Canadian Natural Resources (CNQ)

Updated September 1st, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$20	**5 Year CAGR Estimate:**	7.9%	**Market Cap:**	$23.7 B
Fair Value Price:	$15	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	9/17/2020
% Fair Value:	136%	**5 Year Valuation Multiple Estimate:**	-5.9%	**Dividend Payment Date:**	10/5/2020
Dividend Yield:	6.2%	**5 Year Price Target**	$24	**Years Of Dividend Growth:**	4
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**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$23.7 billion. All the figures in this report are in US dollars.

In early August, Canadian Natural Resources reported (8/6/20) financial results for the second quarter of fiscal 2020. The company achieved record production of synthetic oil but its total production fell -1% over last year's quarter. Moreover, the oil producer was hurt by the collapse of the oil price, which was caused by the pandemic. As a result, it widened its adjusted loss sequentially, from -$0.25 to -$0.65 per share. Surprisingly, Canadian Natural Resources did not cut its dividend, with management stating that the dividend is safe at oil prices as low as $30. However, we believe that its dividend is at risk of being cut, particularly given the high debt load of the company. On the other hand, as the results of the company exceeded our expectations, we now expect narrower losses for the full year (-$1.00 instead of -$1.90).

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	***-$1.00***	***$1.98***
DPS	$0.29	$0.35	$0.42	$0.56	$0.78	$0.69	$0.68	$0.85	$1.00	$1.13	***$1.24***	***$1.00***
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. Moreover, the company is currently facing a fierce downturn due to the depressed oil prices caused by the coronavirus. With that said, we expect the pandemic to subside from next year and thus 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.

Thanks to the reliable production growth of the company and our expectations for higher oil prices in the upcoming years, we expect 10.0% average annual earnings-per-share growth over the next five years off its mid-cycle level (4-year average) of $1.23.

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	***16.3***	***12.0***
Avg. Yld.	0.8%	0.9%	1.3%	1.8%	2.1%	2.7%	2.5%	2.7%	3.1%	4.2%	***6.2%***	***4.2%***

[1] In millions.

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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. The stock is now trading at 16.3 times its mid-cycle earnings-per-share of $1.23. If the company achieves our anticipated earnings-per-share of $1.98 by 2025, we expect the stock to trade around 12 times its annual earnings in that year. As a result, the stock could incur a -5.9% annualized drag due to contraction 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

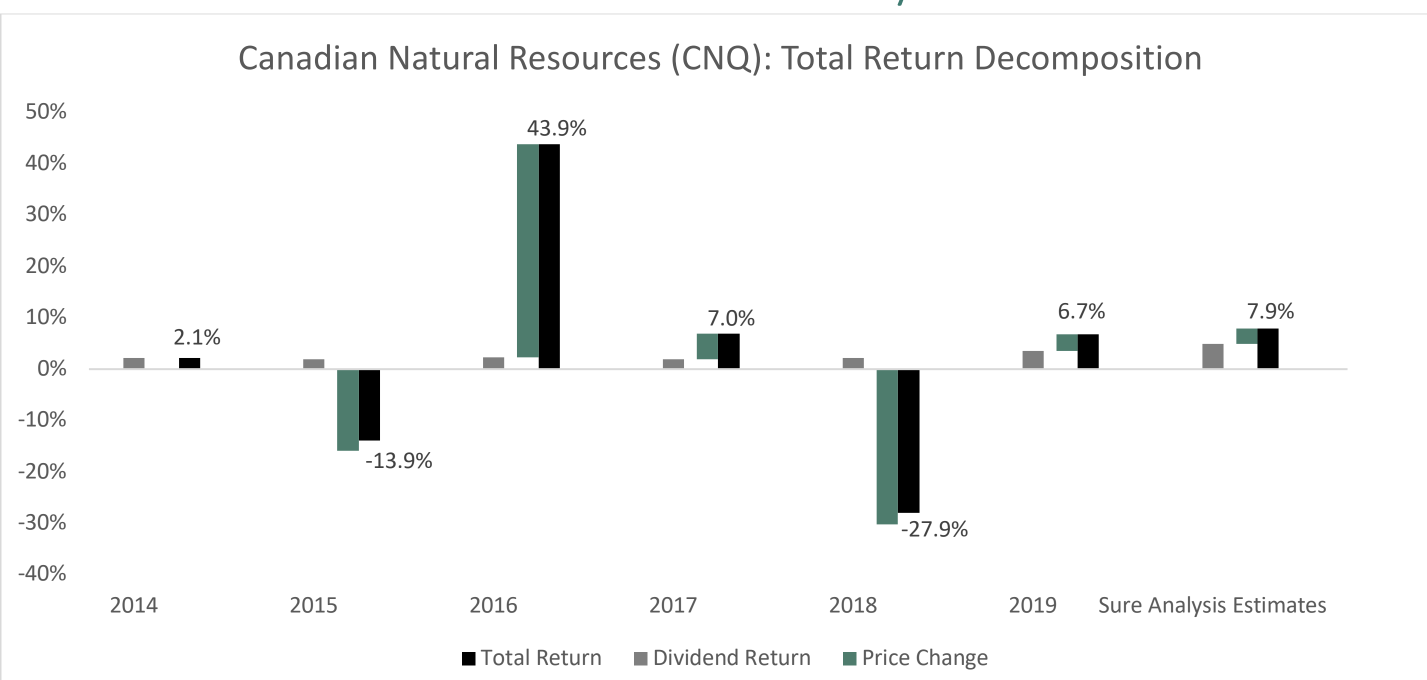
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Std. Dev.	21.6%	31.4%	24.8%	19.0%	27.7%	33.6%	31.6%	23.9%	48.7%	47.2%	***101%***	***50.5%***

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 -40% slump of the stock this year due to the suppressed commodity prices that have been triggered by the pandemic.

Final Thoughts & Recommendation

Canadian Natural Resources has fallen -40% this year due to the impact of the coronavirus on the oil price. We expect the pandemic to subside and the oil market to recover from next year. As a result, the stock could offer a 7.9% average annual return over the next five years. Nevertheless, investors should note the high sensitivity of the stock to commodity prices and its huge downside risk in the event of a prolonged coronavirus crisis. In addition, given the risk from the high debt load of Canadian Natural Resources, we rate the stock as a hold.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	13,886	15,683	16,200	17,427	19,294	10,316	9,063	14,167	17,194	18,380
Gross Profit	3,441	4,237	3,261	3,694	4,969	(176)	(330)	2,278	4,023	4,784
Gross Margin	24.8%	27.0%	20.1%	21.2%	25.8%	-1.7%	-3.6%	16.1%	23.4%	26.0%
SG&A Exp.	401	600	56	456	392	270	529	350	138	427
Operating Profit	2,920	4,706	3,054	3,072	4,402	(581)	(966)	1,802	3,741	4,213
Op. Margin	21.0%	30.0%	18.9%	17.6%	22.8%	-5.6%	-10.7%	12.7%	21.8%	22.9%
Net Profit	1,622	2,673	1,893	2,204	3,559	(499)	(154)	1,850	1,999	4,081
Net Margin	11.7%	17.0%	11.7%	12.6%	18.4%	-4.8%	-1.7%	13.1%	11.6%	22.2%
Free Cash Flow	918	42	105	147	(2,662)	912	(261)	1,978	4,383	3,934
Income Tax	1,152	1,281	717	744	1,118	(24)	(649)	367	718	(347)

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	42,947	46,310	49,235	48,606	51,858	42,715	43,499	58,741	52,539	59,805
Cash & Equivalents	22	33	37	15	22	50	13	109	74	106
Acc. Receivable	1,481	2,034	1,203	1,340	1,627	920	1,064	1,906	843	1,887
Inventories	477	539	557	594	573	378	511	711	701	882
Total Liabilities	22,582	23,881	24,825	24,402	26,971	22,983	24,017	33,570	29,063	33,018
Accounts Payable	274	515	467	598	486	411	441	616	572	625
Long-Term Debt	8,484	8,396	8,781	9,073	12,062	12,102	12,464	17,859	15,141	16,063
Total Equity	20,365	22,429	24,409	24,204	24,888	19,731	19,482	25,171	23,475	26,787
D/E Ratio	0.42	0.37	0.36	0.37	0.48	0.61	0.64	0.71	0.65	0.60

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	4.0%	6.0%	4.0%	4.5%	7.1%	-1.1%	-0.4%	3.6%	3.6%	7.3%
Return on Equity	8.4%	12.5%	8.1%	9.1%	14.5%	-2.2%	-0.8%	8.3%	8.2%	16.2%
ROIC	5.7%	9.0%	5.9%	6.6%	10.1%	-1.5%	-0.5%	4.9%	4.9%	10.0%
Shares Out.	1,091	1,097	1,092	1,087	1,092	1,095	1,101	1,223	1,191	1,184
Revenue/Share	12.67	14.22	14.73	15.98	17.59	9.43	8.24	11.98	14.05	15.41
FCF/Share	0.84	0.04	0.10	0.13	(2.43)	0.83	(0.24)	1.67	3.58	3.30

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