

Canadian Natural Resources

4Q23 first look: early debt target triggers 100% FcF return: div growth / share

Maintain Rating: BUY | PO: 105.00 CAD | Price: 89.91 CAD

Sector leader deserves a lower FcF yield

With a solid 4Q23 and FY of consistent execution, we believe 2024 separates CNQ again from industry peers with the asset depth, balance sheet and cash return policy we believe is the gold standard for the industry. Seven years since its acquisition of Shell's oil sands assets for C\$7.2bn and navigating COVID, 2023 ended with its C\$10bn net debt target achieved ahead of schedule - allowing a step up in cash returns to 100% of FcF including dividends and buy backs. In 2024 we see CNQ generating C\$14.8bn of cash flow; and after C\$5.95bn of capex, C\$8.8bn of free cash flow implies another 4%-5% of buy backs. With 4Q23 earnings, the board raises the dividend 5% its 3rd of the 2023 results year and lifting total dividend growth to 24%, supporting what is still a sector leading yield – supported by >30 years of proven developed reserves.

With the combination of long life assets & short cycle production, we see CNQ earning the right to grow without compromising portfolio depth in contrast to many E&P peers (0% - 4% planned in '24, 4%-5% planned in '25 – see [2024 budget Dec-23](#)) rounding out the trifecta of FcF growth, cash returns and low volatility by virtue of a capital structure that is <10% net debt. In our view CNQ's FcF yield deserves to be lower vs all E&P peers. With >10% total return potential (including 4.7% dividend), our rating is unchanged at Buy.

Solid quarter with EPS and cash flow ahead of street

Adj. EPS of C\$2.34 beat BofAe/consensus of C\$2.24 / C\$2.13 respectively. C/flow before w/c (and abandonments) of C\$4.27bn beat our estimate of C\$4.03bn; with C\$3.3bn of FcF also above our estimate of C\$2.93bn, helped by lower capex (C\$975mm vs street C\$1.15bn) and an operating beat that cements another solid quarter of execution. At yearend CNQ hit its C\$10bn net debt target, triggering a step up in cash returns to 100% of FcF through dividends & buy backs (from 75% with the balance to debt). CNQ bought back C\$1.5bn shares (1.5%), 45% of the C\$3.3bn FY total. signaling perhaps the early step up to its 100% FcF commitment. Separately, CNQ announced a 2:1 stock split, that on the margin improves liquidity for access to its sector leading div yield.

Production in line; 2024 growth back weighted per plan

Total production of 1,419 mboed was within sight of consensus (1,409 mboed), led by higher natural gas, 2.23 bcfd vs 2.17 bcfd, while oil / NGL's of 1,047 mbd was slightly under 1,058 mbd vs our est. Oil sands mining volumes of 491 mbd were in line; thermal in-situ of 287 mbd compared to our est. of 310 mbd. As highlighted in December, in 2024 CNQ is targeting FY24 production of 1,330-1,380 mboed (0% - 4%), back end loaded as capex focused on long-life assets in 1H is impacted by 2Q seasonal turnarounds and an option to lean into short-cycle projects in 2H24 that would align with the pace of TMX egress and potentially Canada LNG in 2025. Additional initiatives imminent that should drive another step change in operating efficiency (Horizon's shift to one turnaround every two years, and thermal production growth to utilize existing infrastructure. Note TMX now looks like a 2Q start, noting regional crude price spreads have narrowed to a \$18 discount vs \$25 for much of 4Q23.

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Stock Data

Price (TOR / NYS)	89.91 CAD / 66.23 USD
Price Objective	105.00 CAD / 79.00 USD
Date Established	27-Sep-2023 / 5-Jan-2024
Investment Opinion	B-1-7 / C-1-7
52-Week Range	67.12 CAD - 93.44 CAD
Market Value (mn)	97,410 CAD
Free Float	97.7%
Average Daily Value	374.74 USD
Shares Outstanding (mn)	1,083.4 / 1,083.4
BofA Ticker / Exchange	YCNQ / TOR
BofA Ticker / Exchange	CNQ / NYS
Bloomberg / Reuters	CNQ CN / CNQ.TO
ROE (2023E)	21.6%
Net Dbt to Eqty (Dec-2022A)	27.6%
ESGMeter™	High

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4Q23 Earnings variance

The table below compares actual 4Q23 results to our estimate and prior period results.

Exhibit 1: YCNQ 4Q23 Earnings Estimates (\$ in Millions, except in per share data)

Adjusted EPS of \$2.34 beat consensus of \$2.13 / BofA of \$2.24

Segment Earnings	4Q23A	4Q23E	4Q22A	YOY	2Q23A	QOQ
E&P	650	1408	-416		871	-25%
OSM	2339	2055	1972	19%	1081	116%
Midstream & Refining	-3	47	3		72	
Other	3	-1	-3		-1	
Segment Level EBIT	2989	3510	1556	92%	2023	48%
(-) G&A	119	108	108	10%	119	0%
(-) Interest Expense	117	244	76	54%	178	-34%
(-) Other (FX loss, risk mgmt, etc)	-267	0	-265	1%	-208	28%
Total EBT	2958	3157	1637	81%	1934	53%
Income Tax	331	726	-189		125	165%
Income Tax %	11%	23%	-12%		6%	73%
Net Income (Reported)	2627	2431	1826		1809	45%
Special Items	-81	0	679		-207	
Total Adj Earnings	2546	2431	2505	2%	1602	59%
EPS (Adjusted)	\$2.34	\$2.24	\$2.24	4%	\$1.45	61%
EPS (Reported)	\$2.34	\$2.24	\$1.63	43%	\$1.64	43%
Dividend (paid by)	\$1.00	\$1.00	\$0.75	33%	\$0.90	11%

Source: BofA Global Research; Company data

BofA GLOBAL RESEARCH

Price objective basis & risk

Canadian Natural Resources (YCNQ / CNQ)

Our C\$105 / US\$79 assumes ex growth discounted cash flow value, which assumes \$75 Brent and \$70 WTI long-term. We also assume long term Henry Hub natural gas as \$4.00. We apply a long-term (post-tax) weighted average cost of capital (WACC) of 8.8%, which is based on the BofA strategy team's assumed risk premium and a five-year monthly beta.

The risks to our price objective are (1) the oil and gas price and margin environment, (2) significant delays to the new upstream projects critical to its production targets, (3) inability to capture the price environment due to cost pressures (opex, capex, and taxation) and (4) potential currency exchange risk. Upside risks to our price objective are (1) potentially improving cost of capital as company deleverages balance sheet and (2) higher oil & gas prices.

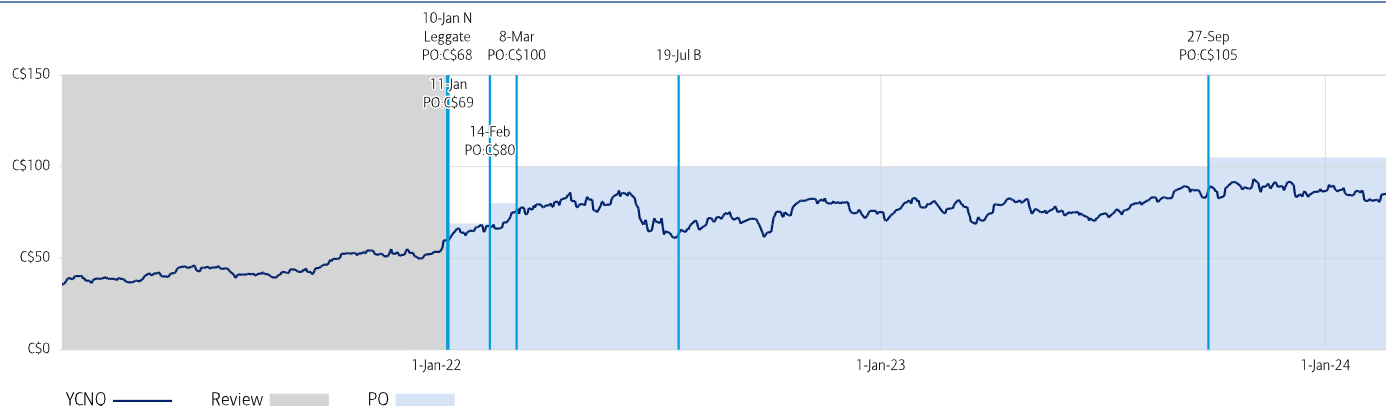
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Canadian Natural Res (YCNQ) Price Chart



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Canadian Natl Re (CNQ) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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