Canadian Natural Resources (CNQ)

Updated March 6th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$24	**5 Year CAGR Estimate:**	11.8%	**Market Cap:**	$28.8 B
Fair Value Price:	$27	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	3/19/2020
% Fair Value:	89%	**5 Year Valuation Multiple Estimate:**	2.4%	**Dividend Payment Date:**	4/1/2020
Dividend Yield:	5.3%	**5 Year Price Target**	$34	**Years Of Dividend Growth:**	20
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	13.3%

Overview & Current Events

Canadian Natural Resources is an 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, and the 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$28.8 billion. All the figures in this report are in US dollars.

In early March, Canadian Natural Resources reported (3/5/20) financial results for the fourth quarter of fiscal 2019. In the year, average production grew 2%. In addition, the company reduced its operating costs by -10%, to $11.50 per barrel, and thus grew its adjusted earnings-per-share by 17%, from $2.06 to $2.40. Moreover, the company grew its adjusted funds flow by 13%, to an all-time high of $10.3 billion, and delivered record free cash flows of $4.6 billion. Thanks to the strong earnings-per-share of the company and its confidence in the long-term outlook, management raised the dividend by 13.3% this year. It is the 20th consecutive year of dividend increases for the company.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.29	$2.33	$1.47	$2.17	$3.02	$0.18	-$0.44	$0.92	$2.06	$2.40	***$2.25***	***$2.87***
DPS	$0.29	$0.35	$0.42	$0.56	$0.78	$0.69	$0.68	$0.85	$1.00	$1.13	***$1.28***	***$1.64***
Shares[1]	1,091	1,097	1,092	1,087	1,092	1,095	1,101	1,223	1,191	1,184	***1,180***	***1,150***

As Canadian Natural Resources is an almost pure upstream company, its financial performance has been extremely volatile over the last decade. Given its high sensitivity to commodity prices, it is nearly impossible to make accurate forecasts. With that said, we believe the company's performance is likely to improve considerably moving forward thanks to production growth and higher prices of oil and natural gas. Canadian Natural Resources grew its proved reserves by 11% in 2019, to 10.99 billion barrels, and thus enhanced its reserve life index to 27.8 years. As this figure is more than twice as much as the average life of reserves of its peers (~11 years), it is impressive and certainly bodes well for the future growth prospects of the company.

Management expects to grow production by 6% this year and by 7.5% per year on average until 2022. Thanks to the reliable production growth of the company and our expectations for higher oil prices in the upcoming years, we expect at least 5.0% average annual earnings-per-share growth over the next five years. For this year, we prefer to be somewhat conservative and have assumed earnings-per-share of $2.25 due to the suppressed commodity prices that have resulted from the outbreak of the coronavirus.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	15.7	17.3	21.5	14.3	12.1	---	---	34.6	15.8	11.3	***10.7***	***12.0***
Avg. Yld.	0.8%	0.9%	1.3%	1.8%	2.1%	2.7%	2.5%	2.7%	3.1%	4.2%	***5.3%***	***4.7%***

[1] In millions.

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.

Canadian Natural Resources (CNQ)

Updated March 6th, 2020 by Aristofanis Papadatos

Canadian Natural Resources has traded at an average price-to-earnings ratio of 15.4 over the last decade if we exclude the 2015 – 2017 period, in which the stock's valuation was not meaningful due to depressed earnings. If the company achieves our anticipated earnings-per-share of $2.87 by 2025, we expect the stock to trade around 12 times its annual earnings in that year. As a result, the stock could enjoy a 2.4% annualized gain thanks to expansion of its valuation level.

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

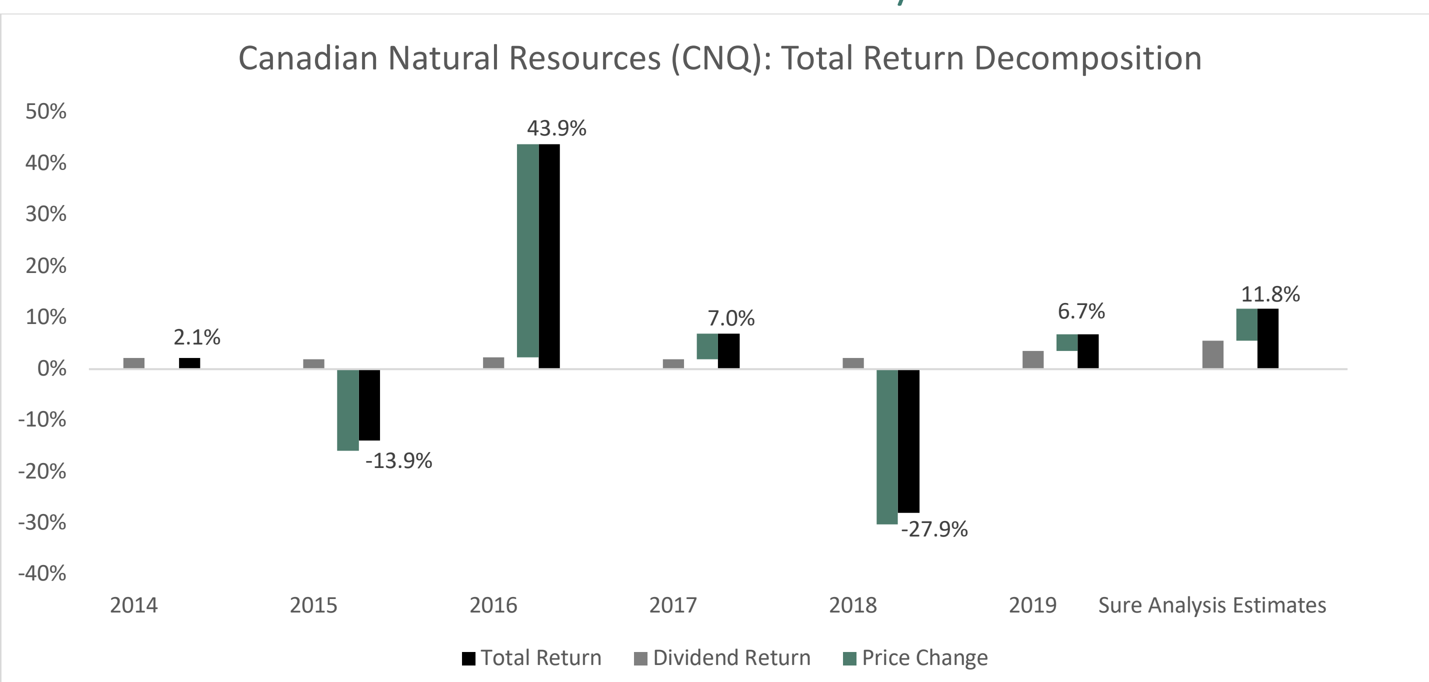
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Std. Dev.	21.6%	31.4%	24.8%	19.0%	27.7%	33.6%	31.6%	23.9%	48.7%	47.2%	***56.9%***	***56.9%***

The competitive advantage of Canadian Natural Resources is the high quality of its assets, which have a long life and low decline rates. However, due to the almost pure upstream nature of its business, the company 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 in 2015 – 2017 and the -25% fall of the stock this year due to lower commodity prices that have been triggered by the outbreak of the coronavirus.

Final Thoughts & Recommendation

Canadian Natural Resources posted modest production growth last year due to the enforced production cuts of Alberta, but the company is expected to return to strong growth mode from this year. Moreover, the stock has fallen -25% this year due to the expected impact of the coronavirus on the demand for oil and gas. As a result, the stock has become attractive and could now offer an 11.8% average annual return over the next five years. It thus earns a buy rating. Nevertheless, investors should note the high sensitivity of the stock to commodity prices and its huge downside risk in the event of a recession or a prolonged coronavirus crisis.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Canadian Natural Resources (CNQ)

Updated March 6th, 2020 by Aristofanis Papadatos

Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	14322	15507	16195	17945	21301	13167	11098	17669	22282
Gross Profit	3549	4190	3260	3804	5486	-225	-437	2952	5213
Gross Margin	24.8%	27.0%	20.1%	21.2%	25.8%	-1.7%	-3.9%	16.7%	23.4%
SG&A Exp.	414	593	56	470	433	344	700	453	179
Operating Profit	3012	4653	3053	3163	4860	-742	-1279	2335	4848
Op. Margin	21.0%	30.0%	18.9%	17.6%	22.8%	-5.6%	-11.5%	13.2%	21.8%
Net Profit	1673	2643	1892	2270	3929	-637	-204	2397	2591
Net Margin	11.7%	17.0%	11.7%	12.6%	18.4%	-4.8%	-1.8%	13.6%	11.6%
Free Cash Flow	947	42	105	151	-2939	1164	-345	2564	5680
Income Tax	1188	1267	717	766	1234	-30	-859	476	931

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	42954	47278	48980	51754	60200	59275	58648	73867	71559
Cash & Equivalents	22	34	37	16	25	69	17	137	101
Acc. Receivable	1481	2077	1197	1427	1889	1277	1434	2397	1148
Inventories	477	550	554	632	665	525	689	894	955
Total Liabilities	22586	24380	24697	25982	31309	31894	32381	42214	39585
Accounts Payable	274	526	465	637	564	571	595	775	779
Long-Term Debt	8485	8571	8736	9661	14002	16794	16805	22458	20623
Total Equity	20368	22898	24283	25772	28891	27381	26267	31653	31974
D/E Ratio	0.42	0.37	0.36	0.37	0.48	0.61	0.64	0.71	0.65

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	4.0%	5.9%	3.9%	4.5%	7.0%	-1.1%	-0.3%	3.6%	3.6%
Return on Equity	8.4%	12.2%	8.0%	9.1%	14.4%	-2.3%	-0.8%	8.3%	8.1%
ROIC	5.7%	8.8%	5.9%	6.6%	10.0%	-1.5%	-0.5%	4.9%	4.9%
Shares Out.	1090.8	1096.5	1092.1	1087.3	1091.8	1094.7	1101.0	1222.8	1205.0
Revenue/Share	13.07	14.06	14.73	16.46	19.42	12.04	10.08	14.94	18.21
FCF/Share	0.86	0.04	0.10	0.14	-2.68	1.06	-0.31	2.17	4.64

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