Growing Dividends Are Just 1 Reason to Buy This Undervalued Oil Stock

Description

Major oil producers asked the government to ease production limits in exchange for shipping more crude by rail.

The new special allowance is to come into effect in December 2019. The quantity of the oil that companies will be allowed to produce in December is set at 3.81 million barrels — up from 3.56 million barrels a day when the program first started in January.

Curtailment relief might signal a time to buy

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is one of the largest oil companies in Canada to participate in talks to purchase the crude-by-rail contracts currently held by the Albertan government.

Tim McKay, president of CNQ, stated recently that Canadian Natural is still in talks with the Alberta government about purchasing crude-by-rail contracts signed by the previous NDP government with railroad companies. “The terms are complex, and it’s difficult to predict whether the company will take part,” McKay said.

Shipping more crude by rail is seen as critical for Canadian oil producers due to congested pipelines that forced Alberta to order the mandatory oil curtailments.

The challenge is that oil production from Alberta exceeds pipeline takeaway capacity, and there have been multi-year delays to all active pipeline proposals out of the province, including the federally owned Trans Mountain pipeline expansion, **TC Energy’s** Keystone XL pipeline, and **Enbridge**’s Line 3 pipeline.

The bottom line

CNQ has responded well to the curtailment situation in Canada. McKay also recently stated that Canadian Natural identified 30,000-50,000 barrels per day of oil production that can be turned on or off to maximize output under curtailment.

CNQ credited its “curtailment optimization strategy” for posting the upstream output of 1.18 million barrels of oil equivalent per day in the third quarter, up 15% from the second quarter and 11% over a year ago, despite continuing oil production curtailments imposed by the Albertan government starting last January.

Even if CNQ cannot reach an agreement on purchasing crude-by-rail contracts, the company is showing strong performance in the current situation.

“Our ability to leverage our competitive advantages is reflected in our third quarter where we delivered strong and increasing free cash flow, significantly lower operating costs and production growth per share up an impressive 14% (from third quarter 2018), all in a production-controlled environment,” executive vice-chairman Steve Laut told on a conference call with financial analysts.

CNQ is comfortable that most or all its production will be transported effectively by incremental increases in pipeline export capacity going into 2020. Canadian Natural Resources also boasts a 19-year record of dividend growth at a compound annual rate of 21%. The company’s current cheap valuation means that investors can lock in a 4.5% dividend yield — a 61% premium over the company’s long-term average yield.

Recent Q3 2019 earnings reported record quarterly adjusted funds flow of $2.9 billion and free cash flow of $1.9 billion.

This surplus free cash will be used to buy back shares, strengthen the balance sheet, and increase the dividend. Canadian Natural Resources provides an opportunity to buy a great company at a good price and lock in an attractive and growing dividend, and if a deal is negotiated to increase production and ship the product by rail, then all the better.

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