Canadian Natural Resources (CNQ)

Updated June 3rd, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	$37	**5 Year CAGR Estimate:**	0.8%	**Market Cap:**	$43.9 B
Fair Value Price:	$40	**5 Year Growth Estimate:**	-5.0%	**Ex-Dividend Date:**	6/17/2021
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.4%	**Dividend Payment Date:**	7/5/2021
Dividend Yield:	4.1%	**5 Year Price Target**	$31	**Years Of Dividend Growth:**	5
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	10.6%

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$43.9 billion. All the figures in this report are in US dollars.

In early May, Canadian Natural Resources reported (5/6/21) financial results for the first quarter of fiscal 2021. The company grew its production 4% over last year's quarter while its average realized crude oil price more than doubled. The enthusiasm of investors over the expected recovery of the energy market from the pandemic and the aggressive production cuts of OPEC and Russia have led the oil price to rally above pre-COVID levels, to a 2-year high. As a result, Canadian Natural Resources switched from an adjusted loss of -$0.20 per share to an adjusted profit of $0.78 per share.

Thanks to the impressive rally of the oil price, we have raised our earnings-per-share forecast for this year from $2.30 to $3.30. Notably the company raised its dividend by 10.6% in the first quarter. It also grew its proved reserves by 10% in 2020. This is an impressive achievement, in sharp contrast to all the well-known oil majors, which posted dismal reserve replacement ratios in 2020 due to hefty cuts in investment in growth projects amid the pandemic.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.33	$1.47	$2.17	$3.02	$0.18	-$0.44	$0.92	$2.06	$2.40	-$0.51	***$3.30***	***$2.55***
DPS	$0.35	$0.42	$0.56	$0.78	$0.69	$0.68	$0.85	$1.00	$1.13	$1.26	***$1.52***	***$1.60***
Shares[1]	1,097	1,092	1,087	1,092	1,095	1,101	1,223	1,191	1,184	1,183	***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. Thanks to the ongoing vaccination program, we expect the pandemic to subside in the second half of the year and thus we expect record earnings this year thanks to production growth and higher prices of oil and natural gas. Canadian Natural Resources grew its proved reserves by 11% in 2019 and 10% in 2020, and thus enhanced its reserve life index to 28.6 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 production growth prospects of the company. On the other hand, given the high comparison base formed by the all-time high expected earnings this year, we expect a -5.0% average annual decline of earnings-per-share over the next five years.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	17.3	21.5	14.3	12.1	---	---	34.6	15.8	11.3	---	***11.2***	***12.0***
Avg. Yld.	0.9%	1.3%	1.8%	2.1%	2.7%	2.5%	2.7%	3.1%	4.2%	6.3%	***4.1%***	***5.2%***

[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 a forward price-to-earnings ratio of 11.2. If the company achieves our anticipated earnings-per-share of $2.55 by 2026, we expect the stock to trade around 12 times its annual earnings in that year. As a result, the stock could enjoy a 1.4% 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

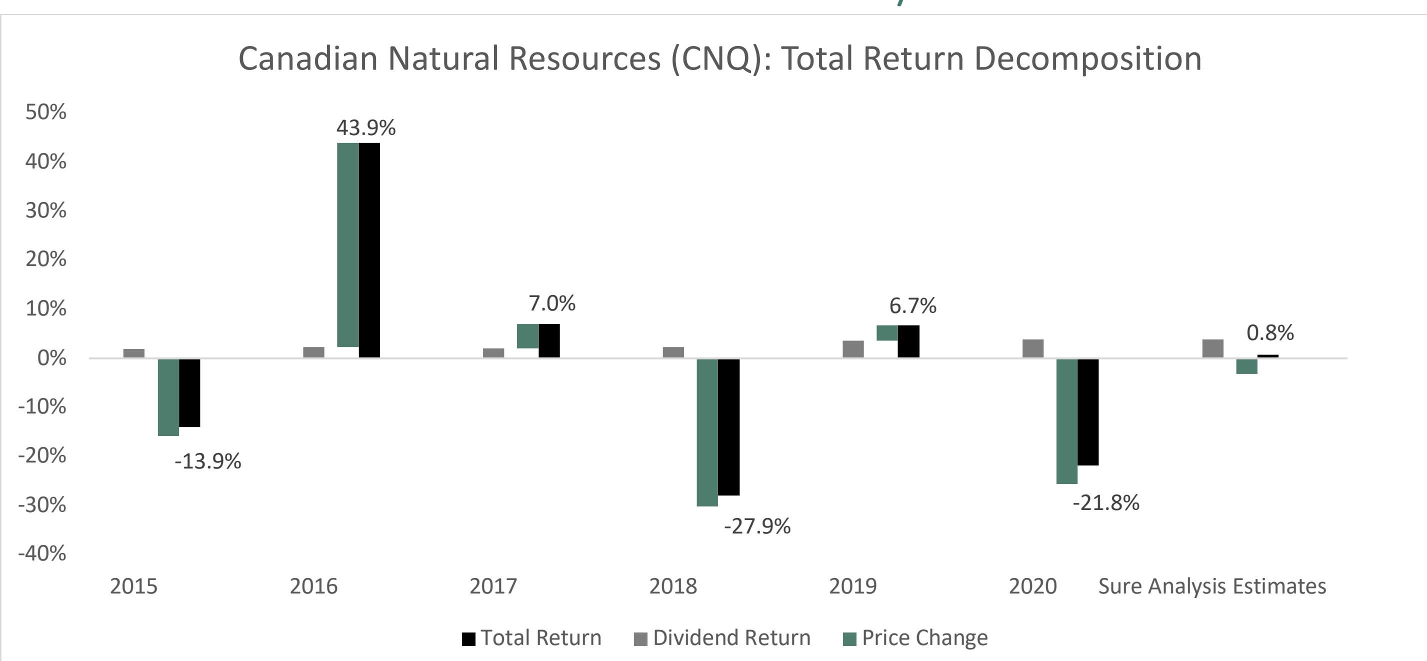
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Std. Dev.	31.4%	24.8%	19.0%	27.7%	33.6%	31.6%	23.9%	48.7%	47.2%	---	***46.1%***	***62.6%***

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 temporary -80% slump of the stock last year due to the suppressed commodity prices caused by the pandemic.

Final Thoughts & Recommendation

Thanks to the massive distribution of vaccines and the aggressive production cuts of OPEC and Russia, Canadian Natural Resources is recovering strongly from the pandemic this year. However, the stock has more than doubled in just eight months. As a result, it may now offer a poor total return over the next five years. We thus rate the stock as a sell. While the strong momentum of the stock could persist in the short run, investors should note its high sensitivity to commodity prices and its huge downside risk in the event of an unforeseen downturn, partly due to its high debt load.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	15,683	16,200	17,427	19,294	10,316	9,063	14,167	17,194	18,380	13,055
Gross Profit	4,237	3,261	3,694	4,969	(176)	(330)	2,278	4,023	4,784	51
Gross Margin	27.0%	20.1%	21.2%	25.8%	-1.7%	-3.6%	16.1%	23.4%	26.0%	0.4%
SG&A Exp.	600	56	456	392	270	529	350	138	427	231
Operating Profit	4,706	3,054	3,072	4,402	(581)	(966)	1,802	3,741	4,213	-332
Op. Margin	30.0%	18.9%	17.6%	22.8%	-5.6%	-10.7%	12.7%	21.8%	22.9%	-2.5%
Net Profit	2,673	1,893	2,204	3,559	(499)	(154)	1,850	1,999	4,081	-325
Net Margin	17.0%	11.7%	12.6%	18.4%	-4.8%	-1.7%	13.1%	11.6%	22.2%	-2.5%
Free Cash Flow	42	105	147	(2,662)	912	(261)	1,978	4,383	3,934	1,608
Income Tax	1,281	717	744	1,118	(24)	(649)	367	718	(347)	-327

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	46,310	49,235	48,606	51,858	42,715	43,499	58,741	52,539	59,805	59,033
Cash & Equivalents	33	37	15	22	50	13	109	74	106	144
Acc. Receivable	2,034	1,203	1,340	1,627	920	1,064	1,906	843	1,887	1,717
Inventories	539	557	594	573	378	511	711	701	882	831
Total Liabilities	23,881	24,825	24,402	26,971	22,983	24,017	33,570	29,063	33,018	33,640
Accounts Payable	515	467	598	486	411	441	616	572	625	523
Long-Term Debt	8,396	8,781	9,073	12,062	12,102	12,464	17,859	15,141	16,063	16,824
Total Equity	22,429	24,409	24,204	24,888	19,731	19,482	25,171	23,475	26,787	25,393
D/E Ratio	0.37	0.36	0.37	0.48	0.61	0.64	0.71	0.65	0.60	0.66

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.0%	4.0%	4.5%	7.1%	-1.1%	-0.4%	3.6%	3.6%	7.3%	-0.5%
Return on Equity	12.5%	8.1%	9.1%	14.5%	-2.2%	-0.8%	8.3%	8.2%	16.2%	-1.2%
ROIC	9.0%	5.9%	6.6%	10.1%	-1.5%	-0.5%	4.9%	4.9%	10.0%	-0.8%
Shares Out.	1,097	1,092	1,087	1,092	1,095	1,101	1,223	1,191	1,184	1,183
Revenue/Share	14.22	14.73	15.98	17.59	9.43	8.24	11.98	14.05	15.41	11.05
FCF/Share	0.04	0.10	0.13	(2.43)	0.83	(0.24)	1.67	3.58	3.30	1.36

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