



# Independent Stock Idea

August 7, 2008

rating: buy  
s&p 500: 1289

## Canadian Natural Resources (CNQ) Horizon Slippage

|   |        |  |       |
|---|--------|--|-------|
| <i>Symbol</i>   | CNQ    | <i>Ebitda Next Twelve Months ending 6/30/09 (US\$mm)</i> | 9,300 |
| <i>Rating</i>   | Buy    | <i>North American Natural Gas/Ebitda (%)</i>             | 31    |
| <i>Price (US\$/sh)</i>  | 75.65  | <i>Natural Gas and Oil Production/Ebitda (%)</i>         | 100   |
| <i>Pricing Date</i>   | 8/6/08 | <i>Adjusted Reserves/Production NTM</i>                  | 9.0   |
| <i>Shares (mm)</i>  | 541    | <i>EV/Ebitda</i>   | 6.0   |
| <i>Market Capitalization (US\$mm)</i>   | 40,900 | <i>PV/Ebitda</i>   | 8.8   |
| <i>Debt (US\$mm)</i>  | 15,100 | <i>Undeveloped Reserves (%)</i>                          | 38    |
| <i>Enterprise Value (EV) (US\$mm)</i>   | 56,000 | <i>Natural Gas and Oil Ebitda (US\$/mcf)</i>             | 8.85  |
| <i>Present Value (PV) (US\$mm)</i>  | 82,200 | <i>Present Value Proven Reserves(US\$/boe)</i>           | 31.59 |
| <i>Net Present Value (US\$/share)</i>   | 124    | <i>Present Value Proven Reserves(US\$/mcf)</i>           | 5.26  |
| <i>Debt/Present Value</i>   | 0.18   | <i>Earnings Next Twelve Months (US\$/sh)</i>             | 6.33  |
| <i>McDep Ratio - EV/PV</i>  | 0.68   | <i>Price/Earnings Next Twelve Months</i>                 | 12    |
| <i>Dividend Yield (%/year)</i>  | 0.5    | <i>Indicated Annual Dividend (US\$/sh)</i>               | 0.38  |
| 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\$100 a barrel and natural gas, \$14 a million btu. |        |  |       |

### Summary and Recommendation

Startup for first finished product from the Horizon oil sands mine and upgrader apparently has slipped one quarter to the fourth quarter of 2008 for buy-recommended **Canadian Natural Resources (CNQ)**. That does not surprise us considering the complexity of giant energy supply projects and the intense activity in global engineering and construction. Meanwhile, with stock price down sharply, new investment in CNQ is timelier. Released today, second quarter results displayed strength in heavy oil price relative to light oil with overall gains dampened by hedging. Actual sales for the 110,000 barrels daily Horizon facility should start next year though we have not included any in our estimates for the next twelve months ending June 30, 2009. Projected volumes along with futures prices from August 4 promise a high level of unlevered cash flow (Ebitda) (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 of \$124 a share (see table [Functional Cash Flow and Present Value](#)). Though down a few dollars in the past few days, long-term crude oil price remains in an uptrend where yesterday's settlement of \$116 a barrel for delivery over the next six years is above the 40-week average of \$104 (see chart [Six-Year Commodity Price Meter](#)).

Kurt H. Wulff, CFA



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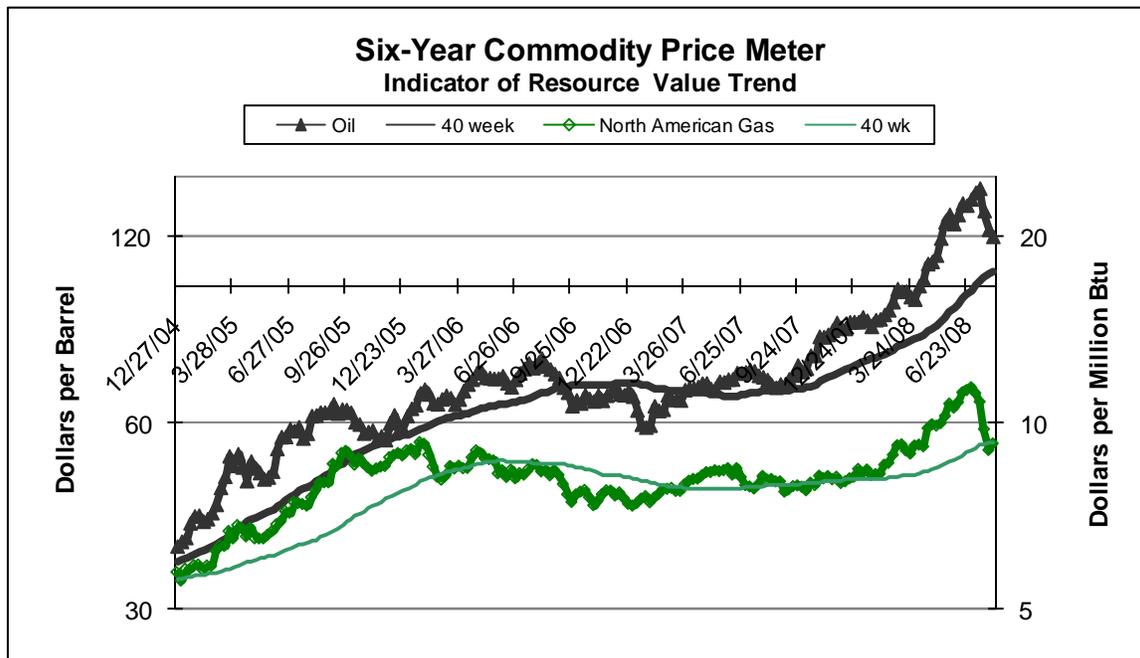
| Canadian Natural Resources                           |         |         |         |         |          |                |         |         |                          |
|--|---------|---------|---------|---------|----------|----------------|---------|---------|--------------------------|
| Next Twelve Months Operating and Financial Estimates |         |         |         |         |          |                |         |         |                          |
| (Canadian Dollars)                                   |         |         |         |         |          |                |         |         |                          |
|  |         |         |         |         |          |                |         |         | Next<br>Twelve<br>Months |
|  | Q2      | Q1      | Q2      | Q3E     | Q4E      | Year           | Q1E     | Q2E     |                          |
|  | 6/30/07 | 3/31/08 | 6/30/08 | 9/30/08 | 12/31/08 | 2008E          | 3/31/09 | 6/30/09 | 6/30/09                  |
| <b>Volume (before royalty)</b>                       |         |         |         |         |          |                |         |         |                          |
| Natural Gas (mmcf)                                   | 1,722   | 1,538   | 1,526   | 1,490   | 1,490    | <b>1,511</b>   | 1,490   | 1,490   | <b>1,490</b>             |
| Days   | 91      | 91      | 91      | 92      | 92       | <b>366</b>     | 90      | 91      | <b>365</b>               |
| Oil (mbd)  | 327     | 327     | 319     | 310     | 310      | <b>316</b>     | 310     | 310     | <b>310</b>               |
| Total (bcf)  | 335     | 319     | 313     | 308     | 308      | <b>1,248</b>   | 302     | 305     | <b>1,223</b>             |
| Total (mmcfed)                                       | 3,684   | 3,500   | 3,440   | 3,350   | 3,350    | <b>3,410</b>   | 3,350   | 3,350   | <b>3,350</b>             |
| <b>Price</b>   |         |         |         |         |          |                |         |         |                          |
| Henry Hub (US\$/mmbtu)                               | 7.56    | 8.02    | 10.93   | 10.36   | 9.25     | <b>9.64</b>    | 9.87    | 8.94    | <b>9.60</b>              |
| Currency (US\$/C\$)                                  | 0.91    | 1.00    | 0.99    | 0.95    | 0.95     | <b>0.97</b>    | 0.95    | 0.95    | <b>0.95</b>              |
| Henry Hub (C\$/mmbtu)                                | 8.29    | 8.05    | 11.04   | 10.86   | 9.70     | <b>9.91</b>    | 10.34   | 9.37    | <b>10.07</b>             |
| Differential (C\$/mmbtu)                             | 0.85    | 0.28    | 1.15    | 0.96    | 0.79     | <b>0.80</b>    | 0.36    | 0.98    | <b>0.77</b>              |
| Company (C\$/mcf)                                    | 7.44    | 7.77    | 9.89    | 9.90    | 8.91     | <b>9.11</b>    | 9.98    | 8.39    | <b>9.29</b>              |
| WTI Cushing (US\$/bbl)                               | 64.91   | 97.94   | 123.97  | 125.40  | 122.05   | <b>117.34</b>  | 122.70  | 121.73  | <b>122.97</b>            |
| WTI Cushing (C\$/bbl)                                | 71.25   | 98.36   | 125.23  | 131.47  | 127.97   | <b>120.67</b>  | 128.64  | 127.62  | <b>128.93</b>            |
| Differential (C\$/bbl)                               | 17.51   | 19.37   | 21.50   | 34.72   | 44.45    | <b>29.99</b>   | 25.33   | 21.91   | <b>31.66</b>             |
| Company (C\$/bbl)                                    | 53.74   | 78.99   | 103.73  | 96.75   | 83.52    | <b>90.68</b>   | 103.31  | 105.72  | <b>97.27</b>             |
| Total (\$/bbl)                                       | 49.49   | 64.77   | 84.04   | 80.13   | 70.15    | <b>74.72</b>   | 84.00   | 81.09   | <b>78.81</b>             |
| <b>Revenue (\$mm)</b>                                |         |         |         |         |          |                |         |         |                          |
| Natural Gas  | 1,166   | 1,087   | 1,373   | 1,357   | 1,222    | <b>5,039</b>   | 1,339   | 1,138   | <b>5,055</b>             |
| Oil  | 1,599   | 2,351   | 3,011   | 2,759   | 2,382    | <b>10,503</b>  | 2,882   | 2,982   | <b>11,006</b>            |
| Royalties  | (331)   | (449)   | (688)   | (646)   | (565)    | <b>(2,348)</b> | (994)   | (970)   | <b>(3,175)</b>           |
| Total  | 2,434   | 2,989   | 3,697   | 3,470   | 3,038    | <b>13,194</b>  | 3,228   | 3,150   | <b>12,886</b>            |
| <b>Expense</b>                                       | 708     | 606     | 629     | 833     | 729      | <b>2,797</b>   | 775     | 756     | <b>3,093</b>             |
| <b>Ebitda (\$mm)</b>                                 | 1,726   | 2,383   | 3,068   | 2,637   | 2,309    | <b>10,397</b>  | 2,453   | 2,394   | <b>9,793</b>             |
| Deprec., Deplet., & Amort.                           | 737     | 705     | 687     | 687     | 687      | <b>2,766</b>   | 687     | 687     | <b>2,748</b>             |
| Other non-cash                                       |         | 291     | 868     | 500     | 300      | <b>1,959</b>   | 300     | 300     | <b>1,400</b>             |
| Interest   | 77      | 49      | 31      | 31      | 31       | <b>142</b>     | 31      | 31      | <b>124</b>               |
| <b>Ebt</b>   | 912     | 1,338   | 1,482   | 1,419   | 1,291    | <b>5,529</b>   | 1,435   | 1,376   | <b>5,521</b>             |
| Income tax   | 319     | 468     | 519     | 497     | 452      | <b>1,935</b>   | 502     | 482     | <b>1,932</b>             |
| <b>Net Income (\$mm)</b>                             | 593     | 869     | 963     | 923     | 839      | <b>3,594</b>   | 933     | 895     | <b>3,589</b>             |
| Per share (\$)                                       | 1.10    | 1.61    | 1.78    | 1.71    | 1.55     | <b>6.65</b>    | 1.72    | 1.65    | <b>6.63</b>              |
| <b>Shares (millions)</b>                             | 539     | 540     | 541     | 541     | 541      | <b>541</b>     | 541     | 541     | <b>541</b>               |
| Ebitda margin (after royalty)                        | 71%     | 80%     | 83%     | 76%     | 76%      | <b>79%</b>     | 76%     | 76%     | <b>76%</b>               |
| Tax rate   | 35%     | 35%     | 35%     | 35%     | 35%      | <b>35%</b>     | 35%     | 35%     | <b>35%</b>               |



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| 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                      | 2,930         | 7.3        | 7.5           | 22,000       | 27%    |
| Oil   | 6,370         | 10.5       | 6.3           | 40,200       | 49%    |
| Horizon   |               |            |               | 20,000       | 24%    |
|   | 9,300         | 9.0        | 8.8           | 82,200       | 100%   |
| Debt  |               |            |               |              | 15,100 |
| Net Present Value (US\$mm)                      |               |            |               |              | 67,100 |
| Shares  |               |            |               |              | 541    |
| Net Present Value - Standard Estimate (US\$/sh) |               |            |               |              | 124    |





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