



Independent Stock Idea

November 5, 2009

rating: buy
s&p 500: 1047

Canadian Natural Resources (CNQ) Oil Sands Mining Challenge

<i>Symbol</i>	CNQ	<i>Ebitda Next Twelve Months ending 9/30/10 (US\$mm)</i>	6,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	19
<i>Price (US\$/sh)</i>	64.45	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/4/09	<i>Adjusted Reserves/Production NTM</i>	7.7
<i>Shares (mm)</i>	542	<i>EV/Ebitda</i>	7.4
<i>Market Capitalization (US\$mm)</i>	34,900	<i>PV/Ebitda</i>	8.8
<i>Debt (US\$mm)</i>	12,500	<i>Undeveloped Reserves (%)</i>	43
<i>Enterprise Value (EV) (US\$mm)</i>	47,400	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	5.28
<i>Present Value (PV) (US\$mm)</i>	55,900	<i>Present Value Proven Reserves(US\$/boe)</i>	20.87
<i>Net Present Value (US\$/share)</i>	80	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.48
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.81
<i>McDep Ratio - EV/PV</i>	0.85	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	0.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.38
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.			

Summary and Recommendation

Analyzing third quarter results released today, we reaffirm estimated Net Present Value (NPV) of US\$80 a share for buy-recommended **Canadian Natural Resources (CNQ)**. On that basis unlevered appreciation potential is 18% to a McDep Ratio of 1.0 where stock price would equal NPV. Unlevered cash flow (Ebitda) and oil volume stalled in the latest quarter as the new Horizon oil sands project encountered mining problems. Volume buildup ought to resume in future quarters (see table Next Twelve Months Operating and Financial Estimates). The greater concentration of NPV remains in traditional oil production with emphasis on heavy oil and *in situ* oil sands (see table Functional Cash Flow and Present Value). Horizon apparently encountered a surprisingly high proportion of clay mixed in with oil in the mining process. Though management long insisted that Horizon would not have problems like oil sands pioneers Suncor and Syncrude have encountered, we see once again that complex energy projects are difficult to execute. While it is no surprise that some problem has developed, we believe the complications will be overcome. In the end, the challenges of increasingly intricate projects to develop new energy supply contribute upward pressure on price. Oil futures prices for the next six years are in an uptrend signaled by current quotes above the 40-week average (see chart Six-Year Commodity Price Meter).

Kurt H. Wulff, CFA



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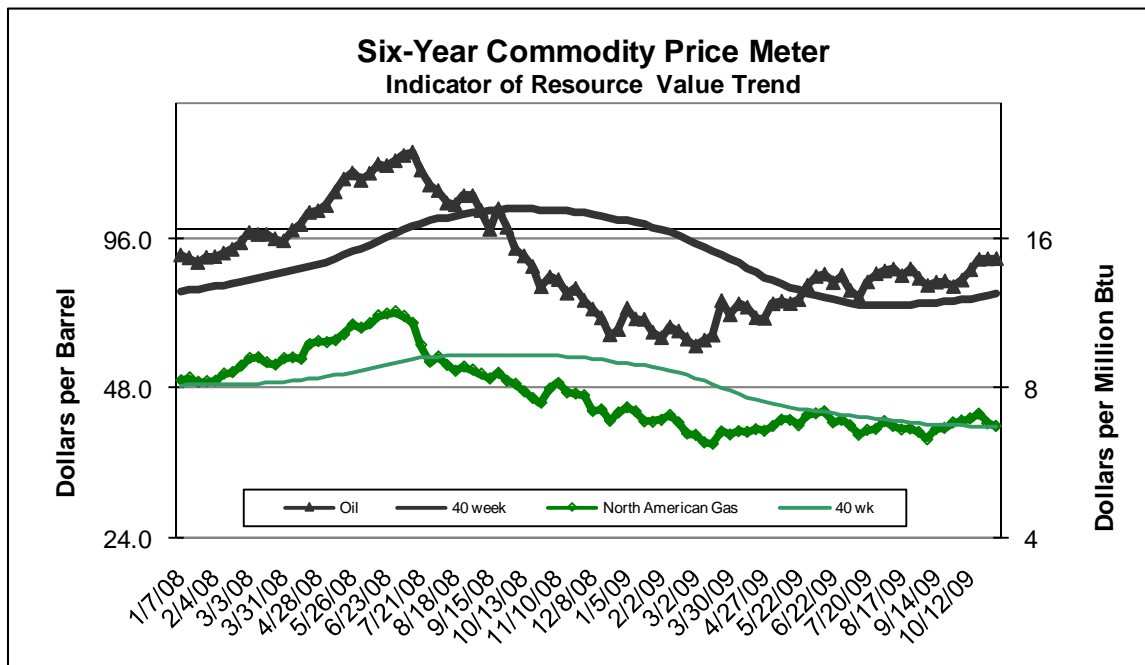
Canadian Natural Resources									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									<i>Next Twelve Months</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>9/30/10</i>
	<i>9/30/08</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>9/30/10</i>
Volume (before royalty)									
Natural Gas (mmcf)	1,490	1,352	1,293	1,241	1,313	1,204	1,156	1,110	1,178
Days	92	91	92	92	365	90	91	92	365
Oil (mbd)	307	366	359	387	361	407	427	447	417
Total (bcf)	307	323	317	328	1,269	328	338	349	1,343
Total (mmcf)	3,332	3,548	3,447	3,563	3,477	3,646	3,718	3,792	3,680
Price									
Henry Hub (US\$/mmbtu)	10.25	3.50	3.39	4.28	4.02	5.20	5.28	5.54	5.07
Currency (US\$/C\$)	0.96	0.86	0.91	0.94	0.87	0.94	0.94	0.94	0.94
Henry Hub (C\$/mmbtu)	10.66	4.08	3.72	4.54	4.61	5.51	5.60	5.88	5.38
Differential (C\$/mmbtu)	1.84	(0.03)	(0.08)	(0.10)	0.10	0.57	0.58	0.29	0.35
Company (C\$/mcf)	8.82	4.11	3.80	4.64	4.51	4.94	5.02	5.59	5.03
WTI Cushing (US\$/bbl)	117.99	59.52	68.22	77.22	61.98	79.30	81.15	82.28	79.99
WTI Cushing (C\$/bbl)	122.77	69.38	74.83	81.90	71.09	84.11	86.07	87.27	84.84
Differential (C\$/bbl)	20.47	9.82	11.93	23.75	15.20	27.76	24.10	19.20	23.47
Company (C\$/bbl)	102.30	59.56	62.90	58.15	55.89	56.36	61.97	68.07	61.37
Total (\$/bbl)	80.22	46.26	47.86	47.59	44.99	47.54	52.07	57.96	51.40
Revenue (\$mm)									
Natural Gas	1,209	506	452	530	2,160	536	528	570	2,163
Oil	2,889	1,984	2,077	2,070	7,357	2,064	2,408	2,799	9,342
Royalties	(612)	(212)	(240)	(247)	(898)	(247)	(279)	(320)	(1,092)
Total	3,486	2,277	2,289	2,353	8,619	2,353	2,657	3,050	10,414
Expense	670	852	852	824	3,160	824	930	1,067	3,645
Ebitda (\$mm)	2,817	1,425	1,438	1,530	5,459	1,530	1,727	1,982	6,769
Deprec., Deplet., & Amort.	659	688	697	697	2,747	697	697	697	2,788
Other non-cash	651	(371)	(386)	(245)	(1,772)	(201)	(162)	(138)	(745)
Interest	25	124	118	118	417	118	118	118	472
Ebt	1,482	984	1,009	960	4,068	915	1,074	1,305	4,254
Income tax	519	344	353	336	1,424	320	376	457	1,489
Net Income (\$mm)	963	640	656	624	2,644	595	698	848	2,765
Per share (\$)	1.78	1.18	1.21	1.15	4.88	1.10	1.29	1.56	5.10
Shares (millions)	541	542	542	542	542	542	542	542	542
Ebitda margin (after royalty)	81%	63%	63%	65%	63%	65%	65%	65%	65%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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Canadian Natural Resources					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	1,200	8.7	9.2	11,000	20%
Oil	4,370	7.1	6.8	29,900	53%
Horizon	830		18.1	15,000	27%
	6,400	7.7	8.7	55,900	100%
Debt					12,500
Net Present Value (US\$m)					43,400
Shares					542
Net Present Value - Standard Estimate (US\$/sh)					80
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					75





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