



# Independent Stock Idea

March 5, 2010

rating: buy  
s&p 500: 1134

## Canadian Natural Resources (CNQ) Raise Net Present Value to US\$90 a Share from \$80

<i>Symbol</i>	CNQ	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$m)</i>	5,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	18
<i>Price (US\$/sh)</i>	72.17	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	3/5/10	<i>Adjusted Reserves/Production NTM</i>	15.9
<i>Shares (mm)</i>	542	<i>EV/Ebitda</i>	9.4
<i>Market Capitalization (US\$m)</i>	39,100	<i>PV/Ebitda</i>	11.2
<i>Debt (US\$m)</i>	11,500	<i>Undeveloped Reserves (%)</i>	25
<i>Enterprise Value (EV) (US\$m)</i>	50,600	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	2.99
<i>Present Value (PV) (US\$m)</i>	60,200	<i>Present Value Proven Reserves(US\$/boe)</i>	11.07
<i>Net Present Value (US\$/share)</i>	90	<i>Present Value Proven Reserves(US\$/mcfe)</i>	1.84
<i>Debt/Present Value</i>	0.19	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.66
<i>McDep Ratio - EV/PV</i>	0.84	<i>Price/Earnings Next Twelve Months</i>	15
<i>Dividend Yield (%/year)</i>	0.8	<i>Indicated Annual Dividend (US\$/sh)</i>	0.58
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

Buy-recommended **Canadian Natural Resources (CNQ)** offers unlevered appreciation potential of 25% to a McDep Ratio of 1.0 where stock price would equal estimated Net Present Value (NPV) of US\$90 a share. We increase NPV from \$80 on the basis of long life for oil sands, both from the new Horizon mine and upgrader as well as from expanding in situ projects. Fourth quarter results released on March 4 disclosed progress approaching expectations and point to further oil volume gains in 2010 (see table Next Twelve Months Operating and Financial Estimates). Favorable differentials for heavy oil, a third of oil production, boost cash flow, but are likely to recede as more normal economic activity resumes. Latest year-end reserves indicate an adjusted life of oil production of almost 20 years without counting probable reserves (see table Functional Cash Flow and Present Value). Oil futures prices for the next six years are in an uptrend signaled by latest settlements at \$87 a barrel compared to the 40-week average of \$83 (see chart Six-Year Commodity Price Meter). CNQ stock also trades above its 200-day average of \$63 a share. A 2 for 1 stock split has been proposed for approval of shareholders at the annual meeting on May 6.

Kurt H. Wulff, CFA



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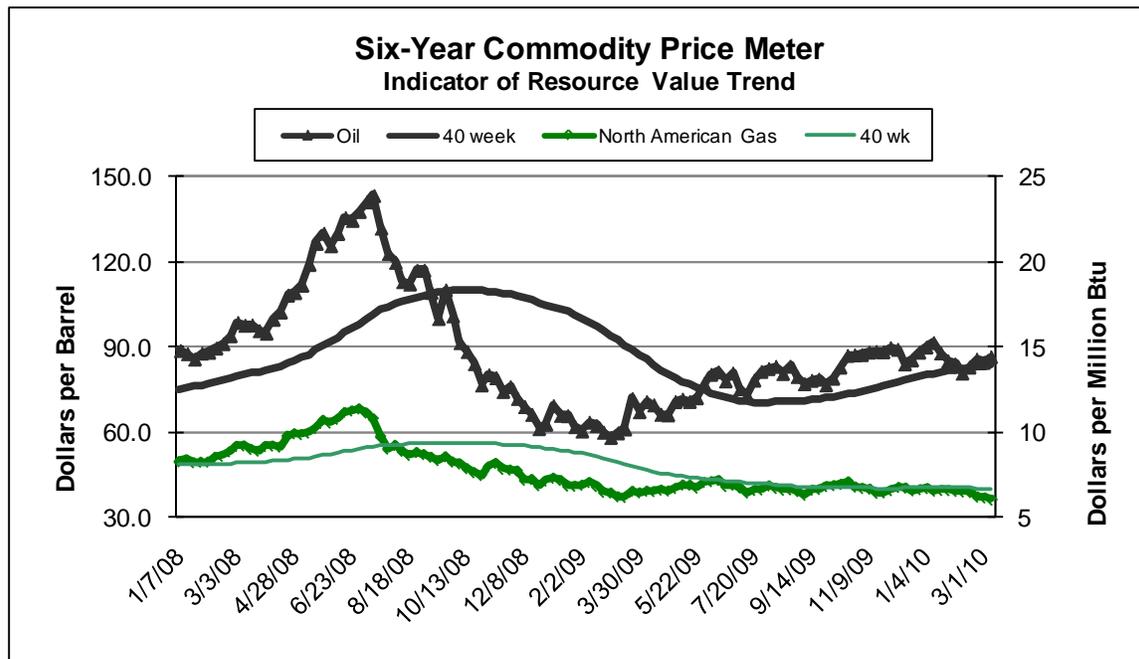
Canadian Natural Resources									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									Next Twelve Months
	Q4 12/31/08	Q3 9/30/09	Q4 12/31/09	Year 2009	Q1E 3/31/10	Q2E 6/30/10	Q3E 9/30/10	Q4E 12/31/10	12/31/10
<b>Volume (before royalty)</b>									
Natural Gas (mmcf)	1,427	1,293	1,250	<b>1,316</b>	1,213	1,164	1,117	1,073	<b>1,141</b>
Days	92	92	92	<b>365</b>	90	91	92	92	<b>365</b>
Oil (mbd)	310	359	366	<b>355</b>	386	406	426	446	<b>416</b>
Total (bcf)	302	317	317	<b>1,258</b>	318	328	338	345	<b>1,328</b>
Total (mmcfed)	3,287	3,447	3,446	<b>3,448</b>	3,529	3,600	3,673	3,749	<b>3,638</b>
<b>Price</b>									
Henry Hub (US\$/mmbtu)	6.95	3.39	4.16	<b>3.99</b>	5.32	4.65	4.86	5.33	<b>5.04</b>
Currency (US\$/C\$)	0.83	0.91	0.95	<b>0.87</b>	0.97	0.97	0.97	0.97	<b>0.97</b>
Henry Hub (C\$/mmbtu)	8.40	3.72	4.40	<b>4.57</b>	5.48	4.79	5.00	5.49	<b>5.19</b>
Differential (C\$/mmbtu)	1.37	(0.08)	(0.35)	<b>0.04</b>	0.27	0.24	0.25	0.27	<b>0.26</b>
Company (C\$/mcf)	7.03	3.80	4.75	<b>4.53</b>	5.20	4.55	4.75	5.21	<b>4.93</b>
WTI Cushing (US\$/bbl)	58.45	68.22	76.09	<b>61.70</b>	78.36	80.75	81.90	82.81	<b>80.95</b>
WTI Cushing (C\$/bbl)	70.62	74.83	80.35	<b>70.73</b>	80.68	83.14	84.33	85.26	<b>83.35</b>
Differential (C\$/bbl)	24.81	11.93	12.35	<b>12.32</b>	26.62	23.28	18.55	24.73	<b>23.11</b>
Company (C\$/bbl)	45.81	62.90	68.00	<b>58.41</b>	54.06	59.86	65.78	60.54	<b>60.24</b>
Total (\$/bbl)	44.23	47.86	53.67	<b>46.50</b>	46.21	49.34	54.45	52.17	<b>50.62</b>
<b>Revenue (\$mm)</b>									
Natural Gas	923	452	546	<b>2,177</b>	568	482	489	515	<b>2,053</b>
Oil	1,307	2,077	2,290	<b>7,576</b>	1,878	2,212	2,578	2,484	<b>9,152</b>
Royalties	(268)	(240)	(285)	<b>(936)</b>	(246)	(271)	(308)	(301)	<b>(1,126)</b>
Total	1,961	2,289	2,551	<b>8,817</b>	2,200	2,423	2,759	2,697	<b>10,079</b>
<b>Expense</b>	652	852	1,020	<b>3,356</b>	990	1,090	1,241	1,214	<b>4,535</b>
<b>Ebitda (\$mm)</b>	1,309	1,438	1,531	<b>5,460</b>	1,210	1,333	1,517	1,483	<b>5,543</b>
Deprec., Deplet., & Amort.	666	697	859	<b>2,909</b>	750	750	750	750	<b>3,000</b>
Other non-cash	(454)	(386)	(465)	<b>(1,993)</b>	(652)	(529)	(344)	(378)	<b>(1,903)</b>
Interest	23	118	111	<b>410</b>	111	111	111	111	<b>444</b>
<b>Ebt</b>	1,074	1,009	1,026	<b>4,134</b>	1,001	1,001	1,001	1,001	<b>4,002</b>
Income tax	376	353	359	<b>1,447</b>	350	350	350	350	<b>1,401</b>
<b>Net Income (\$mm)</b>	698	656	667	<b>2,687</b>	650	650	650	650	<b>2,602</b>
Per share (\$)	1.29	1.21	1.23	<b>4.96</b>	1.20	1.20	1.20	1.20	<b>4.80</b>
<b>Shares (millions)</b>	541	542	542	<b>542</b>	542	542	542	542	<b>542</b>
Ebitda margin (after royalty)	67%	63%	60%	<b>62%</b>	55%	55%	55%	55%	<b>55%</b>
Tax rate	35%	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>



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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	990	7.3	8.2	8,100	13%
Oil	4,410	19.8	11.8	52,200	87%
	5,400	15.9	11.2	60,300	100%
Debt					11,500
Net Present Value (US\$mm)					48,800
Shares					542
Net Present Value - Standard Estimate (US\$/sh)					90
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					91





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