

## Canadian Natural Ltd. (CNQ)

**\$30.54** (As of 03/09/21)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

**Zacks Recommendation:** **Outperform**

(Since: 03/09/21)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**1-Strong Buy**

Zacks Style Scores:

VGM:F

Value: D

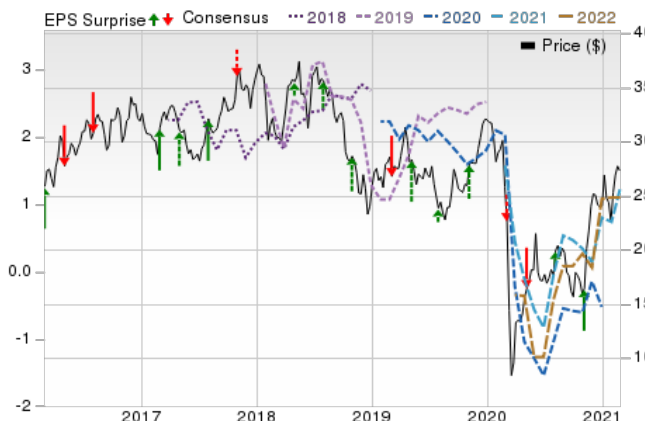
Growth: F

Momentum: A

### Summary

Canadian Natural Resources' balanced and diverse production mix facilitates long-term value and reduces the risk profile. Canadian Natural's acquisition of Athabasca Oil Sands project in 2017 has added significant value to its asset base and buoyed the production prospects. Notably, lower capital needs and improving operational efficiencies have enabled the company to generate significant free cash flow. What's more, Canadian Natural Resources has a solid track record of dividend hikes, recently increasing payout for the 21st consecutive year. A 'Canadian Dividend Aristocrat' with an attractive yield, the company's stock has more than doubled over the trailing 12-month period and poised for further capital appreciation. Consequently, Canadian Natural Resources is viewed a preferred energy firm to own now.

### Price, Consensus & Surprise

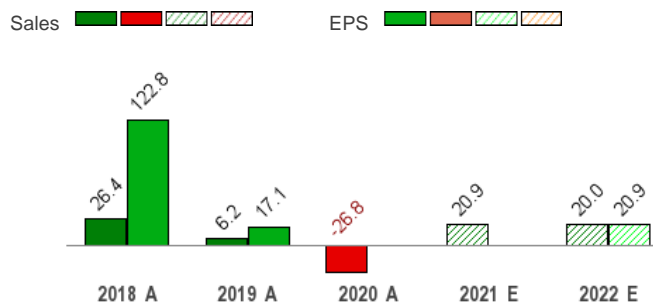


Source: Zacks Investment Research

### Data Overview

52-Week High-Low	\$31.92 - \$6.71
20-Day Average Volume (Shares)	3,759,974
Market Cap	\$36.2 B
Year-To-Date Price Change	27.0%
Beta	1.98
Dividend / Dividend Yield	\$1.31 / 4.3%
Industry	Oil and Gas - Exploration and Production - Canadian
Zacks Industry Rank	Top 2% (4 out of 254)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	200.0%
Last Sales Surprise	0.6%
EPS F1 Estimate 4-Week Change	160.2%
Expected Report Date	05/06/2021
Earnings ESP	135.1%
P/E TTM	NA
P/E F1	71.0
PEG F1	11.8
P/S TTM	2.8

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					18,300 E
2021	3,525 E	3,519 E	3,447 E	4,552 E	15,251 E
2020	3,355 A	2,071 A	3,380 A	3,851 A	12,611 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$0.52 E
2021	-\$0.10 E	-\$0.12 E	-\$0.16 E	\$0.59 E	\$0.43 E
2020	-\$0.19 A	-\$0.47 A	\$0.08 A	\$0.12 A	-\$0.48 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 03/09/2021. The report's text, and the analyst-provided sales estimates, EPS estimates and price target are as of 03/10/2021.

## Overview

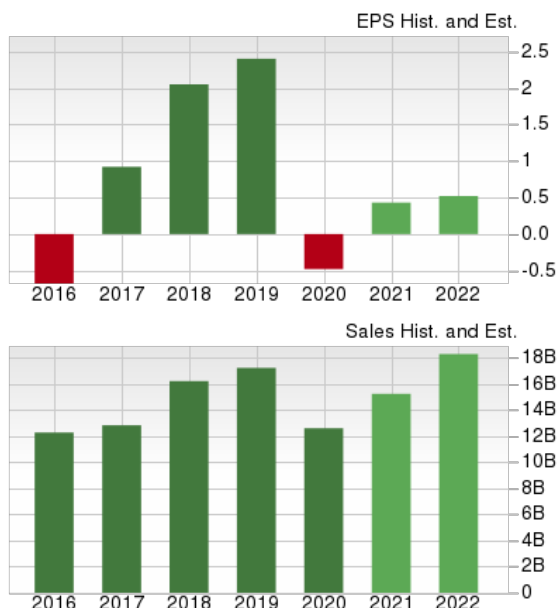
Established in 1973, Calgary-based Canadian Natural Resources Limited is one of the largest independent energy companies in Canada engaged in the exploration, development and production of oil and natural gas. The company boasts of a diversified portfolio of crude oil (heavy as well as light), natural gas, bitumen and synthetic crude oil (SCO). Canadian Natural Resources' core operations are focused in Western Canada, the United Kingdom sector of the North Sea and offshore Africa, which includes Côte d'Ivoire, Gabon, and South Africa. The company reports its activities into two segments: Exploration & Production, and Oil Sands Mining and Upgrading.

Of particular significance is Canadian Natural's substantial world class oil sands mining assets - Horizon Oil Sands and the Athabasca Oil Sands Project (AOSP). Through these properties, the company holds leases that contain an estimated six billion barrels of proved and probable SCO reserves.

As of year-end 2020, the company had approximately 12.106 billion oil-equivalent barrels (BOE) in total proved reserves. About 87% of the reserves are liquids and 77% proved developed. Approximately 98% of the company's proved reserves are located in North America. In 2020, production averaged 1,164,136 barrels of oil equivalent per day (BOE/d) – the most in Canada – comprising 77% crude oil/ liquid hydrocarbons and 23% natural gas. Meanwhile, the SCO assets in Northern Alberta accounted for 36% of 2020 output.

Canadian Natural, which trades on both the TSX and NYSE, also has midstream operations through its two wholly owned crude oil pipelines (namely ECHO and Pelican Lake pipelines) via which the company transports over 50% of its heavy crude oil. Its midstream portfolio also comprises of 50% stake in both Primrose electricity co-generation system and the North West Redwater Partnership.

The company raised its quarterly dividend by 11% recently to 47 Canadian cents per share or C\$1.88 per share annualized. This marks the 21st consecutive annual payout hike.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Canadian Natural Resources has a broad portfolio of low-risk exploration and development projects with a strong international exposure that yields long-term volume growth at above-average rates. The company's balanced and diverse production mix – 39% SCO, 24% heavy crude oil, 24% natural gas and 13% light crude oil – facilitates long-term value. This also significantly reduces Canadian Natural's risk profile and lends its results a high level of stability.
- ▲ Canadian Natural's prudent and well-timed acquisitions have allowed the company to improve its competitive edge apart from boosting revenues and earnings. In 2017, the company acquired 70% interests in the Athabasca Oil Sands project ('AOSP') for \$8.5 billion, which has added significant value to its asset base and buoyed the cash flow prospects. The company's \$807 million Pelican Lake heavy oil assets buy has further strengthened its operations. In 2019, the firm upped its oilsands game with the buyout of Devon Canada. More recently, Canadian Natural acquired Calgary-based natural gas producer Painted Pony Energy. The integration between the two companies is expected to make a significant contiguous impression on Canadian Natural's natural gas assets and production base in its core operating areas as Painted Pony's land and production are located within those areas.
- ▲ Lower capital expenditure needs, accretive acquisitions and improving operational efficiencies are other positives in the Canadian Natural story, which allowed the company to generate a significant free cash flow of C\$694 million (post capital spending and dividends) in the most recent quarter.
- ▲ Canadian Natural Resources recently raised its dividend by 11%, reflecting strength in its cash flows. The company is counted as a 'Canadian Dividend Aristocrat' with an attractive yield. What's more, Canadian Natural Resources has a solid track record of dividend hikes, recently increasing payout for the 21st consecutive year.

Canadian Natural's accretive acquisitions, high-quality assets and surplus cash makes it a best in class stock.

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## Risks

- Oil prices fell to historic lows in 2020 due to the coronavirus-induced demand destruction amid the fuel's ample supply. In conjunction with the crude collapse, Canadian Natural Resources stock was sold off together with a host of other energy sector names. While the company's shares have managed to rebound riding on the commodity price improvement, with crude accounting for a major portion of Canadian Natural's reserves and production, the company's results are vulnerable to fluctuations in oil markets.
  - In a bid to further solidify its position on its home turf, Canadian Natural Resources Limited inked a mega deal of C\$3.8 billion to snap up Devon Energy Corporation's Canadian business in 2019. While the transaction had a positive effect on Canadian Natural's crude production capacity, the company had to borrow C\$3.25-billion three-year term loan to fund the deal. Apart from an increase in the debt-to-capital ratio, the loan lead to a higher interest outgo for Canadian Natural.
  - While oil production is surging in a country with the world's third-largest reserves, Canada's exploration and production sector has remained out of favor, primarily due to the scarcity of pipelines in part due to the political and legal hurdles. In short, pipeline construction in Canada has failed to keep pace with rising domestic crude volumes. Following the Keystone XL axe, Canadian oil sands producers would have to wait a little longer for the takeaway capacity issue to be resolved.
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## Last Earnings Report

### Canadian Natural Q4 Earnings Beat, Revenues Top Too

Canadian Natural Resources Limited reported fourth-quarter 2020 adjusted earnings per share of 12 cents, beating the Zacks Consensus Estimate of 4 cents, attributable to increased production from North America, lower costs and higher natural gas price realizations. However, the bottom line fell from the year-ago figure of 44 cents per share. The year-over-year underperformance was due to weak crude oil and natural gas liquids (NGLs) price realizations.

Total revenues of \$3.85 billion surpassed the Zacks Consensus Estimate of \$3.83 billion. However, the top line declined from \$4.47 billion reported a year ago.

During the quarter under review, the company, which is committed to adding shareholder value, returned C\$502 million via dividends.

Canadian Natural declared a quarterly dividend of 47 Canadian cents a share, payable Apr 5, 2021 to its shareholders on record as of Mar 19, 2021.

Quarter Ending	12/2020
Report Date	Mar 04, 2021
Sales Surprise	0.56%
EPS Surprise	200.00%
Quarterly EPS	0.12
Annual EPS (TTM)	-0.46

### Production & Prices

Canadian Natural reported quarterly production of 1,201,198 barrels of oil equivalent per day (BOE/d), up 3.9% from the prior-year quarter. Oil and NGLs output (accounting for more than 77.2% of total volumes) increased to 927,190 barrels per day (Bbl/d) from 913,782 Bbl/d a year ago. Crude oil and NGLs production from operations in North America including synthetic crude oil production of 417,089 Bbl/d and bitumen output of 266,179 Bbl/d totaled 683,268 Bbl/d, comparing favorably with the year-ago quarter's 617,243 Bbl/d owing to a continued focus on effective and efficient operations.

Natural gas volumes recorded a 13% year-over-year rise from 1,455 million cubic feet per day (MMcf/d) to 1,644 MMcf/d in the quarter. Production in North America summed 1,623 MMcf/d compared with 1,411 MMcf/d in the prior year.

Canadian Natural's realized natural gas price increased 11.4% to C\$2.94 per thousand cubic feet from the year-ago level of C\$2.64. However, realized oil and NGLs price plummeted 18.2% to C\$40.56 per barrel from C\$49.6 in the fourth quarter of 2019.

### Costs & Capital Expenditure

Total expenses incurred in the quarter were C\$4,259 million, lower than C\$5,079 million recorded a year ago. Decline in transportation costs and production expenses, along with higher foreign exchange gain, reduced the overall costs. Meanwhile, Canadian Natural's Oil Sands Mining and Upgrading operating expenses decreased 19% year over year to C\$20.20 per barrel.

In the reported quarter, capital expenditure (including net acquisition costs) totaled C\$1,176 million.

### Balance Sheet

As of Dec 31, the company had C\$184 million in cash and cash equivalents, and a long-term debt of C\$20,110 million, representing total debt to total capital of 38.3%.

Further, the company generated free cash flow of C\$694 in the fourth quarter.

### 2021 Guidance

Canadian Natural's 2021 free cash flow is expected to be robust at \$4.9-\$5.4 billion, after spending capital expenses and increased dividend levels.

The company's 2021 capex is estimated around \$3.2 billion, indicating a targeted production range of 1,190-1,260 MBOE/d, up 5% at the mid-point from the prior-year levels.

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## Recent News

### Canadian Natural Hikes Dividend

On **Mar 4**, Canadian Natural Resources Limited declared a dividend of 47 Canadian cents a share, up 10.6% from the previous payout. The dividend will be payable on Apr 5, 2021 to the shareholders as of Mar 19, 2021.

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## Valuation

Canadian Natural Resources shares are up 27% in the year-to-date period and 102.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are up 35.9% and 20.8%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 191.2% and 43.4%, respectively.

The S&P 500 index is up 2.1% in the year-to-date period and 41.7% in the past year.

The stock is currently trading at 13.4X trailing 12-month EV/EBITDA, which compares to 9.47X for the Zacks sub-industry, 6.03X for the Zacks sector and 17.01X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.74X and as low as 3.43X, with a 5-year median of 9X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$35 price target reflects 2.72X F12M sales.

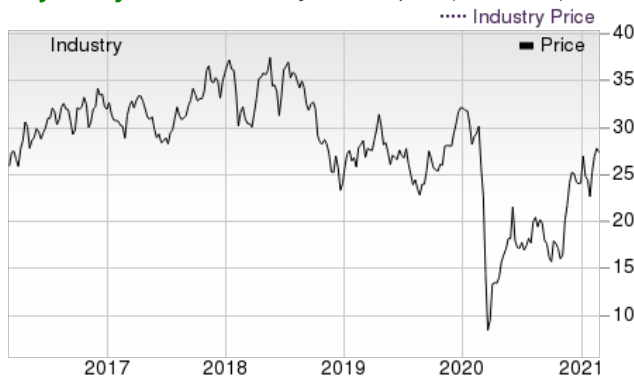
The table below shows summary valuation data for CNQ

Valuation Multiples - CNQ					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	13.4	9.47	6.03	17.01
	5-Year High	25.74	17.93	10.56	17.55
	5-Year Low	3.43	2.72	3.1	9.62
	5-Year Median	9	6.82	6.03	13.31
P/S F12M	Current	2.37	1.84	0.94	4.44
	5-Year High	3.9	2.8	1.46	4.44
	5-Year Low	0.63	0.66	0.6	3.21
	5-Year Median	2.28	1.71	0.96	3.69
P/B TTM	Current	1.5	1.36	1.34	6.46
	5-Year High	1.96	1.58	1.57	6.66
	5-Year Low	0.35	0.21	0.54	3.83
	5-Year Median	1.5	1.17	1.33	4.97

As of 03/09/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 2% (4 out of 254)



Source: Zacks Investment Research

## Top Peers

Company (Ticker)	Rec	Rank
Crescent Point Energy Corporation (CPG)	Outperform	2
EOG Resources, Inc. (EOG)	Outperform	2
Imperial Oil Limited (IMO)	Outperform	1
Ovintiv Inc. (OVV)	Outperform	1
ConocoPhillips (COP)	Neutral	2
Cenovus Energy Inc (CVE)	Neutral	3
Occidental Petroleum Corporation (OXY)	Neutral	3
Suncor Energy Inc. (SU)	Neutral	2

The positions listed should not be deemed a recommendation to buy, hold or sell.

Industry Comparison Industry: Oil And Gas - Exploration And Production - Canadian				Industry Peers		
	CNQ	X Industry	S&P 500	CVE	IMO	SU
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	1	-	-	3	1	2
VGM Score	F	-	-	C	D	F
Market Cap	36.21 B	379.52 M	27.55 B	16.12 B	18.01 B	33.34 B
# of Analysts	2	4	13	2	3	3
Dividend Yield	4.28%	0.00%	1.36%	0.58%	2.78%	2.95%
Value Score	D	-	-	B	D	D
Cash/Price	0.01	0.01	0.06	0.02	0.03	0.04
EV/EBITDA	11.49	1.50	15.74	37.21	32.00	12.79
PEG F1	11.84	NA	2.32	NA	NA	15.08
P/B	1.50	0.90	3.87	0.79	1.13	1.25
P/CF	9.01	3.55	15.96	15.30	9.68	6.13
P/E F1	71.02	8.74	20.75	20.75	13.81	45.23
P/S TTM	2.76	1.61	3.29	1.59	1.07	1.78
Earnings Yield	4.72%	11.74%	4.71%	4.76%	7.25%	2.20%
Debt/Equity	0.62	0.48	0.67	0.45	0.23	0.39
Cash Flow (\$/share)	3.39	0.74	6.78	0.52	2.53	3.57
Growth Score	F	-	-	D	F	F
Historical EPS Growth (3-5 Years)	46.20%	2.31%	9.34%	NA	39.54%	4.45%
Projected EPS Growth (F1/F0)	400.00%	717.60%	14.41%	124.21%	316.67%	143.94%
Current Cash Flow Growth	-41.68%	-31.60%	0.74%	-68.51%	-24.63%	-51.75%
Historical Cash Flow Growth (3-5 Years)	1.11%	2.83%	7.37%	-13.68%	-3.87%	-4.86%
Current Ratio	0.86	0.58	1.39	1.26	1.34	0.89
Debt/Capital	38.31%	32.71%	41.42%	30.81%	18.79%	27.86%
Net Margin	-2.28%	-127.10%	10.59%	-17.44%	-8.33%	-17.11%
Return on Equity	-3.28%	-12.10%	14.75%	-15.32%	-1.91%	-4.37%
Sales/Assets	0.24	0.24	0.51	0.41	0.58	0.30
Projected Sales Growth (F1/F0)	36.17%	0.00%	6.93%	132.85%	35.54%	31.73%
Momentum Score	A	-	-	A	A	A
Daily Price Change	0.26%	0.00%	0.98%	-1.72%	1.57%	-0.68%
1-Week Price Change	13.81%	3.49%	2.46%	10.80%	7.79%	10.73%
4-Week Price Change	19.72%	13.97%	2.20%	28.66%	21.61%	22.60%
12-Week Price Change	21.05%	77.27%	7.91%	30.56%	25.65%	21.17%
52-Week Price Change	90.28%	174.38%	41.93%	157.74%	44.27%	8.16%
20-Day Average Volume (Shares)	3,759,974	243,487	2,120,225	10,701,114	600,725	10,583,956
EPS F1 Estimate 1-Week Change	231.04%	0.80%	0.00%	870.00%	30.00%	326.47%
EPS F1 Estimate 4-Week Change	160.24%	95.83%	0.00%	1,543.75%	51.85%	38.10%
EPS F1 Estimate 12-Week Change	1,271.43%	542.41%	2.11%	228.33%	252.98%	3,122.22%
EPS Q1 Estimate Monthly Change	385.00%	280.90%	0.00%	200.00%	42.25%	64.71%

Source: Zacks Investment Research

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	F
Momentum Score	C
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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## Disclosures

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## Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

**Returns quoted represent past performance which is no guarantee of future results.** Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

## Glossary of Terms and Definitions

**52-Week High-Low:** The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

**20-Day Average Volume (Shares):** The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

**Daily Price Change:** This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

**1-Week Price Change:** This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

**4-Week Price Change:** This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

**12-Week Price Change:** This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

**52-Week Price Change:** This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

**Market Cap:** The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

**Year-To-Date Price Change:** Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

**# of Analysts:** Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

**Beta:** A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

**Dividend:** The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

**Dividend Yield:** The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

**S&P 500 Index:** The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

**Industry:** One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

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**Zacks Industry Rank:** The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

**Last EPS Surprise:** The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

**Last Sales Surprise:** The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

**Expected Report Date:** This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

**Earnings ESP:** The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

**Periods:**

**TTM:** Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

**F1:** Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

**F2:** Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

**F12M:** Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

**P/E Ratio:** The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

**PEG Ratio:** The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

**P/S Ratio:** The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

**Cash/Price Ratio:** The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

**EV/EBITDA Ratio:** The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

**EV/Sales Ratio:** The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

**EV/CF Ratio:** The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

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**EV/FCF Ratio:** The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

**P/EBITDA Ratio:** The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

**P/B Ratio:** The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

**P/TB Ratio:** The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

**P/CF Ratio:** The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

**P/FCF Ratio:** The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

**Earnings Yield:** The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ( $3/35 = 0.0857$ ) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

**Debt/Equity Ratio:** The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

**Cash Flow (\$/share):** Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

**Current Ratio:** The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

**Debt/Capital Ratio:** Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

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**Net Margin:** Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

**Return on Equity:** Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

**Sales/Assets Ratio:** The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

**Historical EPS Growth (3-5 Years):** This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

**Projected EPS Growth (F1/F0):** This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

**Current Cash Flow Growth:** It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

**Historical Cash Flow Growth (3-5 Years):** This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

**Projected Sales Growth (F1/F0):** This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

**EPS F1 Estimate 1-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

**EPS F1 Estimate 4-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

**EPS F1 Estimate 12-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

**EPS Q1 Estimate Monthly Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.