



Is CNQ Stock a Buy in February 2023?

Description

Canadian Natural Resources Ltd. ([TSX:CNQ](#)) has been one of the TSX's best performers in the last few years. In fact, it has risen 105% in the last three years amidst rapidly rising oil and gas prices and vastly improved supply/demand fundamentals.

Today, however, is 2023. The global economy is shaky and investors are nervous. Here's why I think that TSX stock CNQ is still a great buy.

Oil and gas fundamentals remain strong

The price of oil remains just below \$80. It's been a very volatile year. But at this price, oil companies like CNQ are making tonnes of money, and their stock prices are reflecting this. For example, in the first nine months of 2022, CNQ reported adjusted funds flow of \$15.6 billion, a 66% increase from the same period last year.

Now that's really great, but how can this help us decide whether CNQ stock is a good buy today? Well, it can't really, but it can give us a glimpse of the earnings power of this company. We must look at current supply/demand fundamentals to figure out the rest. As you know, oil has been rallying largely based on supply issues. While the war in Ukraine took the price of oil beyond \$100, it was already rallying before that.

The [oil industry's comeback](#) has been largely the result of underinvestment in assets as a result of ultra-low prices and rising concern over the environment. These two factors were linked of course, and they created the perfect storm for oil prices. Today, we're sitting at oil prices of just under \$80 – the break-even price for Canadian oil companies is much lower than that.

Looking ahead, this supply shortage persists. Meanwhile, demand remains very strong as the globe continues to require more and more energy. Lastly, [renewables are still a small portion of energy produced](#), so they have not destroyed much of oil and gas demand yet. I still feel that the transition will take many years.

CNQ: A TSX stock with a top-notch asset base and operations

So, on top of this cash flow boom that's coming from CNQ, we also have the background story that's been there all along. You see, CNQ has top-tier assets in natural gas, crude oil, and upgrading. These assets are long-life assets with low decline rates. This means that they have longevity and require relatively little in the way of capital investment to keep them producing. They're also assets that are quite stable and predictable.

Thus, CNQ has been producing results that have been predictable and stable in all commodity cycles. Its stock price has steadily risen over the last 20 years while the company has been consistently supplying the market with the energy it so desperately needs. In turn, this has driven strong, growing, and consistent dividends for CNQ shareholders.

CNQ is a TSX stock with a consistent and growing dividend profile

This brings me to my last point. It's the icing on the cake for my buy thesis. Simply put, CNQ's annual dividend has been one that shareholders can rely on. For example, it's grown from a mere \$0.41 per share to \$3.40 in the last 10 years. Furthermore, even in the very difficult years of low commodity prices, it was never cut. Instead, the company stayed firm in its commitment to its dividend.

Importantly, CNQ's dividend has been backed by the company's strong balance sheet and exemplary financial management. Today, this tradition continues – in fact, its debt to total capitalization is a very healthy 27%. This is important to note because the company's cash returns to shareholders depend on its balance sheet. Essentially, when net debt is below \$15 billion, 50% of cashflow will be allocated to share repurchases. Furthermore, when net debt is below \$8 billion, even more will be returned to shareholders.

Lastly, CNQ's free cash flow, which is the cash flow left over after capital expenditures, is also healthy. In the latest quarter, free cash flow after total dividends was \$1.7 billion. This is a very key number as it accounts for the increased dividend payments that CNQ has been making. It, once again, reflects the strength of the business.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CNQ (Canadian Natural Resources Limited)

PARTNER-FEEDS

1. Business Insider
2. Flipboard

3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. cleona
2. karenjennifer

Category

1. Energy Stocks
2. Investing

Date

2025/08/11

Date Created

2023/02/02

Author

karenjennifer

default watermark

default watermark