

Canadian Natural Ltd. (CNQ)

\$15.08 (As of 03/11/20)

Price Target (6-12 Months): **\$16.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/09/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: F

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.

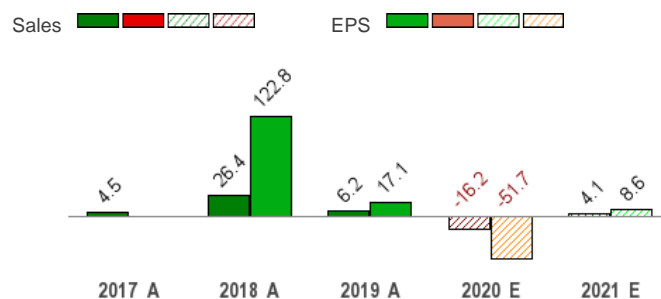
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$32.79 - \$12.91
20 Day Average Volume (sh)	4,018,276
Market Cap	\$17.9 B
YTD Price Change	-53.4%
Beta	1.25
Dividend / Div Yld	\$1.27 / 7.5%
Industry	Oil and Gas - Exploration and Production - Canadian
Zacks Industry Rank	Bottom 32% (172 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-18.5%
Last Sales Surprise	-1.7%
EPS F1 Est- 4 week change	-44.6%
Expected Report Date	05/14/2020
Earnings ESP	0.0%
P/E TTM	6.3
P/E F1	13.0
PEG F1	2.2
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					15,024 E
2020	3,819 E	3,796 E	4,050 E	4,028 E	14,439 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					\$1.26 E
2020	\$0.32 E	\$0.36 E	\$0.39 E	\$0.39 E	\$1.16 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 03/11/2020. The reports text is as of 03/12/2020.

Overview

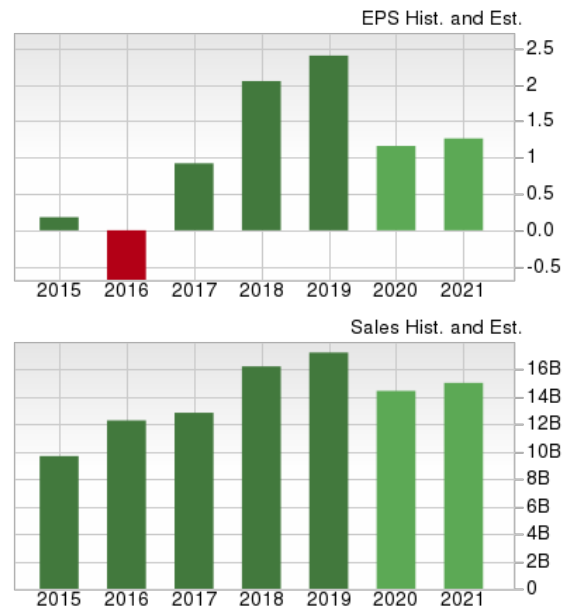
Established in 1973, Calgary-based Canadian Natural Resources Limited is one of the largest independent energy companies in Canada engaged in the exploration, development and production of oil and natural gas. The company boasts of a diversified portfolio of crude oil (heavy as well as light), natural 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. The company achieved free cash flow of around C\$4.6 billion in 2019. This favorable cash flow situation, combined with the company's ongoing commitment to capital discipline, enabled Canadian Natural to repurchase around 140 million shares in Q4 for an aggregate total of more than C\$941 million in 2019. The company is counted as a 'Canadian Dividend Aristocrat' with an attractive yield. What's more, the company 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.

Reasons To Sell:

- ▼ 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.
- ▼ Further, languishing Canadian crude prices are expected to affect the fortunes of the company's newly acquired Joslyn oil sands project that has been long grappling with challenges of ballooning costs. As it is, oil sands developments frequently draw protests over environmental concerns associated with such projects.

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.

Last Earnings Report

Canadian Natural Q4 Earnings & Sales Miss Estimates

Canadian Natural Resources Limited reported fourth-quarter 2019 adjusted earnings per share of 44 cents, below the Zacks Consensus Estimate of 54 cents due to lower natural gas price realizations plus higher costs and expenses. However, the bottom line delivered a profit against the prior-year adjusted loss of 16 cents per share, driven by robust production and higher liquids realizations.

Total revenues of \$4,471 million missed the Zacks Consensus Estimate of \$4,546 million. However, the top line improved from fourth-quarter 2018 revenues of \$2,801 million.

Apart from bettering year-over-year revenues and earnings, the company's fourth-quarter results offered something more to buoy long-term investors' optimism as free cash flow totaled C\$994 million after adjusting capital expenditure and dividend payments.

Production & Prices

Canadian Natural reported quarterly production of 1,156,276 barrels of oil equivalent per day (BOE/d), up by 6.9% from the prior-year quarter. Oil and natural gas liquids (NGLs) output (accounting for more than 79% of total volumes) increased to 913,782 barrels per day (Bbl/d) from 833,358 Bbl/d a year ago. Crude oil and NGLs production from operations in North America including synthetic crude oil production of 357,856 Bbl/d and bitumen output of 259,387 Bbl/d came in at 864,427 Bbl/d, higher than the year-ago quarter's 790,102 Bbl/d on the back of contribution from the buyout of Devon Energy Corporation's (DVN) Canadian business.

Natural gas volumes recorded a 5.4% year-over-year decline from 1,488 million cubic feet per day (MMcf/d) to 1,455 MMcf/d in the quarter under review. Production in North America totaled 1,411 MMcf/d compared with 1,441 MMcf/d in the prior year.

Canadian Natural's realized natural gas price was C\$2.64 per thousand cubic feet compared with the year-ago level of C\$3.46. Realized oil and NGLs price escalated 91% to C\$49.60 per barrel from C\$25.95 in the fourth quarter of 2018.

Costs & Capital Expenditure

Total expenses incurred in the quarter were C\$5,079 million, higher than C\$4,601 million recorded a year ago. Elevated transportation costs, foreign exchange loss and the absence of revaluation gains flared up the overall costs. In the reported quarter, capital expenditure summed C\$1,056 million excluding costs associated with the Devon Energy assets.

Dividend & Share Repurchase

The company, which is committed to adding shareholder value, returned C\$444 million and C\$140 million via dividends and stock buybacks, respectively.

Canadian Natural declared a 13% hike in its dividend to 42.5 Canadian cents a share, payable Apr 1, 2020 to its shareholders of record as of Mar 20, 2020. This marks the company's 20th consecutive dividend raise.

Balance Sheet

As of Dec 31, the company had C\$139 million in cash and cash equivalents, and a long-term debt of C\$18,591 million, representing a debt-to-capitalization ratio of 34.7%.

2020 Guidance

Canadian Natural expects capex to be C\$3.95 billion for the full year. While liquids output is expected between 910,000 Bbl/d and 970,000 Bbl/d, natural gas production is predicted within 1,360-1,420 MMcf/d.

Quarter Ending **12/2019**

Report Date	Mar 05, 2020
Sales Surprise	-1.66%
EPS Surprise	-18.52%
Quarterly EPS	0.44
Annual EPS (TTM)	2.41

Valuation

Canadian Natural Resources shares are down 53.4% in the year-to-date period and 45.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are down 56.9% and 37.9%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 53.5% and 44.2%, respectively.

The S&P 500 index is down 10.5% in the year-to-date period and up 1.5% in the past year.

The stock is currently trading at 5.9X trailing 12-month EV/EBITDA, which compares to 3.83X for the Zacks sub-industry, 4.39X for the Zacks sector and 11.04X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.29X and as low as 4.91X, with a 5-year median of 9.37X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$16 price target reflects 1.17X 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	5.9	3.83	4.39	11.04
	5-Year High	25.29	17.19	10.26	12.87
	5-Year Low	4.91	3.73	4.39	8.49
	5-Year Median	9.37	7.88	6.53	10.79
P/S F12M	Current	1.11	0.68	0.56	3.05
	5-Year High	3.9	2.76	1.45	3.44
	5-Year Low	1.11	0.68	0.56	2.54
	5-Year Median	2.4	1.78	0.99	3.01
P/B TTM	Current	0.68	0.41	0.79	3.88
	5-Year High	1.96	1.55	1.6	4.56
	5-Year Low	0.68	0.4	0.75	2.85
	5-Year Median	1.52	1.18	1.31	3.63

As of 03/11/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (172 out of 253)



Top Peers

ConocoPhillips (COP)	Neutral
Crescent Point Energy Corporation (CPG)	Neutral
Cenovus Energy Inc (CVE)	Neutral
EOG Resources, Inc. (EOG)	Neutral
Imperial Oil Limited (IMO)	Neutral
Encana Corporation (OVV)	Neutral
Occidental Petroleum Corporation (OXY)	Neutral
Suncor Energy Inc. (SU)	Neutral

Industry Comparison Industry: Oil And Gas - Exploration And Production - Canadian				Industry Peers		
	CNQ Neutral	X Industry	S&P 500	CVE Neutral	IMO Neutral	SU Neutral
VGM Score	B	-	-	B	B	B
Market Cap	17.90 B	46.09 M	19.20 B	3.70 B	10.80 B	28.93 B
# of Analysts	6	1	13	6	5	6
Dividend Yield	7.49%	0.00%	2.31%	6.25%	4.51%	7.37%
Value Score	B	-	-	C	B	B
Cash/Price	0.02	0.03	0.05	0.02	0.08	0.04
EV/EBITDA	3.68	2.05	11.76	3.16	4.82	3.78
PEG Ratio	2.17	1.85	1.73	3.35	NA	1.60
Price/Book (P/B)	0.68	0.14	2.64	0.26	0.59	0.91
Price/Cash Flow (P/CF)	2.60	0.49	10.55	1.81	4.39	2.57
P/E (F1)	13.00	13.02	15.66	51.60	14.07	11.17
Price/Sales (P/S)	0.97	0.21	2.06	0.23	0.42	0.98
Earnings Yield	7.69%	7.62%	6.38%	1.99%	7.13%	8.95%
Debt/Equity	0.53	0.33	0.70	0.44	0.20	0.37
Cash Flow (\$/share)	5.80	0.77	7.01	1.66	3.32	7.36
Growth Score	B	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	23.17%	1.97%	10.85%	NA	15.55%	20.08%
Proj. EPS Growth (F1/F0)	-51.74%	-40.49%	6.02%	-79.17%	-37.59%	-20.28%
Curr. Cash Flow Growth	4.07%	5.41%	6.09%	-523.22%	-17.04%	46.54%
Hist. Cash Flow Growth (3-5 yrs)	-0.87%	-0.89%	8.52%	0.09%	-9.11%	4.04%
Current Ratio	0.68	0.81	1.24	1.30	1.38	0.94
Debt/Capital	34.70%	25.33%	42.57%	30.48%	16.97%	26.94%
Net Margin	22.13%	-5.97%	11.69%	10.38%	6.43%	7.35%
Return on Equity	10.51%	-0.23%	16.74%	2.43%	6.80%	9.86%
Sales/Assets	0.32	0.28	0.54	0.59	0.81	0.42
Proj. Sales Growth (F1/F0)	-16.26%	-2.77%	3.55%	-18.95%	1.84%	8.61%
Momentum Score	F	-	-	D	F	F
Daily Price Chg	-6.04%	-7.14%	-5.37%	-2.90%	-14.29%	-6.58%
1 Week Price Chg	-12.40%	-12.40%	-0.67%	-20.08%	-4.01%	-9.28%
4 Week Price Chg	-49.38%	-49.43%	-20.57%	-67.03%	-39.58%	-36.11%
12 Week Price Chg	-51.25%	-51.25%	-17.57%	-69.41%	-43.05%	-41.51%
52 Week Price Chg	-45.97%	-69.46%	-8.21%	-65.99%	-47.25%	-43.84%
20 Day Average Volume	4,018,276	37,399	2,882,511	8,317,893	641,312	5,614,308
(F1) EPS Est 1 week change	-24.59%	-21.59%	0.00%	-47.76%	-10.23%	-6.89%
(F1) EPS Est 4 week change	-44.58%	-44.58%	-0.23%	-81.77%	-32.64%	-20.60%
(F1) EPS Est 12 week change	-35.71%	-39.90%	-0.60%	-77.93%	-29.81%	-20.44%
(Q1) EPS Est Mthly Chg	-51.74%	-51.74%	-0.52%	-142.31%	-10.28%	-20.00%

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	B
Growth Score	B
Momentum Score	F
VGM Score	B

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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