Canadian Natural Resources (CNQ)

Updated November 13th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$36	**5 Year CAGR Estimate:**	15.3%	**Volatility Percentile:**	80.7%
Fair Value Price:	$52	**5 Year Growth Estimate:**	4.0%	**Momentum Percentile:**	12.1%
% Fair Value:	69%	**5 Year Valuation Multiple Estimate:**	7.7%	**Growth Percentile:**	20.3%
Dividend Yield:	3.6%	**5 Year Price Target**	$63	**Valuation Percentile:**	94.0%
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Total Return Percentile:**	86.9%

Overview & Current Events

Canadian Natural Resources is a diversified energy company that operates in the acquisition, exploration, development, production, marketing, and sale of crude oil, natural gas liquids (NGLs), and natural gas. The company is headquartered in Calgary, Alberta. Canadian Natural Resources common stock is cross-listed on the Toronto Stock Exchange and the New York Stock Exchange, where it trades with a market capitalization of US$33 billion. In this report, all figures referenced are in Canadian dollars and the TSX-listed shares have been used for the purpose of valuation analysis.

In early November, Canadian Natural Resources reported (11/1/18) financial results for the third quarter of fiscal 2018. The company grew its adjusted earnings-per-share almost 6-fold over last year, from $0.19 to $1.11, and exceeded the analysts' estimates ($0.90) by a wide margin. Canadian Natural Resources prefers to measure its profitability using a non-GAAP financial metric called funds flow from operations. In the third quarter, this metric increased to a record quarterly level of $2.83 billion, which was 5% higher sequentially and 69% higher compared to last year's quarter. The increase over last year resulted from higher oil prices and increased liquids production volumes.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$3.23	$2.48	$2.36	$2.30	$1.47	$2.23	$3.47	$0.24	-$0.61	$1.19	***$3.50***	***$4.26***
DPS	$0.20	$0.21	$0.30	$0.35	$0.42	$0.58	$0.90	$0.92	$0.94	$1.10	***$1.30***	***$1.80***
Shares	1082.0	1084.7	1090.8	1096.5	1092.1	1087.3	1091.8	1094.7	1101.0	1222.8	***1225.0***	***1150.0***

Canadian Natural Resources' financial performance has been extremely volatile over the last decade. With that said, we believe the company's performance is likely to improve considerably moving forward, primarily due to higher prices of oil and natural gas. Thanks to the positive surprise in the results in Q3, we have raised our earnings-per-share estimate for this year from $3.00 to $3.50. On the other hand, as this year will form a strong comparison base for the years ahead, we have revised our expected 5-year earnings-per-share growth rate downwards, from 7% to 4%.

Canadian Natural Resources has compounded its per-share dividend at more than 18% per year over the last decade. Given the company's conservative payout, we believe that dividend growth is likely to exceed earnings growth for the foreseeable future, though still come in below last decade's high growth rate.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	11.4	12.2	15.7	17.3	21.5	14.3	12.1	N/A	N/A	34.6	***10.3***	***14.9***
Avg. Yld.	0.5%	0.7%	0.8%	0.9%	1.3%	1.8%	2.1%	2.7%	2.5%	2.7%	***3.6%***	***2.7%***

Canadian Natural Resources has traded at an average P/E ratio of 14.9 over the last decade if we exclude the period 2015-2017, where the company's valuation was not meaningful due to depressed earnings. We believe that this is a fair representation of the firm's fair value. The stock is now trading at a P/E ratio of 10.3. If it reverts to its average valuation level, it will enjoy a 7.7% annualized gain thanks to P/E expansion.

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Income investors should note that while the Canadian government applies a 15% withholding tax on dividends paid to U.S. residents (including those paid by Canadian Natural Resources), this withholding tax is waived if shares are held within a retirement account like a 401(k).

Safety, Quality, Competitive Advantage, & Recession Resiliency

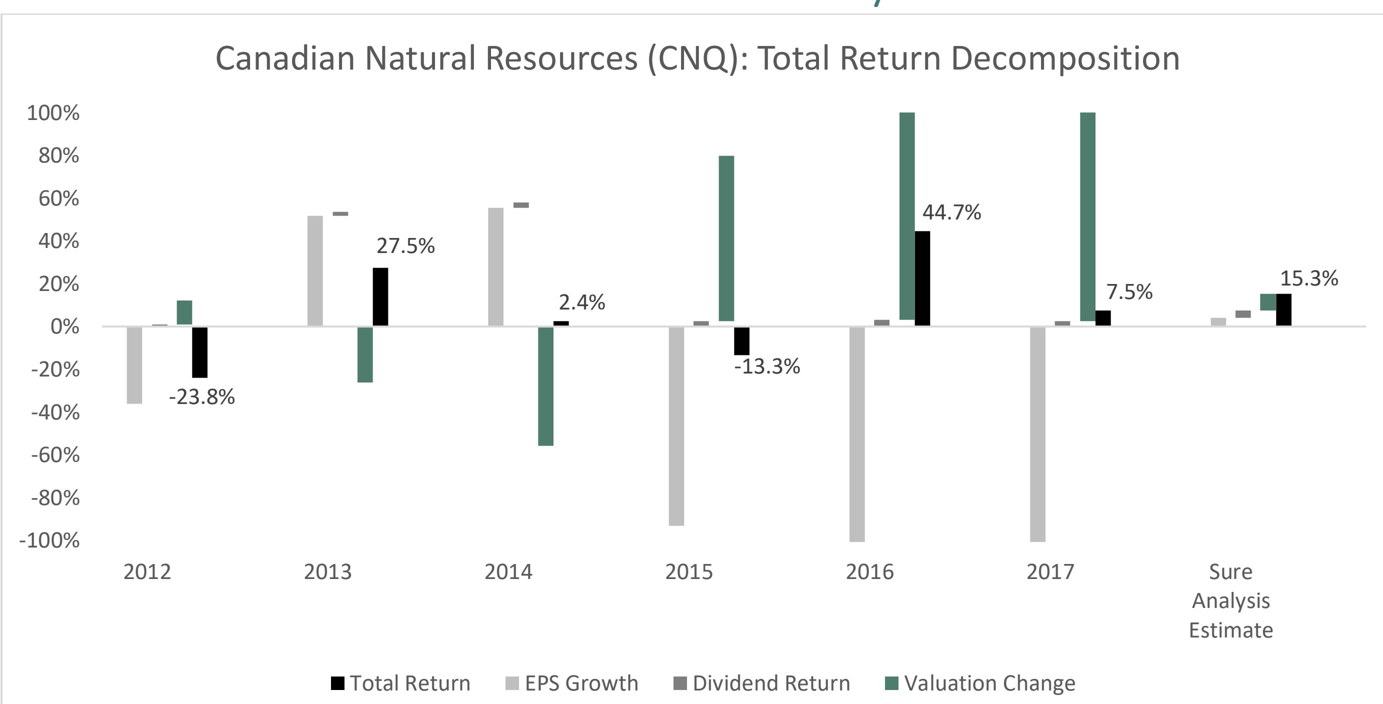
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	22.9%	14.5%	8.3%	8.9%	6.7%	7.4%	9.1%	-0.4%	-0.7%	4.0%	***9.0%***	***7.0%***
Debt/A	57.1%	55.2%	53.8%	52.0%	50.2%	50.4%	51.6%	52.6%	52.6%	56.9%	***55.0%***	***55.0%***
Int. Cov	57.8	5.8	7.4	11.5	8.2	11.9	17.0	-0.9	-1.7	5.7	**7.0**	**8.0**
Std. Dev.	57.8%	40.4%	21.6%	31.4%	24.8%	19.0%	27.7%	33.6%	31.6%	23.9%	***35.7%***	***42.2%***
Payout	6.2%	8.5%	12.7%	15.2%	28.6%	26.0%	25.9%	383%	N/A	92.4%	***43.3%***	***47.5%***

Due to the nature of its business, Canadian Natural Resources is greatly affected by the price of oil and natural gas. This is evident from its depressed earnings during the period of low commodity prices 2015-2017. Moreover, the standard deviation of the stock is far higher than the average stock in our investment universe. Volatility-averse investors should take note of this before considering a position in this security.

Final Thoughts & Recommendation

Canadian Natural Resources' recent financial performance has improved considerably, mostly thanks to rising oil prices and higher production. Thanks to its cheap valuation, the stock can offer a 15.3% average annual return over the next five years. As a result, it earns a buy recommendation from Sure Dividend at current prices, particularly for investors who are looking to bolster their exposure to the energy industry. On the other hand, investors should note the high sensitivity of the stock to commodity prices.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	16173	11078	14322	15507	16195	17945	21301	13167	11098	17669
Gross Profit	9769	5937	3549	4190	3260	3804	5486	-225	-437	2952
Gross Margin	60.4%	53.6%	24.8%	27.0%	20.1%	21.2%	25.8%	-1.7%	-3.9%	16.7%
SG&A Exp.	128	536	414	593	56	470	433	344	700	453
Operating Profit	6958	2582	3012	4653	3053	3163	4860	-742	-1279	2335
Op. Margin	43.0%	23.3%	21.0%	30.0%	18.9%	17.6%	22.8%	-5.6%	-11.5%	13.2%
Net Profit	4985	1580	1673	2643	1892	2270	3929	-637	-204	2397
Net Margin	30.8%	14.3%	11.7%	17.0%	11.7%	12.6%	18.4%	-4.8%	-1.8%	13.6%
Free Cash Flow	-666	2827	947	42	105	151	-2939	1164	-345	2564
Income Tax	2286	395	1188	1267	717	766	1234	-30	-859	476

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	42651	41024	42954	47278	48980	51754	60200	59275	58648	73867
Cash & Equivalents	27	13	22	34	37	16	25	69	17	137
Acc. Receivable	1514	1148	1481	2077	1197	1427	1889	1277	1434	2397
Inventories	N/A	584	477	550	554	632	665	525	689	894
Total Liabilities	24276	21598	22586	24380	24697	25982	31309	31894	32381	42214
Accounts Payable	382	240	274	526	465	637	564	571	595	775
Long-Term Debt	13016	10301	8485	8571	8736	9661	14002	16794	16805	22458
Total Equity	18374	19426	20368	22898	24283	25772	28891	27381	26267	31653
D/E Ratio	0.71	0.53	0.42	0.37	0.36	0.37	0.48	0.61	0.64	0.71

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	12.7%	3.8%	4.0%	5.9%	3.9%	4.5%	7.0%	-1.1%	-0.3%	3.6%
Return on Equity	31.5%	8.4%	8.4%	12.2%	8.0%	9.1%	14.4%	-2.3%	-0.8%	8.3%
ROIC	17.9%	5.2%	5.7%	8.8%	5.9%	6.6%	10.0%	-1.5%	-0.5%	4.9%
Shares Out.	1082.0	1084.7	1090.8	1096.5	1092.1	1087.3	1091.8	1094.7	1101.0	1222.8
Revenue/Share	14.96	10.22	13.07	14.06	14.73	16.46	19.42	12.04	10.08	14.94
FCF/Share	-0.62	2.61	0.86	0.04	0.10	0.14	-2.68	1.06	-0.31	2.17

Note: All figures in millions of Canadian Dollars unless per share or indicated otherwise.