Canadian Natural Resources (CNQ)

Updated March 6th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$60	**5 Year CAGR Estimate:**	0.1%	**Market Cap:**	$66.2 B
Fair Value Price:	$74	**5 Year Growth Estimate:**	-9.0%	**Ex-Dividend Date:**	3/16/2023
% Fair Value:	81%	**5 Year Valuation Multiple Estimate:**	4.4%	**Dividend Payment Date:**	4/5/2023
Dividend Yield:	4.4%	**5 Year Price Target**	$46	**Years Of Dividend Growth:**	7
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Sell

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$66.2 billion. All the figures in this report are in U.S. dollars.

In early March, Canadian Natural Resources reported (3/2/23) financial results for the fourth quarter of fiscal 2022. In the year, the company grew its production 4%, to a new all-time high, thanks to the completion of growth projects. The company also greatly benefited from the multi-year high prices of oil and gas, which resulted from the sanctions of western countries on Russia for its invasion in Ukraine. As a result, Canadian Natural Resources grew its earnings-per-share 67%, to an all-time high. It also grew its proved reserves by 6%, thus posting an impressive reserve replacement ratio of 265%. As a result, the company now has a 32-year reserve life index, one of the highest in the energy sector.

Canadian Natural Resources raised its dividend by 11% in early 2021, by 25% in late 2021 and by 85% last year. It also raised its dividend by 6% this year and thus it has grown its dividend (in CAD) for 24 consecutive years, at a compound annual growth rate of 20%. This is an admirable accomplishment for a company that belongs to the highly cyclical energy sector. The company reiterated that its dividend is covered by cash flows thanks to its low-cost reserves.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.17	$3.02	$0.18	-$0.44	$0.92	$2.06	$2.40	-$0.51	$4.93	$8.23	***$6.20***	***$3.87***
DPS	$0.56	$0.78	$0.69	$0.68	$0.85	$1.00	$1.13	$1.26	$1.59	$2.39	***$2.65***	***$2.85***
Shares[1]	1,087	1,092	1,095	1,101	1,223	1,191	1,184	1,183	1,185	1,120	***1,100***	***1,050***

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. The company posted record earnings in 2021 and 2022 thanks to high prices of oil and gas. Moreover, Canadian Natural Resources grew its proved reserves by 11% in 2019, 10% in 2020, 6% in 2021 and 6% in 2022 and thus enhanced its reserve life index to 32 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 production growth prospects of the company. On the other hand, given the high comparison base formed by the expected earnings this year, we expect a -9.0% average annual decline of earnings-per-share over the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.3	12.1	---	---	34.6	15.8	11.3	---	6.9	6.8	***9.7***	***12.0***
Avg. Yld.	1.8%	2.1%	2.7%	2.5%	2.7%	3.1%	4.2%	6.3%	4.7%	4.3%	***4.4%***	***6.1%***

[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, 2023 by Aristofanis Papadatos

Canadian Natural Resources has traded at an average price-to-earnings ratio of 11.2 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 price-to-earnings ratio of 9.7. If the company achieves our anticipated earnings-per-share of $3.87 by 2028, we expect the stock to trade around 12 times its annual earnings in that year. As a result, the stock could enjoy a 4.4% 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

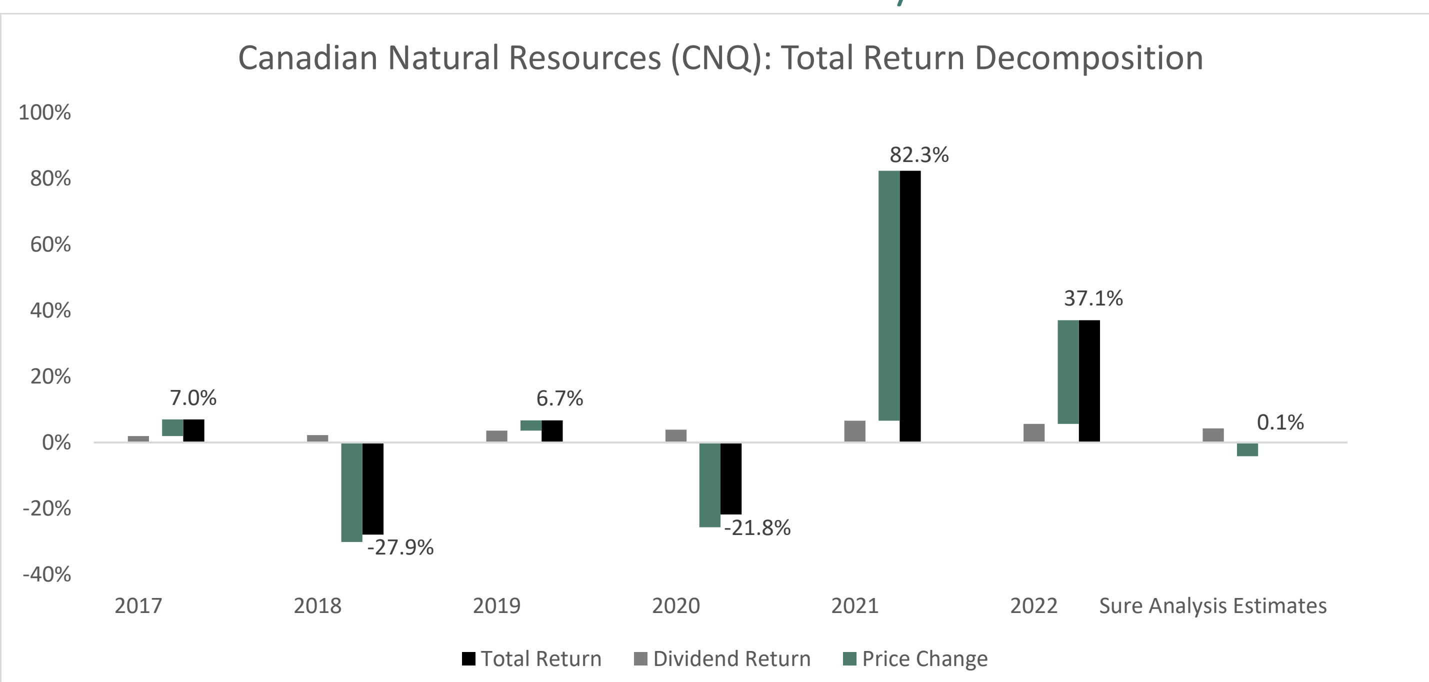
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Std. Dev.	19.0%	27.7%	33.6%	31.6%	23.9%	48.7%	47.2%	---	32.3%	29.0%	***42.7%***	***73.8%***

The competitive advantage of Canadian Natural Resources is the high quality of its assets, which have a long life, low decline rates and low production costs. However, due to the almost pure upstream nature of its business, the company is greatly affected by the prices 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 in 2020 due to the suppressed commodity prices caused by the pandemic.

Final Thoughts & Recommendation

Canadian Natural Resources has been thriving in the last two years thanks to the sanctions of western countries on Russia. However, high oil prices have always been followed by fierce downcycles. We expect the stock to offer a 5-year average annual return of only 0.1%, as its 4.4% dividend and its 4.4% valuation tailwind may be offset by a -9.0% decline of earnings. We maintain our sell rating. While the company will probably continue thriving in the short run, investors should note its high sensitivity to commodity prices and its huge risk in the event of an unforeseen downturn.

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, 2023 by Aristofanis Papadatos

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	17,427	19,294	10,316	9,063	14,167	17,194	18,380	13,055	26,205	38,070
Gross Profit	3,694	4,969	(176)	(330)	2,278	4,023	4,784	51	8,436	12,498
Gross Margin	21.2%	25.8%	-1.7%	-3.6%	16.1%	23.4%	26.0%	0.4%	32.2%	32.8%
SG&A Exp.	456	392	270	529	350	138	427	231	702	937
Operating Profit	3,072	4,402	(581)	(966)	1,802	3,741	4,213	-332	7,587	11,345
Op. Margin	17.6%	22.8%	-5.6%	-10.7%	12.7%	21.8%	22.9%	-2.5%	29.0%	29.8%
Net Profit	2,204	3,559	(499)	(154)	1,850	1,999	4,081	-325	6,113	8,406
Net Margin	12.6%	18.4%	-4.8%	-1.7%	13.1%	11.6%	22.2%	-2.5%	23.3%	22.1%
Free Cash Flow	147	(2,662)	912	(261)	1,978	4,383	3,934	1,608	7,964	10,957
Income Tax	744	1,118	(24)	(649)	367	718	(347)	-327	1,792	2,127

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	48,606	51,858	42,715	43,499	58,741	52,539	59,805	59,033	60,128	56,102
Cash & Equivalents	15	22	50	13	109	74	106	144	584	678
Acc. Receivable	1,340	1,627	920	1,064	1,906	843	1,887	1,717	2,440	2,619
Inventories	594	573	378	511	711	701	882	831	1,214	1,337
Total Liabilities	24,402	26,971	22,983	24,017	33,570	29,063	33,018	33,640	31,152	27,975
Accounts Payable	598	486	411	441	616	572	625	523	630	988
Long-Term Debt	9,073	12,062	12,102	12,464	17,859	15,141	16,063	16,824	11,525	8,433
Total Equity	24,204	24,888	19,731	19,482	25,171	23,475	26,787	25,393	28,976	28,128
LTD/E Ratio	0.37	0.48	0.61	0.64	0.71	0.65	0.60	0.66	0.40	0.30

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.5%	7.1%	-1.1%	-0.4%	3.6%	3.6%	7.3%	-0.5%	10.3%	14.5%
Return on Equity	9.1%	14.5%	-2.2%	-0.8%	8.3%	8.2%	16.2%	-1.2%	22.5%	29.4%
ROIC	6.6%	10.1%	-1.5%	-0.5%	4.9%	4.9%	10.0%	-0.8%	14.8%	21.8%
Shares Out.	1,087	1,092	1,095	1,101	1,223	1,191	1,184	1,183	1,185	1,149
Revenue/Share	15.98	17.59	9.43	8.24	11.98	14.05	15.41	11.05	22.08	33.13
FCF/Share	0.13	(2.43)	0.83	(0.24)	1.67	3.58	3.30	1.36	6.71	9.53

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