

Canadian Natural Ltd. (CNQ)

\$19.92 (As of 08/07/20)

Price Target (6-12 Months): **\$23.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 08/07/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:F

Value: D

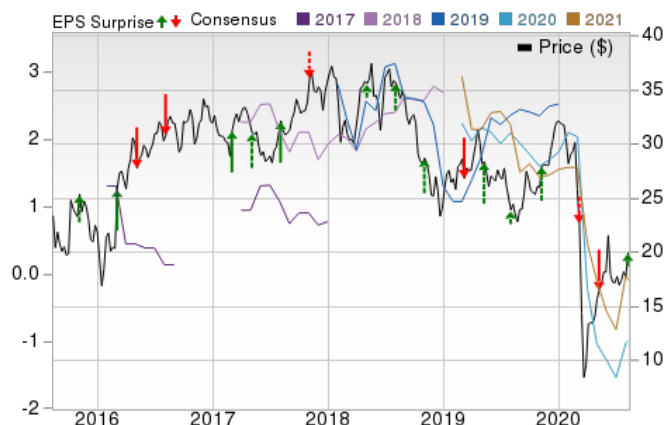
Growth: F

Momentum: D

Summary

Canadian Natural Resources' balanced and diverse production mix facilitates long-term value and reduces the risk profile thereby lending its results a high level of stability. 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 enabled it to generate better-than-anticipated second quarter results. Moreover, Canadian Natural was able to minimize its Oil Sands Mining and Upgrading operating costs from C\$24.17 per barrel a year ago to a record low of C\$17.74 in the second quarter. What's more, the company remains committed to investor friendly moves by the way of dividend payouts. Consequently, Canadian Natural is viewed as a preferred energy play to own now.

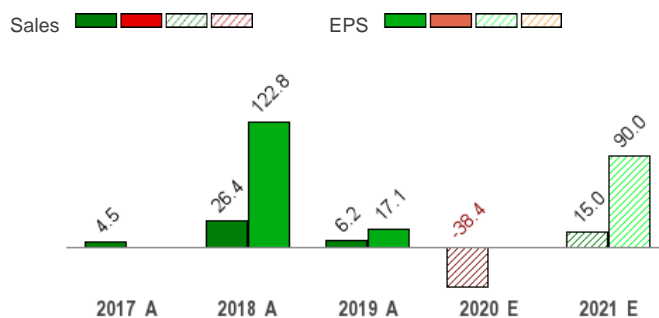
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$32.79 - \$6.71
20 Day Average Volume (sh)	3,480,068
Market Cap	\$23.5 B
YTD Price Change	-38.4%
Beta	1.71
Dividend / Div Yld	\$1.27 / 6.2%
Industry	Oil and Gas - Exploration and Production - Canadian
Zacks Industry Rank	Top 22% (55 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.1%
Last Sales Surprise	4.4%
EPS F1 Est- 4 week change	18.8%
Expected Report Date	NA
Earnings ESP	23.3%
P/E TTM	35.0
P/E F1	NA
PEG F1	NA
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,571 E	2,642 E	2,672 E	2,706 E	12,205 E
2020	3,355 A	2,071 A	2,530 E	2,824 E	10,617 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	-\$0.18 E	-\$0.14 E	-\$0.12 E	-\$0.09 E	-\$0.10 E
2020	-\$0.19 A	-\$0.47 A	-\$0.27 E	-\$0.15 E	-\$1.00 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 08/07/2020. The reports text is as of 08/10/2020.

Overview

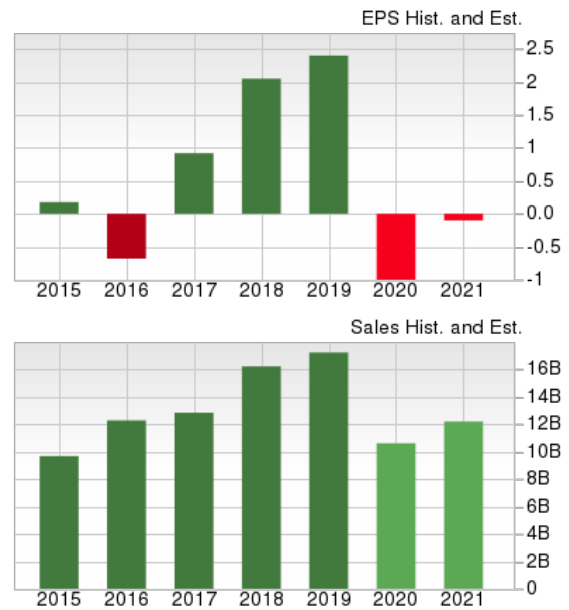
Established in 1973, Calgary-based Canadian Natural Resources Limited is one of the largest independent energy companies in Canada engaged in the exploration, development and production of oil and natural gas. The company boasts of a diversified portfolio of crude oil (heavy as well as light), natural 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 proved 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 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 better-than-anticipated second quarter results. Moreover, the company was able to minimize its Oil Sands Mining and Upgrading operating expenses from C\$24.17 per barrel a year ago to a record low of C\$17.74 in the quarter under discussion.
- ▲ 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.

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

Risks

- 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.
 - 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.
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Last Earnings Report

Canadian Natural Q2 Loss Narrower Than Expected, Revenues Top

Canadian Natural Resources Limited reported second-quarter 2020 adjusted loss per share of 47 cents, narrower than the Zacks Consensus Estimate of a loss of 56 cents, attributable to increased total production, lower costs and higher natural gas price realizations. However, in the year-ago period, the company posted an adjusted profit of 65 cents per share. The year-over-year underperformance is due to lower weak crude oil and NGLs price realizations.

Total revenues of \$2.07 billion surpassed the Zacks Consensus Estimate of \$1.98 billion. However, the top line declined from second-quarter 2019 revenues of \$4.16 billion.

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 42.5 Canadian cents a share, payable Oct 5, 2020 to its shareholders of record as of Sep18, 2020.

Quarter Ending 06/2020

Report Date	Aug 06, 2020
Sales Surprise	4.42%
EPS Surprise	16.07%
Quarterly EPS	-0.47
Annual EPS (TTM)	0.34

Production & Prices

Canadian Natural reported quarterly production of 1,165,487 barrels of oil equivalent per day (BOE/d), up 13.6% from the prior-year quarter. Oil and natural gas liquids (NGLs) output (accounting for more than 79.1% of total volumes) increased to 921,895 barrels per day (Bbl/d) from 770,409Bbl/d a year ago. Crude oil and NGLs production from operations in North America including synthetic crude oil production of 464,318Bbl/d and bitumen output of 212,807Bbl/d totaled 677,125Bbl/d, comparing favorably with the year-ago quarter's 484,099Bbl/d owing to high utilization rates and operational enhancements at both Horizon and Athabasca Oil Sands projects.

Natural gas volumes recorded a 4.56% year-over-year decline from 1,532 million cubic feet per day (MMcf/d) to 1,462MMcf/d in the quarter under review. Production in North America summed 1,431MMcf/d compared with 1,482MMcf/d in the prior year.

Canadian Natural's realized natural gas price was C\$2.03 per thousand cubic feet compared with the year-ago level of C\$1.98. Realized oil and NGLs price plummeted 70.1% to C\$18.97 per barrel from C\$63.45 in the second quarter of 2019.

Costs & Capital Expenditure

Total expenses incurred in the quarter were C\$3,479 million, lower than C\$4,012 million recorded a year ago. Lowered transportation costs and production expenses along with higher foreign exchange gain reduced the overall costs. Particularly, Canadian Natural has been focusing on disciplined cost management owing to which the company could minimize its Oil Sands Mining and Upgrading operating expenses from C\$24.17 per barrel a year ago to a record low of C\$17.74 in the quarter under discussion.

In the reported quarter, capital expenditure came in at C\$421 million.

Balance Sheet

As of Jun 30, the company had C\$233 million in cash and cash equivalents, and a long-term debt of C\$21,177 million, representing total debt to total capital of 39.6%.

2020 Guidance

Canadian Natural reiterates its 2020 capex to be C\$2.7 billion.

Valuation

Canadian Natural Resources shares are down 38.5% in the year-to-date period and 16% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are down 42.3% and 35.7%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 24.2% and 31.4%, respectively.

The S&P 500 index is up 4.1% in the year-to-date period and up 16.6% in the past year.

The stock is currently trading at 6.89X trailing 12-month EV/EBITDA, which compares to 3.65X for the Zacks sub-industry, 4.04X for the Zacks sector and 12.99X 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 Outperform recommendation indicates that the stock will perform better than the market. Our \$23 price target reflects 2.3X 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	6.89	3.65	4.04	12.99
	5-Year High	25.74	17.93	10.42	12.99
	5-Year Low	3.43	2.72	3.04	8.24
	5-Year Median	8.92	7.53	6.46	10.89
P/S F12M	Current	1.99	1.24	0.71	3.67
	5-Year High	3.9	2.8	1.46	3.67
	5-Year Low	0.63	0.66	0.59	2.53
	5-Year Median	2.32	1.76	0.99	3.04
P/B TTM	Current	0.95	0.63	0.91	4.58
	5-Year High	1.96	1.58	1.54	4.58
	5-Year Low	0.35	0.21	0.52	2.83
	5-Year Median	1.5	1.13	1.31	3.73

As of 08/07/2020

Industry Analysis Zacks Industry Rank: Top 22% (55 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Crescent Point Energy Corporation (CPG)	Outperform	2
ConocoPhillips (COP)	Neutral	3
Cenovus Energy Inc (CVE)	Neutral	2
EOG Resources, Inc. (EOG)	Neutral	2
Imperial Oil Limited (IMO)	Neutral	3
Ovintiv Inc. (OVV)	Neutral	3
Occidental Petroleum Corporation (OXY)	Neutral	3
Suncor Energy Inc. (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)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	2	3	3
VGM Score	F	-	-	D	C	C
Market Cap	23.53 B	77.47 M	23.30 B	5.98 B	11.92 B	24.68 B
# of Analysts	5	3	14	5	4	4
Dividend Yield	6.20%	0.00%	1.76%	3.84%	4.01%	3.77%
Value Score	D	-	-	B	A	B
Cash/Price	0.05	0.03	0.07	0.02	0.09	0.06
EV/EBITDA	4.38	2.27	13.32	4.12	5.27	3.55
PEG Ratio	NA	NA	2.94	NA	NA	NA
Price/Book (P/B)	0.95	0.48	3.19	0.48	0.72	0.94
Price/Cash Flow (P/CF)	3.44	1.03	12.51	2.94	4.89	2.20
P/E (F1)	NA	36.20	22.02	NA	NA	NA
Price/Sales (P/S)	1.53	0.37	2.53	0.50	0.58	1.04
Earnings Yield	-5.02%	-94.78%	4.37%	-27.10%	-7.76%	-5.50%
Debt/Equity	0.60	0.60	0.77	0.56	0.22	0.51
Cash Flow (\$/share)	5.80	0.62	6.94	1.66	3.32	7.36
Growth Score	F	-	-	F	D	D
Hist. EPS Growth (3-5 yrs)	35.18%	9.70%	10.46%	NA	20.00%	6.28%
Proj. EPS Growth (F1/F0)	31.51%	-123.89%	-6.80%	-170.43%	-207.93%	-141.86%
Curr. Cash Flow Growth	4.07%	-24.26%	5.39%	-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	0.66	1.33	1.23	1.20	1.02
Debt/Capital	37.41%	41.73%	44.50%	36.03%	17.81%	33.72%
Net Margin	0.33%	-117.45%	10.13%	-10.63%	0.03%	-17.17%
Return on Equity	1.52%	-2.96%	14.39%	-8.03%	1.03%	0.44%
Sales/Assets	0.26	0.26	0.51	0.47	0.67	0.36
Proj. Sales Growth (F1/F0)	-38.43%	0.00%	-1.51%	-40.49%	-30.48%	-29.82%
Momentum Score	D	-	-	F	D	C
Daily Price Chg	3.00%	1.71%	0.90%	-1.62%	-1.87%	-1.52%
1 Week Price Chg	-2.65%	-2.93%	0.14%	-10.98%	-6.41%	-5.63%
4 Week Price Chg	22.89%	20.34%	8.95%	12.73%	8.56%	2.86%
12 Week Price Chg	21.69%	29.12%	18.90%	39.14%	15.67%	2.41%
52 Week Price Chg	-18.53%	-43.26%	1.18%	-42.64%	-35.07%	-43.47%
20 Day Average Volume	3,480,068	112,705	2,057,775	5,841,897	448,719	4,916,475
(F1) EPS Est 1 week change	-1.16%	0.00%	0.00%	-0.76%	-26.25%	0.00%
(F1) EPS Est 4 week change	18.79%	7.69%	1.36%	16.52%	-5.87%	-10.59%
(F1) EPS Est 12 week change	11.23%	-109.84%	1.57%	15.49%	7.68%	26.95%
(Q1) EPS Est Mthly Chg	34.09%	30.68%	0.54%	71.70%	82.46%	60.80%

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	D
Growth Score	F
Momentum Score	D
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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