



1 High-Yield Energy Stock You'll Regret Not Buying at These Prices

Description

For those looking to generate income from blue-chip [dividend stocks](#), quality energy companies with robust cash flows come to mind. Despite the cyclical nature of the energy sector, several Canadian stocks [trading on the TSX](#) continue to report cash flows across business cycles and remain top bets for equity investors.

Most energy companies in the country have a diversified base of cash-generating assets allowing them to derive outsized gains over the long term. Today, I'm going to discuss the prospects of investing in one such TSX dividend stock, **Canadian Natural Resources** ([TSX:CNQ](#)), which currently offers investors a dividend yield of 4.2%.

Is CNQ stock a buy right now?

CNQ, one of the largest Canadian companies, has a widening asset base and flexible capital structure. Canadian Natural Resources operates in North America, the United Kingdom, and offshore Africa, providing shareholders with international exposure and diversification opportunities.

A combination of CNQ's low-cost profile and focus on expanding in the Canadian basins has enabled it to undertake counter-cyclical acquisitions over the years. The crude oil and *natural* gas producer aims to own 100% of its assets, allowing it to start or shut down drilling programs on short notice.

The company has focused on maintaining a balance between natural gas, heavy crude oil, and light crude oil, thereby offering diversification from commodity price risk. This business model also allows CNQ to allocate capital to projects with the highest returns.

CNR's long-life and low-decline asset base has helped it maintain and even increase cash flows and dividend payments in the last two decades. In Q3 2022, the company's adjusted funds flow stood at \$5.2 billion, while free cash flow increased to \$1.7 billion. Flush with cash, the company paid \$2.5 billion in dividends to shareholders and deployed \$1 billion towards capital expenditures.

Further, the board of directors approved a 13% increase to its quarterly dividend to \$0.85 per share

from \$0.75 per share. The rising dividend showcases the resiliency of CNQ's business model.

What next for CNQ stock and investors?

Canadian Natural Resources is looking to maintain investment-grade debt ratings and manage its liquidity as a core asset. It is well-positioned to do so even in a volatile macroeconomic backdrop and an environment of rising interest rates.

In the last 20 years, CNQ stock has crushed the broader market returns. CNQ's stock price has surged 1,490% while total returns are over 2,400% after adjusting for dividends. Comparatively, indices such as the TSX and S&P 500 have returned 545% and 460% to investors in this period.

Canadian Natural Resources has increased dividend payouts at an annual rate of 22% in the last 22 years. So, an investment of \$10,000 in CNQ stock back in November 2002 would have allowed shareholders to buy 2,008 shares of the company and generate \$148 in dividends in the next 12 months, indicating a yield of 1.48%.

Now, 2,008 CNQ shares would earn \$6,827 in annual dividends, increasing your effective yield to almost 70%.

Despite its market-thumping gains, CNQ stock is trading at a discount of 20% to consensus price target estimates. After adjusting for its juicy yields, total returns will be closer to 24% in the next 12 months.

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