Canadian Natural Resources (CNQ)

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Oil & Gas | TSX | Hold: Premium Quality Fully Reflected

EQUITY RESEARCH REPORT

Recommendation: HOLD

Price Target: C$61.25 | Upside: (7.3%) from C$66.08

Investment Horizon: 12 Months | Risk Rating: Medium

TSX: CNQ | 52-wk: C$48.77 - C$72.38 | Mkt Cap: C$138bn

All figures are analyst estimates unless otherwise stated.

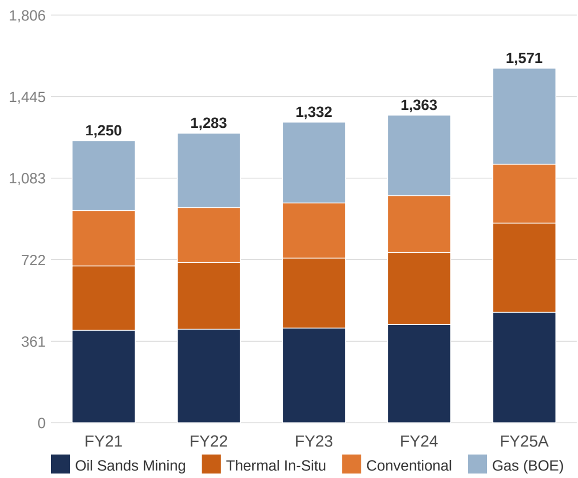
Financial Snapshot

Metric	FY24A	FY25A	FY26E	FY27E
Revenue (C$bn)	41.5	44.2	43.8E	46.5E
EBITDA (C$bn)	13.5	14.8	13.8E	14.9E
EBITDA Margin (%)	32.5	33.5	31.5E	32.0E
FCF (C$bn)	0.5	8.9	9.0E	9.8E
Diluted EPS (C$)	2.85	5.16	4.08E	4.55E
AFF (C$bn)	14.9	15.5	15.0E	16.0E
EV/EBITDA (x)	10.6	9.2	9.8E	9.1E
Net Debt (C$bn)	18.7	15.9	13.5E	11.0E
Dividend (C$/sh)	1.90	2.25	2.50E	2.75E

Company Overview

Canadian Natural Resources (CNQ) is one of the largest independent oil and gas producers in Canada, with a diversified asset base spanning oil sands mining, thermal in-situ SAGD, conventional heavy and light oil, and natural gas. CNQ operates a long-life, low-decline portfolio with industry-leading sustaining capital intensity of ~C$9/boe, enabling substantial free cash flow generation across commodity price cycles. The company achieved record production of 1.571 MMBOE/d in FY25A and has grown its dividend for 26 consecutive years, employing a tiered FCF allocation framework tied to net debt milestones. The Trans Mountain Expansion (TMX) provides tidewater access for Athabasca oil sands barrels, materially reducing dependence on the landlocked WCS-WTI differential and improving realized pricing over the medium term. CNQ holds shipper commitments on TMX that partially insulate it from Western Canadian egress constraints.

Figure 1: Total Production by Stream (MBOE/d)



Source: CNQ company filings, analyst estimates

Component	YOY FY24	YOY FY25	5Y CAGR	% Total
Oil Sands Mining	+7%	+13%	+6%	31%
Thermal In-Situ	+3%	+23%	+7%	25%
Conventional	+2%	+4%	+3%	17%
Natural Gas	0%	+19%	+4%	27%

Source: CNQ filings, analyst estimates

CNQ's production mix has continued shifting toward lower-cost thermal in-situ and oil sands, improving overall netback quality and FCF durability across WTI cycles. The FY25A thermal in-situ production surge of +23% YoY reflects Kirby South Phase 2 ramp completion, driving per-barrel sustaining costs to new lows below C$9/boe.

The Canadian oil sands sector benefits from some of the largest proved reserves globally (third-largest oil reserves country), with mine and SAGD assets providing 30-50 year reserve life at low sustaining capital intensity once developed. TMX pipeline capacity expansion adds ~590K bpd of tidewater access, structurally improving realized differentials for all Athabasca producers. Federal carbon pricing trajectories remain a multi-year headwind for SAGD operators, though CNQ's scale and operational efficiency provide relative advantage versus higher-cost peers.

Investment Thesis

1. **Long-life, low-decline reserves**
31-year proved reserve life index (RLI) with thermal in-situ sustaining capex of ~C$9/boe versus US shale at C$35-50/boe, creating a structurally durable FCF floor even at $55 WTI. Mining assets add an additional 50+ year reserve life profile with even lower sustaining intensity once fixed capital is amortized. Low decline rates of 3-5% per year vs. shale declines of 25-40% mean CNQ's capital budget is maintenance-focused, not growth-forced.

2. **Net debt milestone waterfall**
Tiered FCF allocation: Q1'26 net debt at C$16.2bn entering Milestone 2 (75% buybacks, 25% balance sheet). Milestone 3 at C$13bn triggers 100% return of FCF to shareholders via dividends and buybacks. At FY26E FCF of C$9.0bn, Milestone 3 could be reached by Q3'27, unlocking fully committed capital return. Each milestone step creates a hard catalyst for incremental buyback acceleration.

3. **26-year dividend growth streak**
FY26E dividend of C$2.50/sh is covered 6.0x by AFF; fully protected at $55 WTI. The 26-year consecutive growth streak places CNQ among the most durable dividend payers in Canadian energy, at a CAGR of ~8% per decade. Current yield of ~3.8% with high coverage provides a meaningful income floor while investors wait for milestone-triggered buyback acceleration.

4. **Hold: premium quality priced in**
CNQ trades at 10.6x EV/EBITDA (FY25A) vs. peer median of ~8.5x, reflecting its structural advantages in reserves, costs, and dividend track record. This premium is fully reflected at today's C$66.08 price; our WA implied price of C$61.25 reflects 7.3% downside. Preferred re-entry at C$55-58 would offer mid-teens FCF yield and compelling margin of safety for new investors.

Operating Netback Margin (C$/boe)

Company	FY24 (%)	FY25E (%)
CNQ	~35.2	~37.1
Suncor	~28.4	~30.0
Cenovus	~24.8	~26.5
Imperial Oil	~31.2	~33.1
Peer Median	~28.4	~30.0

Source: Bloomberg, company filings. C$/boe net operating income.

Cash Flow Metrics

Metric	FY24A	FY25A/E
AFF (C$bn)	14.9	15.5
FCF (C$bn)	0.5	8.9
FCF Yield (%)	0.4%	6.5%
Buybacks (C$bn)	~3.2	~5.1

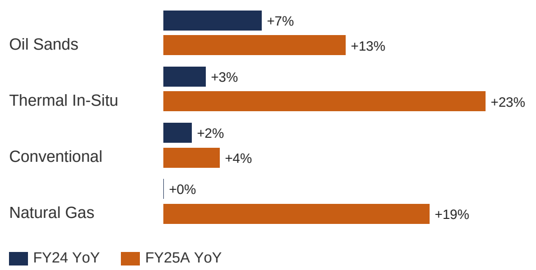
Source: CNQ filings, analyst estimates

Canadian Natural Resources

Production Mix & Capital Return Evolution

Oil Sands Mining % Prod.	Thermal In-Situ % Prod.
34% -> 31%	22% -> 25%
FY19 FY25	FY19 FY25

Figure 4: Net Revenue Growth by Segment (%)



Source: CNQ company filings, analyst estimates

Valuation

CNQ trades at 10.6x EV/EBITDA (FY25A) vs. peer median of ~8.5x, reflecting its structural advantages in long-life reserves, dividend track record, and milestone-linked capital return. At C$66.08, the stock is fully priced relative to our mid-cycle WTI assumption of $68/bbl. Our WA implied price of C$61.25 reflects 40% weight on P/FCF (C$65.17), 40% EV/EBITDA (C$52.39), and 20% consensus (C$70.65), yielding 7.3% downside. A re-rating would require either materially higher WTI ($75+), WCS differential compression to sub-$12/bbl, or Milestone 3 triggering ahead of schedule. Re-entry at C$55-58 would offer a mid-teens FCF yield and compelling risk/reward for long-horizon investors.

Peer Valuation

Company	Fwd P/E	Fwd P/FCF	FCF Yield	PEG
CNQ	10.6x	25.8x	3.9%	1.8
Suncor	7.9x	16.6x	6.0%	N/A
Cenovus	8.5x	21.6x	4.6%	N/A
Imperial Oil	14.1x	25.4x	3.9%	N/A
Peer Median	8.5x	21.6x	4.6%	N/A

Source: Bloomberg consensus, analyst estimates. FY25A/FY26E.

EPS Growth (%)

Company	FY23A	FY24A	FY25A/E
CNQ	+17.5%	+23.4%	+43.3%
Suncor	+22.1%	+15.3%	+12.2%
Cenovus	+8.4%	+11.2%	+9.1%

Source: Bloomberg, company filings

PT Scenario Analysis (WTI Sensitivity)

Scenario	WTI/Key Assumption	Implied Price	Upside
Bear	WTI $50/bbl, WCS $18 diff	C$44	(33%)
Base	WTI $68/bbl, WCS $15 diff	C$61.25	(7.3%)
Bull	WTI $80/bbl, WCS $12 diff	C$78	+18%

Source: Analyst estimates. WTI in USD/bbl.

Business Drivers

Metric	FY23	FY24	FY25A	FY26E
CNQ vs Suncor: Production Growth				
CNQ Total Prod (MBOE/d)	1,251	1,384	1,571	1,630E
SU Total Prod (MBOE/d)	771	812	875	905E
Delta CNQ vol premium: +62% / +70% / +79% / +80%E				
Capital Return Metrics				
CNQ Dividend (C$/sh)	1.35	1.90	2.25	2.50E
CNQ Buybacks (C$bn)	2.4	3.2	5.1	5.5E
Net Debt (C$bn)	21.2	18.7	15.9	13.5E

Source: Company filings, analyst estimates

Risks & Mitigants

Risk	Mitigant
WTI / Commodity	Sustained WTI below $55/bbl compresses FCF and stalls milestone achievement; CNQ hedging covers ~15% of volumes at $65+ WTI floor through H1'26, limiting near-term downside. At $50 WTI, FCF falls to ~C$4bn, delaying Milestone 3 by approximately 18-24 months versus base case.
WCS Differential	Widening WCS-WTI spread beyond $18/bbl reduces realized netback by C$2.50-3.50/boe; TMX tidewater expansion partially offsets via access to Asia-Pacific pricing, and CNQ's TMX shipper commitments protect a portion of barrels.
Carbon Policy	Federal carbon price trajectory escalates SAGD operating costs by ~C$1-2/boe annually through 2030; CNQ's large thermal asset base faces higher incremental exposure versus conventional peers, though scale and cogen efficiency provide offset.
Pipeline Access	Any CER-imposed throughput restrictions or unplanned TMX outages could limit egress capacity and widen differentials; CNQ holds diversified pipeline contracts across Enbridge, Trans Mountain, and Keystone systems as mitigation.

Source: Analyst assessment, CNQ risk disclosures, CER filings

Catalysts

Net Debt <C$13bn: Milestone 3 trigger: 100% FCF return to shareholders via dividends and buybacks. Est. Q3'27E at base case WTI.

Kirby South Ph. 3 ramp: Adds ~30K BOE/d thermal at sub-C$10/boe sustaining cost; expected online H2'26 per management guidance.

WTI >$75/bbl sustained: Accelerates Milestone 3 timeline by ~6 months and provides ~C$1.0bn incremental FCF at current production.

WCS Diff <$12/bbl: Every $1/bbl tightening adds ~C$0.6bn annualized FCF; TMX ramp-up is structural catalyst for compression.

Source: Analyst estimates, CNQ management guidance, TMX operator data

Conclusion

Maintaining HOLD at C$61.25 (7.3% downside). CNQ is best-in-class among Canadian oil sands producers, with a 31-year reserve life, C$9/boe sustaining capital, and a 26-year dividend growth streak that are structurally unmatched. However, at 10.6x EV/EBITDA versus peer median of ~8.5x, the quality premium is fully reflected in today's C$66.08 price. Our tiered FCF model shows Milestone 3 (100% FCF return) arriving in Q3'27E at $68 WTI, which is insufficient to justify paying the current premium today. Preferred re-entry at C$55-58 for compelling risk/reward with a mid-cycle FCF yield in the low-to-mid teens and a wide margin of safety.

Price Target Derivation

Multiple/Ratio	Weight (%)	Implied Price
P/FCF (40%)	40%	C$65.17
EV/EBITDA (40%)	40%	C$52.39
Consensus (20%)	20%	C$70.65
Current Price		C$66.08
WA Implied Price	100%	C$61.25
Upside / (Downside)		(7.3%) Downside