# Canadian Natural Resources (CNQ)

*Updated August 27th, 2024 by Aristofanis Papadatos*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $37 | **5 Year CAGR Estimate:** | 5.8% | **Market Cap:** | $77.4 B |
| **Fair Value Price:** | $35 | **5 Year Growth Estimate:** | 3.0% | **Ex-Dividend Date:** | 9/13/2024 |
| **% Fair Value:** | 105% | **5 Year Valuation Multiple Estimate:** | -0.9% | **Dividend Payment Date:** | 10/4/2024 |
| **Dividend Yield:** | 4.1% | **5 Year Price Target** | $41 | **Years Of Dividend Growth:** | 8 |
| **Dividend Risk Score:** | D | **Retirement Suitability Score:** | C | **Rating:** | Hold |

## 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$77.4 billion. All the figures in this report are in U.S. dollars. On June 11th, 2024, Canadian Natural Resources executed a two-for-one split. All the figures in this report have been adjusted for this split.

In early August, Canadian Natural Resources reported (8/1/24) financial results for the second quarter of fiscal 2024. The company grew its production 8% over the prior year's quarter. Moreover, the price of oil improved. As a result, the earnings-per-share of Canadian Natural Resources grew 54% off an abnormally low level in last year's quarter.

Canadian Natural Resources has raised its quarterly dividend by 5% this year and thus it has grown its dividend (in CAD) for 25 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. Moreover, it has reduced its net debt to its target of $10 billion and thus it has begun to return 100% of free cash flow to shareholders via dividends and share repurchases.

## Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $1.51 | $0.09 | -$0.22 | $0.46 | $1.03 | $1.20 | -$0.26 | $2.47 | $4.12 | $2.85 | ***$2.95*** | ***$3.42*** |
| **DPS** | $0.39 | $0.35 | $0.34 | $0.42 | $0.50 | $0.57 | $0.63 | $0.80 | $1.20 | $1.37 | ***$1.52*** | ***$1.64*** |
| **Shares[1]** | 2,184 | 2,190 | 2,202 | 2,446 | 2,382 | 2,368 | 2,366 | 2,370 | 2,240 | 2,180 | ***2,140*** | ***2,100*** |

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, 6% in 2022 and 2% in 2023 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. Thanks to strong production growth but also lower expected oil prices in the upcoming years, we have assumed 3.0% average annual growth of earnings-per-share over the next five years.

## Valuation Analysis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 12.1 | --- | --- | 34.6 | 15.8 | 11.3 | --- | 6.9 | 6.8 | 10.5 | ***12.5*** | ***12.0*** |
| **Avg. Yld.** | 2.1% | 2.7% | 2.5% | 2.7% | 3.1% | 4.2% | 6.3% | 4.7% | 4.3% | 4.6% | ***4.1%*** | ***4.0%*** |

[1] In millions.

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Canadian Natural Resources has traded at an average price-to-earnings ratio of 10.6 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 12.5. If the company achieves our anticipated earnings-per-share of $3.42 by 2029, we expect the stock to trade around 12 times its annual earnings in that year. As a result, the stock could incur an annualized valuation drag of -0.9% in its returns.

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

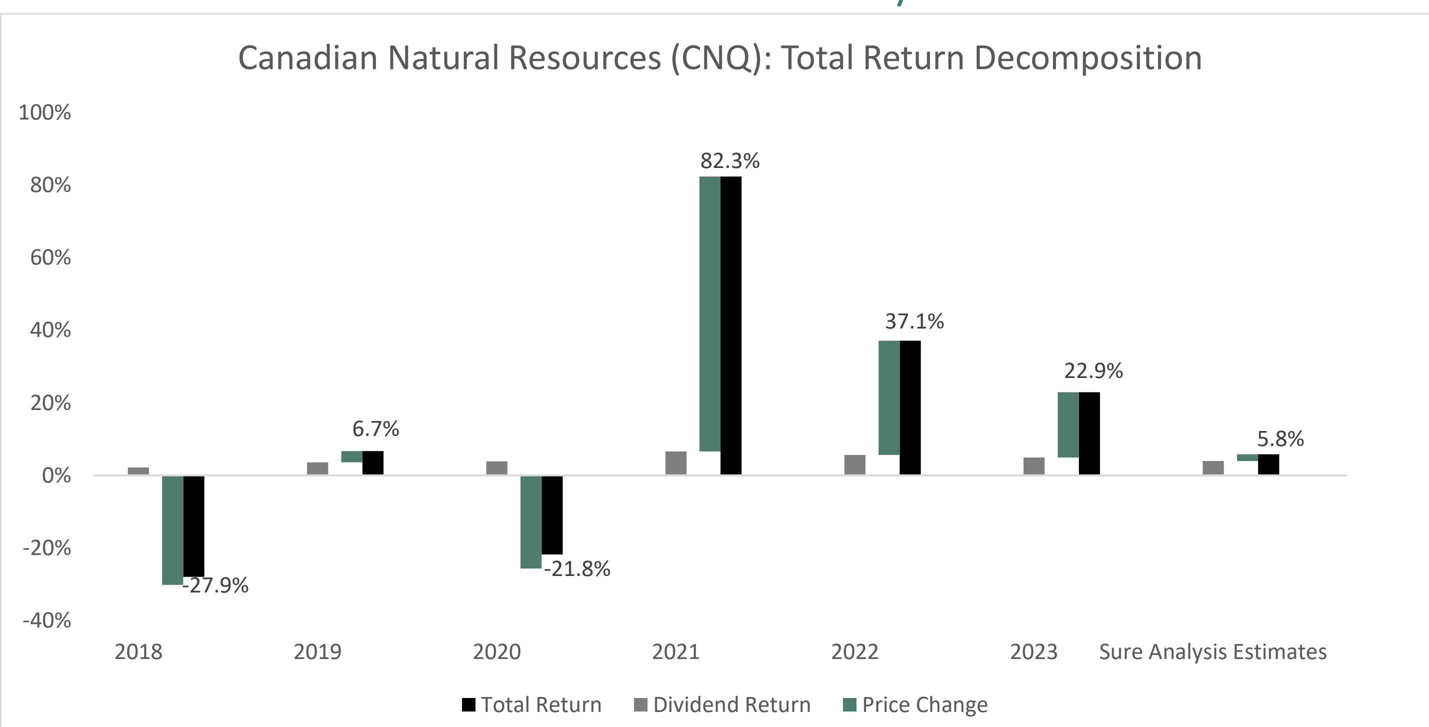
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Std. Dev.** | 27.7% | 33.6% | 31.6% | 23.9% | 48.7% | 47.2% | --- | 32.3% | 29.0% | 48.1% | ***51.5%*** | ***47.9%*** |

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 three years thanks to the sanctions of western countries on Russia. However, high oil prices have always been followed by fierce downcycles. The stock could offer a 5-year average annual return of 5.8% thanks to 3.0% growth of earnings-per-share and its 4.1% dividend, partly offset by a -0.9% valuation headwind. It receives a hold 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

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## Income Statement Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 19,294 | 10,316 | 9,063 | 14,167 | 17,194 | 18,380 | 13,055 | 26,205 | 38,070 | 30,242 |
| Gross Profit | 4,969 | (176) | (330) | 2,278 | 4,023 | 4,784 | 51 | 8,436 | 12,498 | 8,719 |
| Gross Margin | 25.8% | -1.7% | -3.6% | 16.1% | 23.4% | 26.0% | 0.4% | 32.2% | 32.8% | 28.8% |
| SG&A Exp. | 392 | 270 | 529 | 350 | 138 | 427 | 231 | 702 | 937 | 698 |
| Operating Profit | 4,402 | (581) | (966) | 1,802 | 3,741 | 4,213 | -332 | 7,587 | 11,345 | 7,750 |
| Op. Margin | 22.8% | -5.6% | -10.7% | 12.7% | 21.8% | 22.9% | -2.5% | 29.0% | 29.8% | 25.6% |
| Net Profit | 3,559 | (499) | (154) | 1,850 | 1,999 | 4,081 | -325 | 6,113 | 8,406 | 6,097 |
| Net Margin | 18.4% | -4.8% | -1.7% | 13.1% | 11.6% | 22.2% | -2.5% | 23.3% | 22.1% | 20.2% |
| Free Cash Flow | (2,662) | 912 | (261) | 1,978 | 4,383 | 3,934 | 1,608 | 7,964 | 10,957 | 5,513 |
| Income Tax | 1,118 | (24) | (649) | 367 | 718 | (347) | -327 | 1,792 | 2,127 | 1,431 |

## Balance Sheet Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 51,858 | 42,715 | 43,499 | 58,741 | 52,539 | 59,805 | 59,033 | 60,128 | 56,102 | 57,255 |
| Cash & Equivalents | 22 | 50 | 13 | 109 | 74 | 106 | 144 | 584 | 678 | 661 |
| Acc. Receivable | 1,627 | 920 | 1,064 | 1,906 | 843 | 1,887 | 1,717 | 2,440 | 2,619 | 2,404 |
| Inventories | 573 | 378 | 511 | 711 | 701 | 882 | 831 | 1,214 | 1,337 | 1,533 |
| Total Liabilities | 26,971 | 22,983 | 24,017 | 33,570 | 29,063 | 33,018 | 33,640 | 31,152 | 27,975 | 27,230 |
| Accounts Payable | 486 | 411 | 441 | 616 | 572 | 625 | 523 | 630 | 988 | 1,069 |
| Long-Term Debt | 12,062 | 12,102 | 12,464 | 17,859 | 15,141 | 16,063 | 16,824 | 11,525 | 8,433 | 8,140 |
| Total Equity | 24,888 | 19,731 | 19,482 | 25,171 | 23,475 | 26,787 | 25,393 | 28,976 | 28,128 | 30,026 |
| LTD/E Ratio | 0.48 | 0.61 | 0.64 | 0.71 | 0.65 | 0.60 | 0.66 | 0.40 | 0.30 | 0.27 |

## Profitability & Per Share Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 7.1% | -1.1% | -0.4% | 3.6% | 3.6% | 7.3% | -0.5% | 10.3% | 14.5% | 10.8% |
| Return on Equity | 14.5% | -2.2% | -0.8% | 8.3% | 8.2% | 16.2% | -1.2% | 22.5% | 29.4% | 21.0% |
| ROIC | 10.1% | -1.5% | -0.5% | 4.9% | 4.9% | 10.0% | -0.8% | 14.8% | 21.8% | 16.3% |
| Shares Out. | 1,092 | 1,095 | 1,101 | 1,223 | 1,191 | 1,184 | 1,183 | 1,185 | 1,149 | 1,102 |
| Revenue/Share | 17.59 | 9.43 | 8.24 | 11.98 | 14.05 | 15.41 | 11.05 | 22.08 | 33.13 | 27.44 |
| FCF/Share | (2.43) | 0.83 | (0.24) | 1.67 | 3.58 | 3.30 | 1.36 | 6.71 | 9.53 | 5.00 |

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