening of economies, geopolitical tensions, and supply chain disruptions have all combined to drive oil prices higher in recent months.

Yes, the energy sector is extremely cyclical and has lagged behind the broader markets by a wide margin in the last two decades. But there are a few gems, such as **Canadian Natural Resources** (TSX:CNQ), that have delivered market-thumping gains to investors in this period.

For example, the TSX index has returned 451% in dividend-adjusted gains to investors since November 2002. Comparatively, CNQ stock has returned a staggering 2,520% to investors in the last 20 years. So, an investment of $1,000 in CNQ stock in November 2002 would be worth $25,300 today.

Despite its stellar gains, Canadian Natural Resources currently offers investors a dividend yield of 4.2%. A steady stream of dividend income allows shareholders to generate a passive-income stream that can either be withdrawn or reinvested into the company to benefit from compounded gains.

The power of compounding or dividend reinvestments should not be underestimated, as investors earned close to $10,000 in dividend payouts in the last two decades by investing just $1,000 in CNQ stock.

While past returns don't matter much to current investors, let's see why Canadian Natural Resources is the best dividend-paying energy stock right now.

Why is CNQ stock a buy right now?

In 2021, Canadian Natural Resources reported an adjusted funds flow of $13.7 billion. It paid dividends amounting to $2.24 billion while capital expenditures stood at $3.5 billion, resulting in a free cash flow of $8 billion last year.

Canadian Natural Resources continues to benefit from its diversified base of cash-generating assets.

These top-tier, low-decline assets have been strategically assembled and developed over multiple decades, providing the company with significant flexibility to optimize its capital-allocation process.

Last year, CNQ's board of directors enhanced the free cash flow-allocation policy once the net debt falls below the threshold of $15 billion, allowing the company to allocate 50% of free cash flow to the balance sheet and the rest for share repurchases.

Canadian Natural Resources is a dividend powerhouse

While several oil producers cut and even suspended dividend payments in 2020, Canadian Natural Resources maintained these payouts. Due to its robust balance sheet and rising oil prices, CNQ announced two increases in quarterly dividends in 2021, resulting in a 38% increase in these payments annually.

It increased quarterly dividends by 28% year over year in the first quarter of 2022 to $0.75 per share, translating to an annual payout of $3 per share. Currently, its annual dividends have increased to $3.40 per share, and CNQ expects to increase these payouts to $4.50 per share by the end of the year.

In fact, the company has increased dividends at an annual rate of 22% in the last 22 years, which is quite remarkable for a cyclical company. CNQ stock is priced at seven times forward earnings, which is very cheap given its earnings and dividend-growth rates. Analysts tracking the company expect shares to rise by 30% in the next 12 months.

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