



Independent Stock Idea

August 6, 2009

rating: buy
s&p 500: 1003

Canadian Natural Resources (CNQ) First Cash from Horizon

<i>Symbol</i>	CNQ	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	5,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	21
<i>Price (US\$/sh)</i>	63.20	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/5/09	<i>Adjusted Reserves/Production NTM</i>	7.7
<i>Shares (mm)</i>	542	<i>EV/Ebitda</i>	7.9
<i>Market Capitalization (US\$mm)</i>	34,300	<i>PV/Ebitda</i>	9.4
<i>Debt (US\$mm)</i>	12,400	<i>Undeveloped Reserves (%)</i>	43
<i>Enterprise Value (EV) (US\$mm)</i>	46,600	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	4.96
<i>Present Value (PV) (US\$mm)</i>	55,700	<i>Present Value Proven Reserves(US\$/boe)</i>	20.77
<i>Net Present Value (US\$/share)</i>	80	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.46
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.19
<i>McDep Ratio - EV/PV</i>	0.84	<i>Price/Earnings Next Twelve Months</i>	15
<i>Dividend Yield (%/year)</i>	0.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.37
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 20% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of US \$80 a share. On July 14 we reduced NPV from US\$85 when we reduced estimated Present Value of North American Natural Gas by 20%. Released today, second quarter results exceeded our estimate for unlevered cash flow (Ebitda) from three months ago. The new Horizon oil sands mine and upgrader made its first cash contribution of about US\$80 million on the sale of 47,000 barrels daily (bd) at US\$56 a barrel less operating cost of US\$37 a barrel. Startup appears to be proceeding smoothly toward capacity of 110,000 bd. An unusually narrow discount for the heavy crude that accounts for half of the company's oil production also contributed to better than expected results (see table [Next Twelve Months Operating and Financial Estimates](#)). The good news is welcome as oil and Horizon drive 80% of NPV in our valuation, which capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) (see table [Functional Cash Flow and Present Value](#)). Pointing to possible further gains, oil futures prices for the next six years crossed the 40-week average into an uptrend at the end of May (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)).

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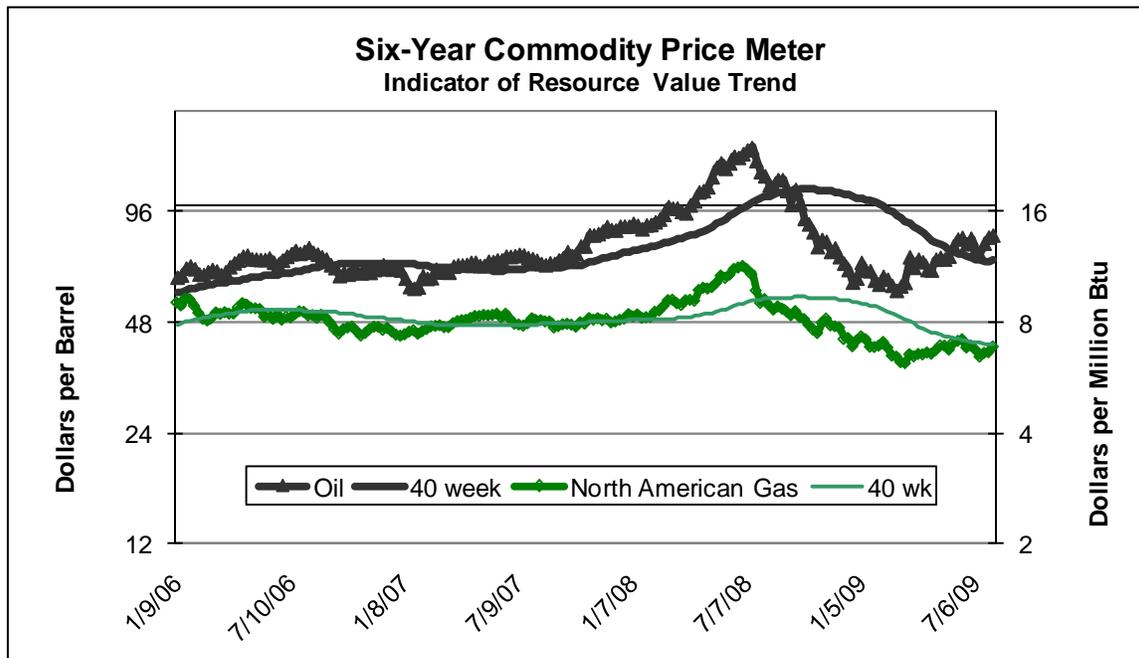
Canadian Natural Resources									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	
	6/30/08	3/31/09	6/30/09	9/30/09	12/31/09	2009E	3/31/10	6/30/10	6/30/10
Volume (before royalty)									
Natural Gas (mmcf)	1,526	1,369	1,352	1,298	1,246	1,316	1,209	1,160	1,228
Days	91	90	91	92	92	365	90	91	365
Oil (mbd)	319	330	366	386	387	367	407	427	402
Total (bcf)	313	301	323	332	328	1,285	329	339	1,328
Total (mmcfed)	3,440	3,349	3,548	3,614	3,568	3,521	3,651	3,722	3,638
Price									
Henry Hub (US\$/mmbtu)	10.93	4.90	3.50	3.79	5.00	4.30	5.95	5.89	5.16
Currency (US\$/C\$)	0.99	0.80	0.86	0.93	0.93	0.88	0.93	0.93	0.93
Henry Hub (C\$/mmbtu)	11.04	6.09	4.08	4.07	5.36	4.90	6.38	6.31	5.53
Differential (C\$/mmbtu)	1.15	0.63	(0.03)	0.20	0.27	0.27	0.66	0.65	0.48
Company (C\$/mcf)	9.89	5.46	4.11	3.86	5.10	4.63	5.72	5.66	5.05
WTI Cushing (US\$/bbl)	123.97	42.96	59.52	69.09	74.17	61.44	76.50	78.25	74.50
WTI Cushing (C\$/bbl)	125.23	53.43	69.38	74.13	79.57	70.06	82.07	83.95	79.93
Differential (C\$/bbl)	21.50	12.18	9.82	16.31	23.08	15.83	27.08	23.51	22.44
Company (C\$/bbl)	103.73	41.25	59.56	57.82	56.50	54.23	54.99	60.44	57.49
Total (\$/bbl)	84.04	37.78	46.26	45.38	47.44	44.34	48.15	52.19	48.31
Revenue (\$mm)									
Natural Gas	1,373	673	506	461	584	2,224	623	598	2,266
Oil	3,011	1,225	1,984	2,053	2,012	7,274	2,014	2,349	8,428
Royalties	(688)	(199)	(212)	(214)	(221)	(846)	(225)	(251)	(911)
Total	3,697	1,699	2,277	2,300	2,375	8,651	2,412	2,695	9,783
Expense	629	632	852	805	831	3,120	844	943	3,424
Ebitda (\$mm)	3,068	1,067	1,425	1,495	1,543	5,531	1,568	1,752	6,359
Deprec., Deplet., & Amort.	687	665	688	688	688	2,729	688	688	2,752
Other non-cash	868	(770)	(371)	(276)	(167)	(1,584)	(117)	(79)	(639)
Interest	31	57	124	124	124	429	124	124	496
Ebt	1,482	1,115	984	959	898	3,956	873	1,019	3,749
Income tax	519	390	344	336	314	1,385	305	357	1,312
Net Income (\$mm)	963	725	640	623	584	2,572	567	663	2,437
Per share (\$)	1.78	1.34	1.18	1.15	1.08	4.75	1.05	1.22	4.50
Shares (millions)	541	541	542	542	542	542	542	542	542
Ebitda margin (after royalty)	83%	63%	63%	65%	65%	64%	65%	65%	65%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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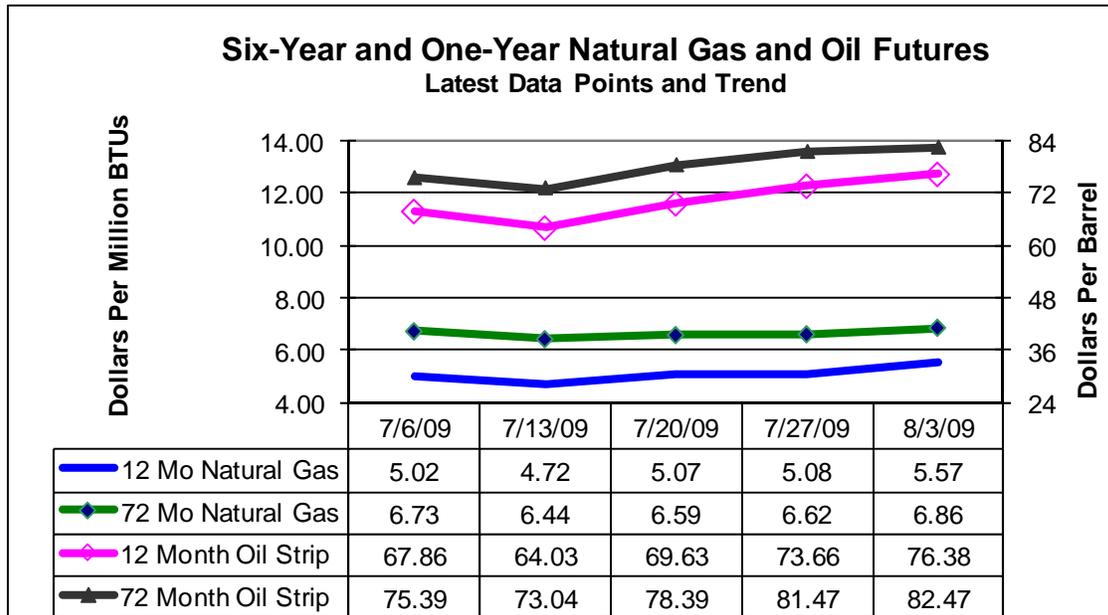
Canadian Natural Resources					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	1,250	8.4	8.8	11,000	20%
Oil	4,180	7.4	7.1	29,800	53%
Horizon	470			15,000	27%
	5,900	7.7	9.5	55,800	100%
Debt					12,400
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)					77





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