Canadian Natural Resources (CNQ)

Updated November 6th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$34	**5 Year CAGR Estimate:**	6.0%	**Market Cap:**	$72.3 B
Fair Value Price:	$32	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	12/13/2024
% Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.3%	**Dividend Payment Date:**	1/3/2025
Dividend Yield:	4.9%	**5 Year Price Target**	$37	**Years Of Dividend Growth:**	8
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**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. It 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$72.3 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 late October, Canadian Natural Resources reported (10/31/24) financial results for the third quarter of fiscal 2024. The company reduced its production -2% over the prior year's quarter due to planned maintenance. Moreover, the price of oil decreased due to weakening demand from China. As a result, the earnings-per-share of Canadian Natural Resources declined -25%. Due to disappointing results, we have lowered our annual forecast from $2.95 to $2.65.

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	***$2.65***	***$3.07***
DPS	$0.39	$0.35	$0.34	$0.42	$0.50	$0.57	$0.63	$0.80	$1.20	$1.37	***$1.66***	***$1.80***
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	***12.8***	***12.0***
Avg. Yld.	2.1%	2.7%	2.5%	2.7%	3.1%	4.2%	6.3%	4.7%	4.3%	4.6%	***4.9%***	***4.9%***

[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.

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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 12.8. If the company achieves our anticipated earnings-per-share of $3.07 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 -1.3% 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

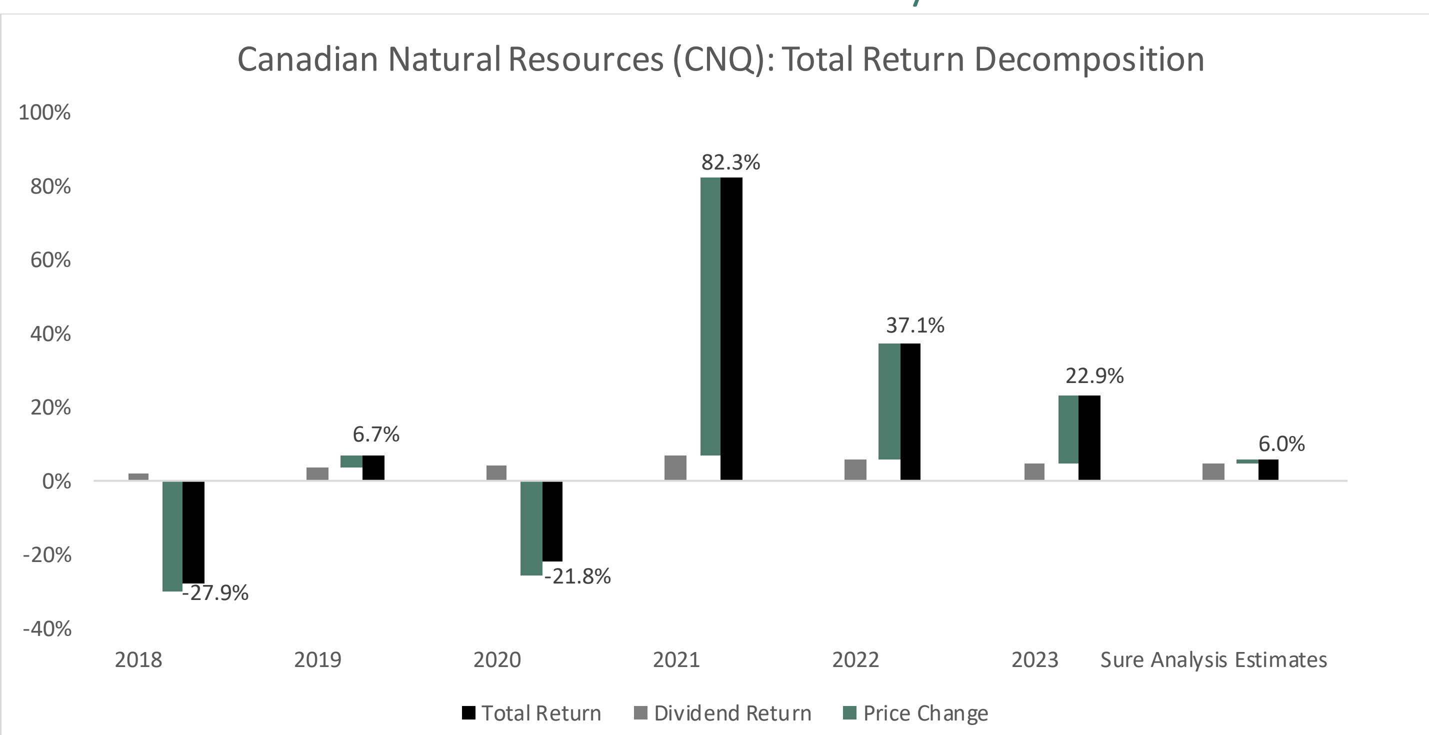
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Std. Dev.	27.7%	33.6%	31.6%	23.9%	48.7%	47.2%	---	32.3%	29.0%	48.1%	***62.6%***	***58.8%***

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 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 6.0% thanks to 3.0% growth of earnings-per-share and its 4.9% dividend, partly offset by a -1.3% valuation headwind. It maintains its 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.