



Independent Stock Idea

November 6, 2008

rating: hold
s&p 500: 913

Canadian Natural Resources (CNQ) Hidden Value in Heavy Oil

<i>Symbol</i>	CNQ	<i>Ebitda Next Twelve Months ending 9/30/09 (US\$mm)</i>	5,600
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	35
<i>Price (US\$/sh)</i>	43.94	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/6/08	<i>Adjusted Reserves/Production NTM</i>	9.0
<i>Shares (mm)</i>	541	<i>EV/Ebitda</i>	6.3
<i>Market Capitalization (US\$mm)</i>	23,800	<i>PV/Ebitda</i>	10.3
<i>Debt (US\$mm)</i>	11,400	<i>Undeveloped Reserves (%)</i>	38
<i>Enterprise Value (EV) (US\$mm)</i>	35,100	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	5.21
<i>Present Value (PV) (US\$mm)</i>	57,300	<i>Present Value Proven Reserves(US\$/boe)</i>	21.48
<i>Net Present Value (US\$/share)</i>	85	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.58
<i>Debt/Present Value</i>	0.20	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.90
<i>McDep Ratio - EV/PV</i>	0.61	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	0.8	<i>Indicated Annual Dividend (US\$/sh)</i>	0.34
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, \$10 a million btu.			

Summary and Recommendation

Hold-rated **Canadian Natural Resources (CNQ)** offers unlevered appreciation potential of 63% to estimated net present value (NPV) of \$85 a share. On October 28, we reset NPV from \$124 a share on the basis of a long-term oil price assumption of \$75 a barrel, down from \$100. Patience may be necessary as CNQ stock price remains below the 200-day average of \$77. Released today, third quarter results displayed strength in unlevered cash flow (Ebitda) driven by crude oil and natural gas prices. Futures prices now look lower for the next four quarters (see table Next Twelve Months Operating and Financial Estimates). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports NPV (see table Functional Cash Flow and Present Value). For the first time, projected NTM cash flow includes a contribution from the new Horizon oil sands mine/upgrader. Initial production may be achieved in the first quarter next year and build to 60,000 barrels daily by the end of the third quarter. Meanwhile, because the price for the company's conventional crude oil is sensitive to the price for heavy crude, 60% of oil production, we use the average discount for the past four years in our projection. Especially favorable recent relative pricing helps call attention to the hidden value in 5 billion barrels of recoverable contingent heavy oil resources not counted in currently proven reserves.

Kurt H. Wulff, CFA



Independent Stock Idea

November 6, 2008

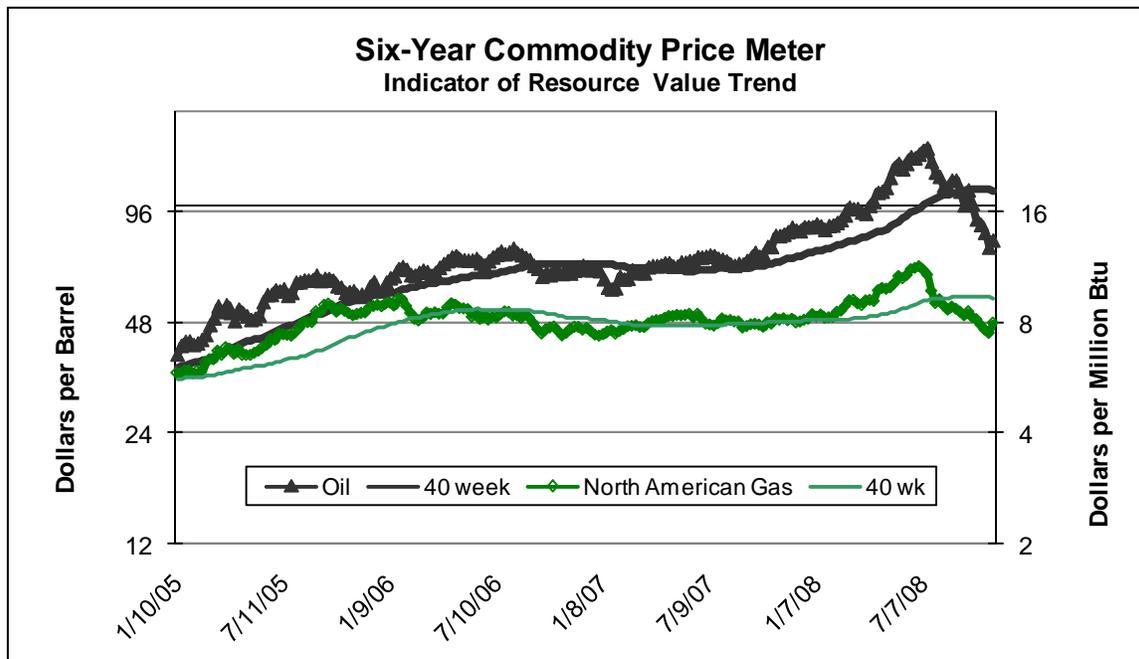
Canadian Natural Resources									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									<i>Next</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Months</i>
	<i>9/30/07</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>9/30/09</i>
Volume (before royalty)									
Natural Gas (mmcf)	1,647	1,526	1,490	1,440	1,498	1,353	1,343	1,311	1,362
Days	92	91	92	92	366	90	91	92	365
Oil (mbd)	333	319	307	307	315	327	347	367	337
Total (bcf)	335	313	307	302	1,240	298	312	323	1,235
Total (mmcfed)	3,645	3,440	3,332	3,282	3,388	3,315	3,425	3,513	3,384
Price									
Henry Hub (US\$/mmbtu)	6.16	10.93	10.25	6.93	9.03	7.11	7.10	7.39	7.13
Currency (US\$/C\$)	0.96	0.99	0.96	0.86	0.95	0.86	0.86	0.86	0.86
Henry Hub (C\$/mmbtu)	6.44	11.04	10.66	8.08	9.46	8.29	8.29	8.63	8.32
Differential (C\$/mmbtu)	0.57	1.15	1.84	0.66	0.97	0.29	0.87	1.49	0.83
Company (C\$/mcf)	5.87	9.89	8.82	7.42	8.49	8.00	7.42	7.14	7.50
WTI Cushing (US\$/bbl)	75.48	123.97	117.99	68.14	102.01	65.30	67.42	69.39	67.57
WTI Cushing (C\$/bbl)	78.95	125.23	122.77	79.50	106.86	76.19	78.66	80.96	78.83
Differential (C\$/bbl)	20.85	21.50	20.47	23.06	21.45	25.14	22.03	17.81	21.79
Company (C\$/bbl)	58.10	103.73	102.30	56.45	85.41	51.05	56.64	63.15	57.04
Total (\$/bbl)	47.76	84.04	80.22	51.23	70.15	49.81	51.89	55.56	52.19
Revenue (\$mm)									
Natural Gas	889	1,373	1,209	984	4,654	975	907	861	3,726
Oil	1,780	3,011	2,889	1,594	9,845	1,502	1,788	2,132	7,017
Royalties	(341)	(688)	(612)	(385)	(2,134)	(555)	(604)	(670)	(2,214)
Total	2,328	3,697	3,486	2,193	12,365	1,922	2,092	2,323	8,530
Expense									
	627	629	670	526	2,431	461	502	557	2,047
Ebitda (\$mm)									
	1,701	3,068	2,817	1,667	9,934	1,461	1,590	1,765	6,482
Deprec., Deplet., & Amort.	715	687	659	659	2,710	659	659	659	2,636
Other non-cash		868	651		1,810				-
Interest	65	31	25	25	130	25	25	25	100
Ebt									
	921	1,482	1,482	983	5,283	777	906	1,081	3,746
Income tax	280	519	519	344	1,849	272	317	378	1,311
Net Income (\$mm)									
	641	963	963	639	3,434	505	589	703	2,435
Per share (\$)	1.19	1.78	1.78	1.18	6.35	0.93	1.09	1.30	4.50
Shares (millions)									
	539	541	541	541	541	541	541	541	541
Ebitda margin (after royalty)	73%	83%	81%	76%	80%	76%	76%	76%	76%
Tax rate	30%	35%	35%	35%	35%	35%	35%	35%	35%



Independent Stock Idea

November 6, 2008

Canadian Natural Resources					
Functional Cash Flow and Present Value					
	NTM	Adjusted	PV/	Present	
	Ebitda	R/P	Ebitda	Value	
North American Natural Gas	1,940	7.9	7.7	15,000	26%
Oil	3,660	9.6	7.5	27,500	48%
Horizon				15,000	26%
	5,600	9.0	10.3	57,500	100%
Debt					11,500
Net Present Value (US\$m)					46,000
Shares					541
Net Present Value - Standard Estimate (US\$/sh)					85
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					86





Independent Stock Idea

November 6, 2008

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.