



Independent Stock Idea

March 5, 2009

rating: hold
s&p 500: 683

Canadian Natural Resources (CNQ) Horizon Produces First Oil

<i>Symbol</i>	CNQ	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$mm)</i>	3,700
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	30
<i>Price (US\$/sh)</i>	31.49	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	3/5/09	<i>Adjusted Reserves/Production NTM</i>	8.0
<i>Shares (mm)</i>	541	<i>EV/Ebitda</i>	7.5
<i>Market Capitalization (US\$mm)</i>	17,000	<i>PV/Ebitda</i>	15.4
<i>Debt (US\$mm)</i>	10,600	<i>Undeveloped Reserves (%)</i>	43
<i>Enterprise Value (EV) (US\$mm)</i>	27,700	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	3.18
<i>Present Value (PV) (US\$mm)</i>	56,600	<i>Present Value Proven Reserves(US\$/boe)</i>	21.22
<i>Net Present Value (US\$/share)</i>	85	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.54
<i>Debt/Present Value</i>	0.19	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.86
<i>McDep Ratio - EV/PV</i>	0.49	<i>Price/Earnings Next Twelve Months</i>	17
<i>Dividend Yield (%/year)</i>	1.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.31
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

Estimated Net Present Value (NPV) of US\$85 a share is about 170% higher than stock price for moderate-debt, hold-rated **Canadian Natural Resources (CNQ)**. Released today, fourth quarter results displayed lower unlevered cash flow (Ebitda) driven by crude oil and natural gas prices (see table Next Twelve Months Operating and Financial Estimates). A major project milestone was achieved last month with the production of the first synthetic oil from the C\$10 billion oil sands mine and upgrader. Designed for 110,000 barrels daily (bd) capacity, the facility is currently producing 55,000 bd into storage tanks prior to commencement of sales. We estimate a present value of US\$15 billion for CNQ's 100% ownership, about 82% of the present value we estimate for a pro-rata share of the 350,000 bd Synchronicity venture (see table Functional Cash Flow and Present Value). Pointing in the direction of oil price that would justify our present value, futures prices for the next six years averaged US\$58 a barrel recently (see charts Six-Year Commodity Price Meter and Six-Year and One-Year Natural Gas and Oil Futures). At today's spot oil price in the low US\$40s, Horizon would not have been built, thereby attesting to the need for higher oil price to fund the next projects to develop oil supply for global economic growth.

Kurt H. Wulff, CFA



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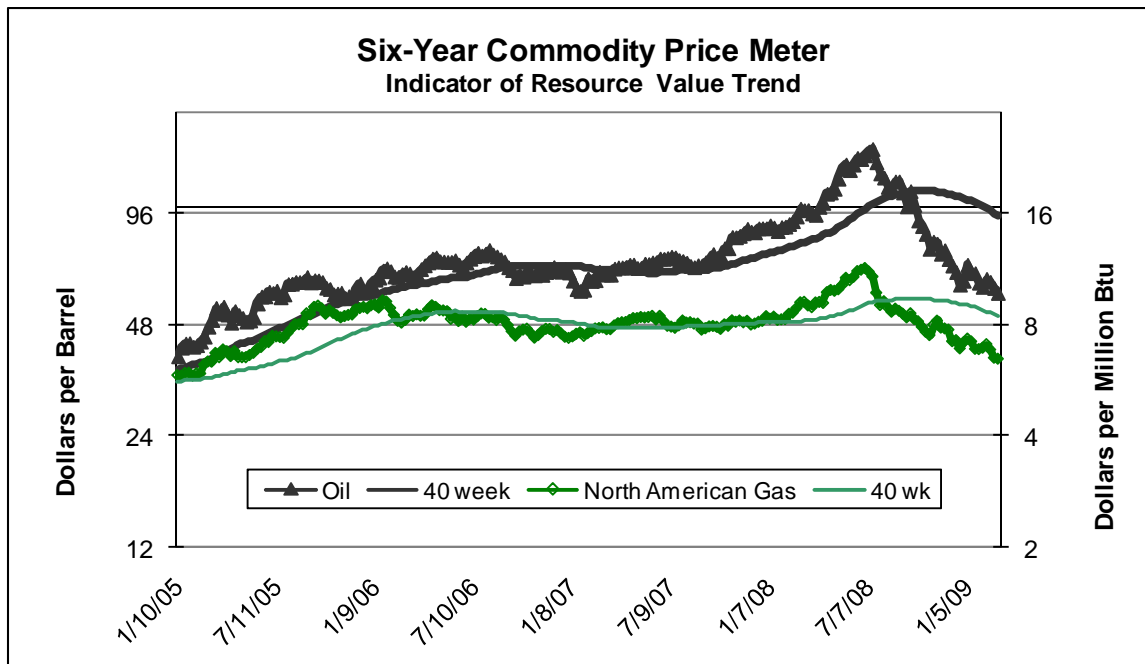
Canadian Natural Resources									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									Next
									Twelve
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Year	Months
	12/31/07	9/30/08	12/31/08	2008	3/31/09	6/30/09	9/30/09	2009E	3/31/10
Volume (before royalty)									
Natural Gas (mmcf)	1,589	1,490	1,427	1,495	1,384	1,329	1,276	1,303	1,254
Days	92	92	92	366	90	91	92	365	365
Oil (mbd)	337	307	310	316	330	350	370	359	378
Total (bcf)	332	307	302	1,240	303	312	322	1,263	1,287
Total (mmcfed)	3,611	3,332	3,287	3,389	3,364	3,429	3,496	3,459	3,525
Price									
Henry Hub (US\$/mmbtu)	6.97	10.25	6.95	9.04	4.90	4.25	4.56	4.74	5.02
Currency (US\$/C\$)	1.02	0.96	0.83	0.95	0.78	0.78	0.78	0.78	0.78
Henry Hub (C\$/mmbtu)	6.84	10.66	8.40	9.54	6.32	5.48	5.89	6.11	6.48
Differential (C\$/mmbtu)	0.56	1.84	1.37	1.15	0.76	0.66	0.71	0.74	0.81
Company (C\$/mcf)	6.28	8.82	7.03	8.39	5.56	4.82	5.18	5.37	5.66
WTI Cushing (US\$/bbl)	90.67	117.99	58.45	99.59	40.35	42.09	45.62	43.99	46.32
WTI Cushing (C\$/bbl)	88.91	122.77	70.62	105.12	52.06	54.31	58.87	56.76	59.77
Differential (C\$/bbl)	30.88	20.47	24.81	22.41	17.18	15.21	12.95	15.55	16.74
Company (C\$/bbl)	58.03	102.30	45.81	82.71	34.88	39.11	45.92	41.21	43.03
Total (\$/bbl)	49.08	80.22	44.23	68.44	34.25	35.16	40.50	37.83	39.81
Revenue (\$mm)									
Natural Gas	918	1,209	923	4,593	693	583	608	2,555	2,593
Oil	1,799	2,889	1,307	9,558	1,036	1,246	1,563	5,406	5,944
Royalties	(343)	(612)	(268)	(2,017)	(312)	(330)	(391)	(1,435)	(1,747)
Total	2,374	3,486	1,961	12,133	1,417	1,499	1,780	6,525	6,790
Expense									
Ebitda (\$mm)	581	670	652	2,557	425	450	534	1,958	2,037
Deprec., Deplet., & Amort.	1,793	2,817	1,309	9,576	992	1,049	1,246	4,568	4,753
Other non-cash	719	659	666	2,717	666	666	666	2,664	2,664
Interest	176	651	(454)	1,357				-	-
Ebt	51	25	23	128	23	23	23	92	92
Income tax	847	1,482	1,074	5,374	303	360	557	1,812	1,997
Net Income (\$mm)	297	519	376	1,881	106	126	195	634	699
Per share (\$)	551	963	698	3,493	197	234	362	1,178	1,298
Shares (millions)	1.02	1.78	1.29	6.46	0.36	0.43	0.67	2.18	2.40
Ebitda margin (after royalty)	540	541	541	541	541	541	541	541	541
Tax rate	76%	81%	67%	79%	70%	70%	70%	70%	70%
	35%	35%	35%	35%	35%	35%	35%	35%	35%



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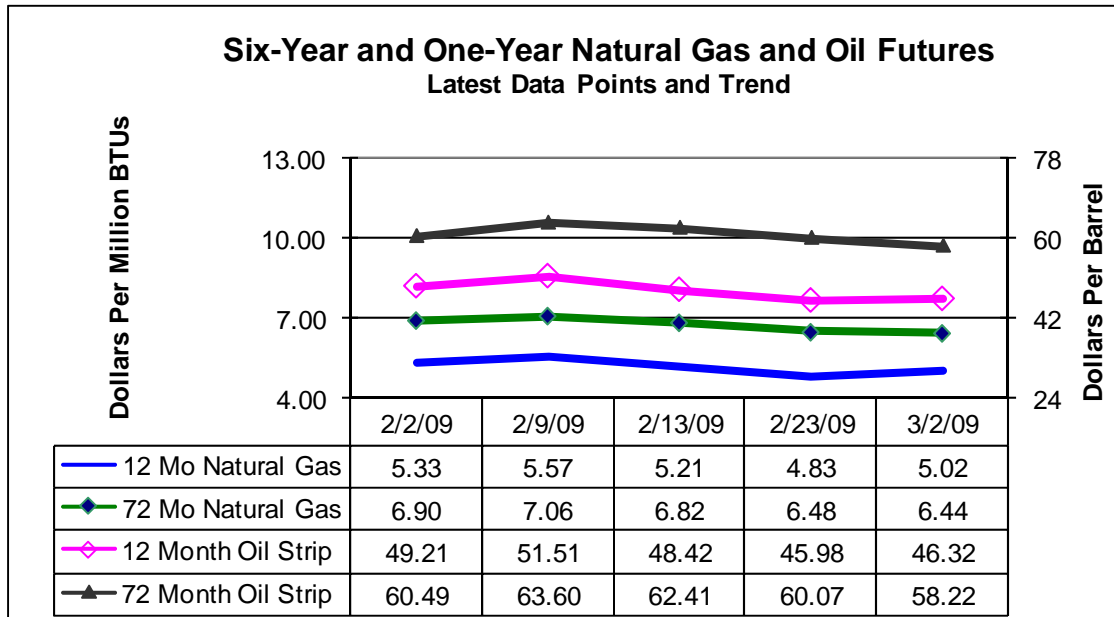
Canadian Natural Resources						
Functional Cash Flow and Present Value						
	NTM	Adjusted	PV/	Present		
	Ebitda	R/P	Ebitda	Value		
North American Natural Gas	1,120	8.2	13.4	15,000		27%
Oil	2,580	7.9	10.3	26,600		47%
Horizon				15,000		27%
	3,700	8.0	15.3	56,600		100%
Debt						10,600
Net Present Value (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)						82





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