



Independent Stock Idea

May 8, 2009

rating: buy
s&p 500: 907

Canadian Natural Resources (CNQ) Restore Buy on New Price Trend

Symbol	CNQ	Ebitda Next Twelve Months ending 3/31/10 (US\$m)	4,400
Rating	Buy	North American Natural Gas/Ebitda (%)	24
Price (US\$/sh)	51.40	Natural Gas and Oil Production/Ebitda (%)	100
Pricing Date	5/7/09	Adjusted Reserves/Production NTM	8.0
Shares (mm)	541	EV/Ebitda	9.1
Market Capitalization (US\$m)	27,800	PV/Ebitda	13.3
Debt (US\$m)	12,100	Undeveloped Reserves (%)	43
Enterprise Value (EV) (US\$m)	39,900	Natural Gas and Oil Ebitda (US\$/mcf)	3.80
Present Value (PV) (US\$m)	58,100	Present Value Proven Reserves(US\$/boe)	21.99
Net Present Value (US\$/share)	85	Present Value Proven Reserves(US\$/mcf)	3.66
Debt/Present Value	0.21	Earnings Next Twelve Months (US\$/sh)	2.29
McDep Ratio - EV/PV	0.69	Price/Earnings Next Twelve Months	22
Dividend Yield (%/year)	0.7	Indicated Annual Dividend (US\$/sh)	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

The stock of buy-recommended **Canadian Natural Resources (CNQ)** is trading above its 200-day average again for the first time in more than nine months. While stock price is the catalyst for us to restore our buy recommendation, a low McDep Ratio provides the fundamental rationale. By our analysis CNQ stock offers unlevered appreciation potential of 46% to a McDep Ratio of 1.0 and levered appreciation potential of 65% to Net Present Value (NPV) of US\$85 a share. During the first quarter, according to results released late last night, the company generated cash from oil and gas production of about US\$17 a barrel of oil equivalent as the difference between price of about US\$30 and cash operating costs of about \$13. Unlevered cash flow (Ebitda) exceeded our expectations from three months ago helped by less discount for heavy oil and lower royalties. We project gradual increases in Ebitda in the next few quarters (see table Next Twelve Months Operating and Financial Estimates). Our valuation capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil (see table Functional Cash Flow and Present Value). Pointing to expected oil price recovery, futures prices for the next six years averaged US\$71 a barrel recently (see charts Six-Year Commodity Price Meter and Six-Year and One-Year Natural Gas and Oil Futures). Though CNQ's prospects are promising, the stock is well publicized and may attract more attention from short-term oriented investors potentially creating extra volatility in share price.

Kurt H. Wulff, CFA



Independent Stock Idea

May 8, 2009

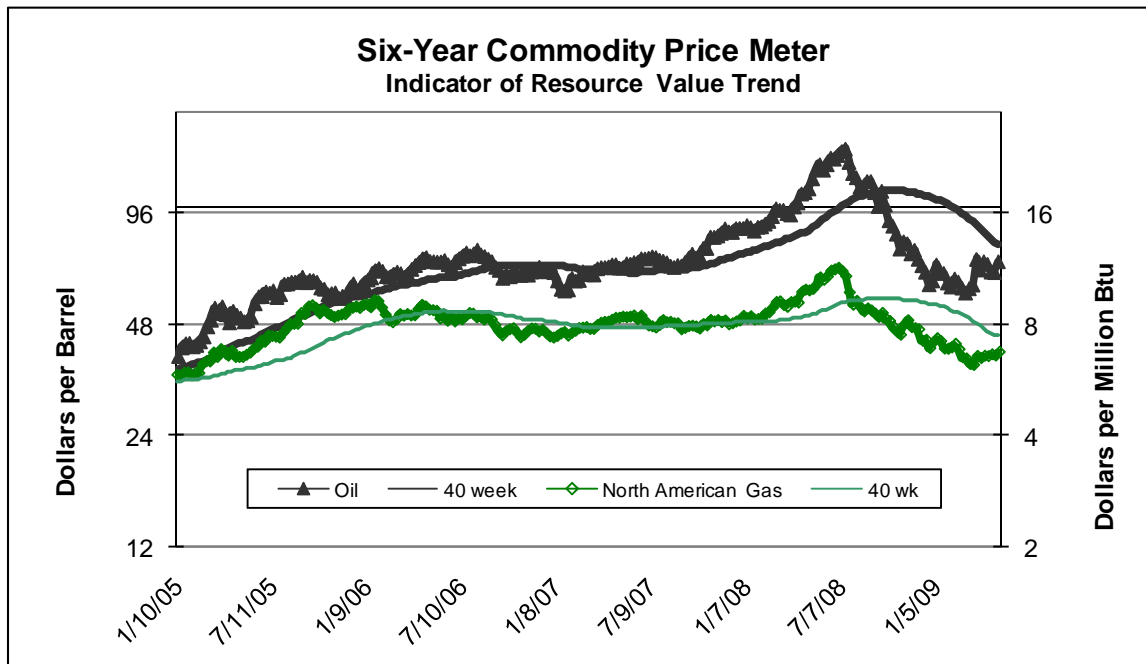
Canadian Natural Resources									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									<i>Next</i>
	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Twelve</i>
	<i>3/31/08</i>	<i>12/31/08</i>	<i>2008</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>Months</i>
									<i>3/31/10</i>
Volume (before royalty)									
Natural Gas (mmcf)	1,538	1,427	1,495	1,369	1,314	1,262	1,211	1,289	1,241
Days	91	92	366	90	91	92	92	365	365
Oil (mbd)	327	310	316	330	350	370	387	359	378
Total (bcf)	319	302	1,240	301	311	320	325	1,257	1,282
Total (mmcfed)	3,500	3,287	3,389	3,349	3,414	3,482	3,533	3,445	3,511
Price									
Henry Hub (US\$/mmbtu)	8.02	6.95	9.04	4.90	3.56	3.96	4.84	4.31	4.54
Currency (US\$/C\$)	1.00	0.83	0.95	0.80	0.86	0.86	0.86	0.84	0.86
Henry Hub (C\$/mmbtu)	8.05	8.40	9.54	6.09	4.15	4.63	5.65	5.13	5.30
Differential (C\$/mmbtu)	0.28	1.37	1.15	0.63	0.43	0.48	0.58	0.53	0.59
Company (C\$/mcf)	7.77	7.03	8.39	5.46	3.72	4.15	5.06	4.60	4.71
WTI Cushing (US\$/bbl)	97.94	58.45	99.59	42.96	52.92	57.55	60.64	53.52	58.51
WTI Cushing (C\$/bbl)	98.36	70.62	105.12	53.43	61.78	67.19	70.80	63.64	68.31
Differential (C\$/bbl)	19.37	24.81	22.41	12.18	17.30	14.78	20.53	16.26	19.12
Company (C\$/bbl)	78.99	45.81	82.71	41.25	44.48	52.41	50.27	47.38	49.18
Total (\$/bbl)	64.77	44.23	68.44	37.78	35.96	42.43	43.46	39.98	41.80
Revenue (\$mm)									
Natural Gas	1,087	923	4,593	673	445	481	564	2,164	2,135
Oil	2,351	1,307	9,558	1,225	1,417	1,784	1,790	6,216	6,793
Royalties	(449)	(268)	(2,017)	(199)	(195)	(238)	(247)	(879)	(1,064)
Total	2,989	1,961	12,133	1,699	1,667	2,028	2,107	7,501	7,863
Expense	606	652	2,557	632	583	710	738	2,663	2,752
Ebitda (\$mm)	2,383	1,309	9,576	1,067	1,084	1,318	1,370	4,838	5,111
Deprec., Deplet., & Amort.	705	666	2,717	665	665	665	665	2,660	2,660
Other non-cash	291	(454)	1,357	(770)				(770)	-
Interest	49	23	128	57	57	57	57	228	228
Ebt	1,338	1,074	5,374	1,115	362	596	648	2,721	2,223
Income tax	468	376	1,881	390	127	209	227	952	778
Net Income (\$mm)	869	698	3,493	725	235	387	421	1,768	1,445
Per share (\$)	1.61	1.29	6.46	1.34	0.43	0.72	0.78	3.27	2.67
Shares (millions)	540	541	541	541	541	541	541	541	541
Ebitda margin (after royalty)	80%	67%	79%	63%	65%	65%	65%	65%	65%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



Independent Stock Idea

May 8, 2009

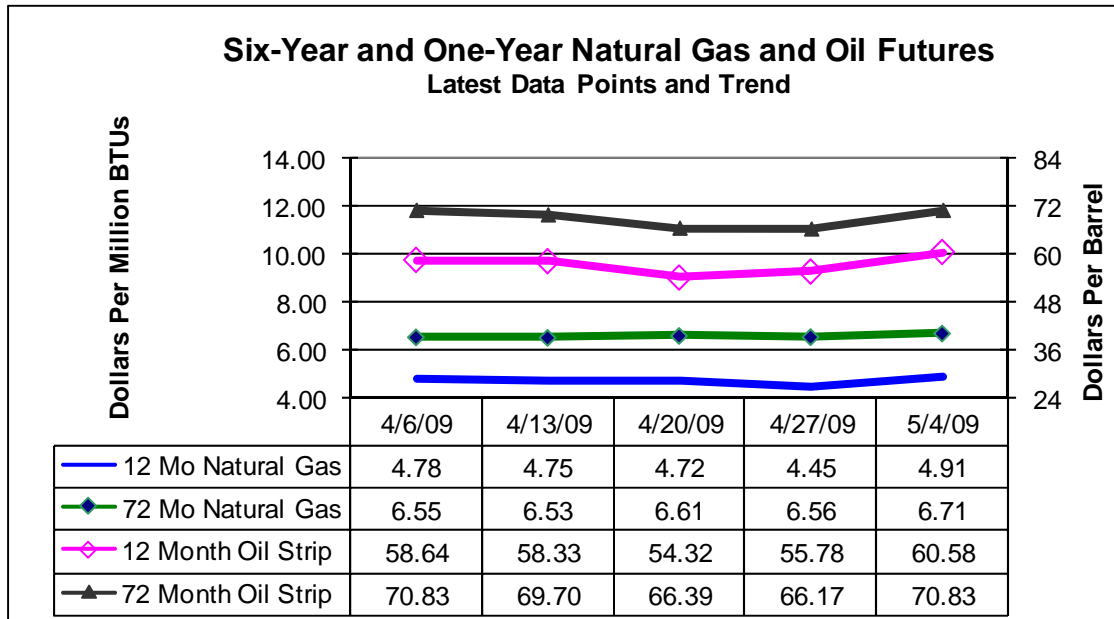
Canadian Natural Resources					
Functional Cash Flow and Present Value					
	NTM	Adjusted	PV/	Present	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	1,050	8.3	13.3	14,000	24%
Oil	3,350	7.9	8.7	29,100	50%
Horizon				15,000	26%
	4,400	8.0	13.2	58,100	100%
Debt					12,100
Net Present Value (US\$mm)					46,000
Shares					541
Net Present Value - Standard Estimate (US\$/sh)					85
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					83





Independent Stock Idea

May 8, 2009



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.