Jul 10, 2020

Canadian Natural Ltd. (CNQ)

$16.21 (As of 07/09/20)

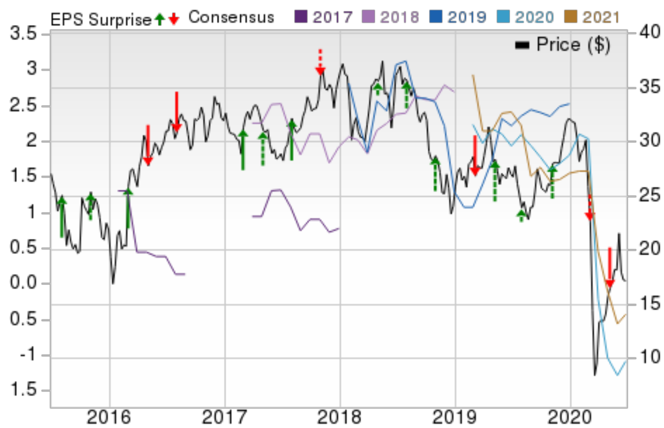
Price Target (6-12 Months): **$17.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/14/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: C | Growth: F | Momentum: B	

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, the company remains committed to investor friendly moves by the way of dividend payouts and stock buybacks. However, discounted crude prices in Canada is a drag on the company's revenues. Further, the C$3.25-billion term loan to fund the Devon Energy asset buy has worsened the company's debt-to-capital ratio and lead to higher interest outgo. The interplay of these factors account for the cautious stance.

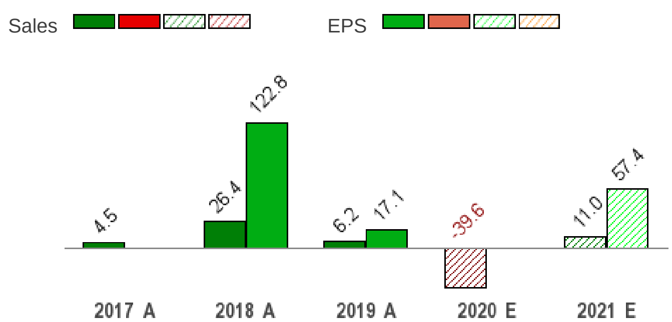
Price, Consensus & Surprise



Data Overview

52 Week High-Low	$32.79 - $6.71
20 Day Average Volume (sh)	4,994,705
Market Cap	$19.1 B
YTD Price Change	-49.9%
Beta	1.72
Dividend / Div Yld	$1.23 / 7.6%
Industry	Oil and Gas - Exploration and Production - Canadian
Zacks Industry Rank	Top 38% (95 out of 252)
Last EPS Surprise	-575.0%
Last Sales Surprise	-7.1%
EPS F1 Est- 4 week change	0.9%
Expected Report Date	08/06/2020
Earnings ESP	4.9%
P/E TTM	9.6
P/E F1	NA
PEG F1	NA
P/S TTM	1.1

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	2,571 E	2,642 E	2,672 E	2,706 E	11,563 E
2020	3,355 A	2,138 E	2,409 E	2,839 E	10,414 E
2019	3,947 A	4,158 A	4,666 A	4,471 A	17,236 A

EPS Estimates

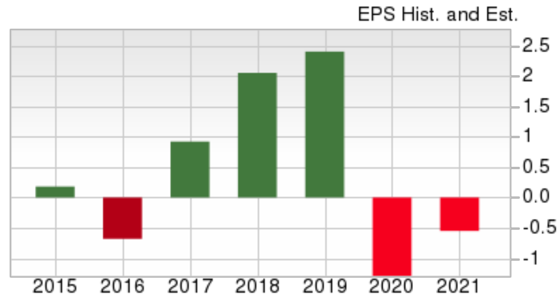
	Q1	Q2	Q3	Q4	Annual*
2021	-$0.34 E	-$0.28 E	-$0.25 E	-$0.20 E	-$0.55 E
2020	-$0.19 A	-$0.58 E	-$0.44 E	-$0.31 E	-$1.29 E
2019	$0.53 A	$0.65 A	$0.79 A	$0.44 A	$2.40 A

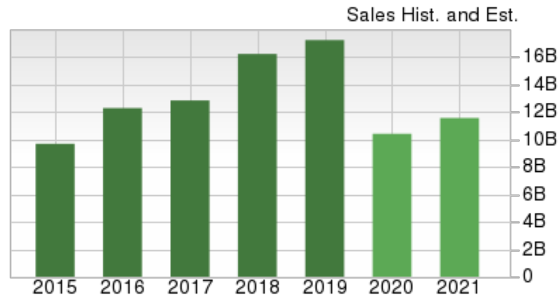
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/09/2020. The reports text is as of 07/10/2020.

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 2019, the company had approximately 10.99 billion oil-equivalent barrels (BOE) in total proved reserves. About 86% of the reserves are liquids and 77% proved developed. Approximately 98% of the company's proves reserves are located in North America. In 2019, production averaged 1,098,957 barrels of oil equivalent per day (BOE/d) – the most in Canada – comprising 76% crude oil/ liquid hydrocarbons and 24% natural gas. Meanwhile, the SCO assets in Northern Alberta accounted for 39% of 2019 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 13% recently to 42.5 Canadian cents per share or C$1.50 per share annualized. This marks the 20th consecutive annual payout hike.

Reasons To Buy:

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

- ▲ 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. Very recently, the firm upped its oilsands game with the buyout of Devon Canada.

- ▲ Lower capital expenditure needs, accretive acquisitions and improving operational efficiencies have enabled Canadian Natural to generate significant free cash flow. The company achieved free cash flow of around C$4.6 billion in 2019, while the metric totaled C$55 million in the first quarter despite the difficult operating environment.

- ▲ Canadian Natural Resources has decided to maintain its dividend despite the sudden drop in oil price, 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 20th consecutive year.

Reasons To Sell:

Limited pipeline infrastructure, and the resulting large discount for Canadian crude compared to the New York-traded WTI oil benchmark continue to plague Canadian Natural's earnings.

- Oil prices recently fell to its lowest in almost two decades as oversupply continued panic over the spreading coronavirus sent the commodity crashing. In conjunction with the crude collapse, Canadian Natural stock has been sold off together with a host of other energy sector names. Worryingly, the oil plunge has left the likes of Canadian Natural facing prices below their costs of production.

- In a bid to further solidify its position on its home turf, Canadian Natural Resources Limited recently inked a mega deal of C$3.8 billion to snap up Devon Energy Corporation's Canadian business. The pact represents Canadian Natural's biggest buyout since 2017, when it acquired Shell's oilsands assets for C$8.16 billion. While the transaction is expected to increase Canadian Natural's crude production capacity substantially, the company will 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 will lead to a higher interest outgo for Canadian Natural.

- Canadian Natural Resources' debt-to-capitalization as of the end of the first quarter was 40.5%, deteriorating from 37.5% three months ago. Further, the company is set to face debt maturities each year out till 2027, thereby exposing it to refinancing risk at a time of low commodity prices.

- While oil production is surging in Canada, the country's exploration and production companies remain out of favor, primarily due to the scarcity of pipelines. In short, pipeline construction in Canada has failed to keep pace with rising domestic crude volumes – the heavier sour variety churned out of the oil sands – resulting in infrastructural bottlenecks. This has forced producers to give away their products in the United States – Canada's major market – at a discounted rate. Canadian Natural is more exposed to the ill effects of discounted WCS pricing. This reduces the amount of money company earns and therefore makes it harder to generate profits.

Last Earnings Report

Canadian Natural Reports Q1 Loss, Maintains Dividend

Quarter Ending	03/2020
Report Date	May 07, 2020
Sales Surprise	-7.13%
EPS Surprise	-575.00%
Quarterly EPS	-0.19
Annual EPS (TTM)	1.69

Canadian Natural Resources Limited reported first-quarter 2020 adjusted loss per share of 19 cents due to lower crude oil and natural gas price realizations as well as higher costs and expenses. The Zacks Consensus Estimate was of a profit of 4 cents per share. Also, in the year-ago period, the company posted an adjusted profit of 53 cents per share.

Total revenues of $3.36 billion also missed the Zacks Consensus Estimate of $3.61 billion. Further, the top line declined from first-quarter 2019 revenues of $3.95 billion.

Despite the depressing year-over-year revenues as well as earnings, the company's first-quarter results offered something to buoy long-term investors' optimism as free cash flow totaled C$55 million after adjusting capital expenditure and dividend payments.

Further, the company, which is committed to adding shareholder value, returned C$444 million and C$271 million via dividends and stock buybacks, respectively.

Canadian Natural declared a quarterly dividend of 42.5 Canadian cents a share, payable Jul 1, 2020 to its shareholders of record as of Jun12, 2020.

Production & Prices

Canadian Natural reported quarterly production of 1,178,752 barrels of oil equivalent per day (BOE/d), up 13.9% from the prior-year quarter. Oil and natural gas liquids (NGLs) output (accounting for more than 79.6% of total volumes) increased to 938,676 barrels per day (Bbl/d) from 783,512 Bbl/d a year ago. Crude oil and NGLs production from operations in North America including synthetic crude oil production of 438,101 Bbl/d and bitumen output of 228,303 Bbl/d totaled 666,404 Bbl/d, comparing favorably with the year-ago quarter's 510,352 Bbl/d owing to synergies drawn from the buyout of Devon Energy Corporation's Canadian business.

Natural gas volumes recorded a 4.6% year-over-year decline from 1,510 million cubic feet per day (MMcf/d) to 1,440 MMcf/d in the quarter under review. Production in North America summed 1,407 MMcf/d compared with 1,454 MMcf/d in the prior year.

Canadian Natural's realized natural gas price was C$2.22 per thousand cubic feet compared with the year-ago level of C$3.09. Realized oil and NGLs price plummeted 52% to C$25.90 per barrel from C$53.98 in the first quarter of 2019.

Costs & Capital Expenditure

Total expenses incurred in the quarter were C$5,941 million, higher than C$4,028 million recorded a year ago. Elevated transportation costs, foreign exchange loss and depreciation expenses flared up the overall costs. In the reported quarter, capital expenditure came in at C$838 million.

Balance Sheet

As of Mar 31, the company had C$1,071 million in cash and cash equivalents, and a long-term debt of C$19,884 million, representing total debt to total capital of 37.4%.

2020 Guidance

In response to the bearish oil environment resulting from the coronavirus pandemic, Canadian Natural reduced its 2020 capex further from the March update by an additional $280 million. Capital expenditures are now estimated to be around $2,680 million, indicating a $1,370 million cutback from the original 2020 outlook issued in December.

Recent News

Canadian Natural Prices $1.1B Notes Offering

On **Jun 22**, Canadian Natural Resources announced the pricing of its $1.1 billion aggregate principal amount of 2.05% notes due 2025 at 99.832% of the principal amount and 2.95% notes due 2030 at 99.955% of the principal amount. The company intends to use the net proceeds from this offering towards refinancing short-term debt and for general corporate purposes.

Valuation

Canadian Natural Resources shares are down 49.9% in the year-to-date period and 41.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are down 52.9% and 39.4%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 46.8% and 43.2%, respectively.

The S&P 500 index is down 1.4% in the year-to-date period but up 6.1% in the past year.

The stock is currently trading at 4.97X trailing 12-month EV/EBITDA, which compares to 3.81X for the Zacks sub-industry, 4.23X for the Zacks sector and 12.1X 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 8.92X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $17 price target reflects 1.8X 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	4.97	3.81	4.23	12.1
	5-Year High	25.74	16.03	10.07	12.45
	5-Year Low	3.43	3.12	3.06	8.04
	5-Year Median	8.92	7.39	6.52	10.76
P/S F12M	Current	1.72	1.08	0.73	3.53
	5-Year High	3.9	2.79	1.46	3.53
	5-Year Low	0.63	0.66	0.59	2.52
	5-Year Median	2.32	1.72	0.98	3.04
P/B TTM	Current	0.77	0.51	0.88	4.34
	5-Year High	1.96	1.59	1.58	4.65
	5-Year Low	0.35	0.24	0.59	2.81
	5-Year Median	1.5	1.12	1.32	3.69

As of 07/9/2020

Industry Analysis **Zacks Industry Rank:** Top 38% (95 out of 252)

Top Peers

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

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)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	D	B	A
Market Cap	19.14 B	84.77 M	21.19 B	5.31 B	10.98 B	23.99 B
# of Analysts	5	3	14	5	5	4
Dividend Yield	7.62%	0.00%	1.96%	4.33%	4.35%	3.88%
Value Score	C	-	-	D	B	C
Cash/Price	0.05	0.05	0.07	0.02	0.09	0.07
EV/EBITDA	3.86	2.72	12.56	3.73	4.97	3.34
PEG Ratio	NA	21.87	2.85	NA	NA	NA
Price/Book (P/B)	0.77	0.28	3.00	0.40	0.62	0.85
Price/Cash Flow (P/CF)	2.80	0.84	11.41	2.60	4.51	2.14
P/E (F1)	NA	172.22	20.79	NA	NA	NA
Price/Sales (P/S)	1.08	0.25	2.19	0.36	0.44	0.85
Earnings Yield	-7.96%	-117.98%	4.52%	-36.81%	-5.68%	-5.09%
Debt/Equity	0.60	0.60	0.76	0.49	0.21	0.43
Cash Flow ($/share)	5.80	0.62	6.94	1.66	3.32	7.36
Growth Score	F	-	-	C	D	A
Hist. EPS Growth (3-5 yrs)	35.18%	10.53%	10.90%	NA	25.09%	23.38%
Proj. EPS Growth (F1/F0)	-153.67%	-131.52%	-9.99%	-666.43%	-151.20%	-137.85%
Curr. Cash Flow Growth	4.07%	-24.26%	5.51%	-523.22%	-17.04%	46.54%
Hist. Cash Flow Growth (3-5 yrs)	-0.87%	-0.90%	8.55%	0.09%	-9.11%	4.04%
Current Ratio	0.66	0.89	1.30	0.71	1.35	0.81
Debt/Capital	37.41%	37.41%	44.46%	32.92%	17.41%	30.14%
Net Margin	13.51%	-48.33%	10.62%	1.48%	5.23%	-5.60%
Return on Equity	6.70%	-0.80%	15.75%	-4.25%	5.87%	6.68%
Sales/Assets	0.30	0.27	0.55	0.57	0.79	0.41
Proj. Sales Growth (F1/F0)	-39.60%	0.00%	-2.52%	-44.27%	-33.32%	-32.38%
Momentum Score	B	-	-	B	A	A
Daily Price Chg	-3.17%	-0.10%	-1.52%	-2.70%	-3.17%	-3.14%
1 Week Price Chg	3.51%	0.00%	3.66%	6.52%	3.11%	2.70%
4 Week Price Chg	-8.98%	-8.38%	0.36%	-4.00%	-9.88%	-11.48%
12 Week Price Chg	35.88%	27.34%	10.41%	72.11%	33.10%	9.92%
52 Week Price Chg	-41.31%	-60.94%	-8.70%	-54.24%	-47.36%	-51.54%
20 Day Average Volume	4,994,705	48,448	2,339,510	6,197,291	790,827	4,860,794
(F1) EPS Est 1 week change	16.58%	0.00%	0.00%	-2.59%	1.16%	2.13%
(F1) EPS Est 4 week change	0.92%	-0.54%	0.00%	4.36%	17.48%	29.60%
(F1) EPS Est 12 week change	-43.38%	-129.92%	-7.77%	-99.92%	-28.79%	-112.12%
(Q1) EPS Est Mthly Chg	22.35%	26.80%	0.00%	43.62%	32.14%	28.57%

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 have an excellent 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	B
VGM Score	D

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.

Disclosures

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