Canadian Natural Resources

Energy
TSX: CNQ | NYSE: CNQ
Market Outperform | Buy

Canadian Natural

Calgary Portfolio Management Trust

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Return on Investment

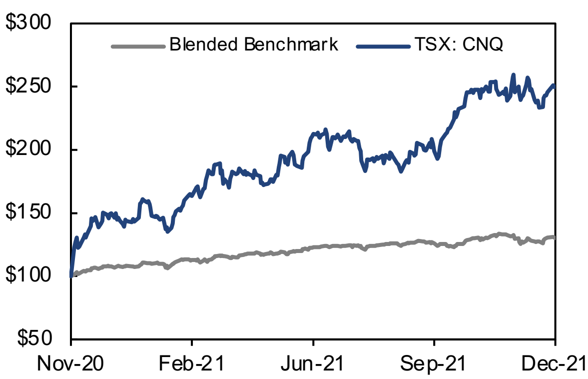
Current Share Price	$53.45
Target Price	$70.00
Dividend Yield	4.40%
Implied Return	35%
Conviction Rating	2

Market Profile

52-Week Range	$28.67 - $55.59
Market Capitalization ($mm)	$62,917
Net Debt ($mm)	$22,787
Enterprise Value ($mm)	$85,704
Beta (5-Year Monthly)	2.26

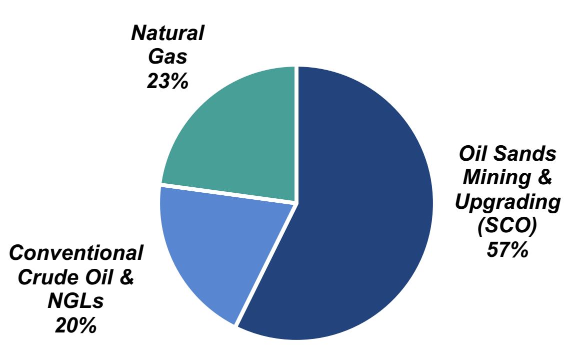
Metrics	2020A	2021E	2022E
Revenue ($mm)	$17,491	$29,385	$31,148
EBITDA ($mm)	$5,724	$15,721	$16,665
Total Debt/EBITDA	3.75x	0.89x	0.84x
EV/EBITDA	15.0x	5.5x	5.1x

Historical Trading Performance (Indexed to $100)



Source: S&P Capital IQ

Figure 1: 2021E Production Mix



Source: Company Filings

Business Description

Canadian Natural Resources (TSX: CNQ) is a senior independent oil and gas producer with operations in Western Canada, the U.K. North Sea, and offshore West Africa. CNQ's operations consist of three segments. CNQ's largest segment, Oil Sands Mining and Upgrading, produces synthetic crude oil (SCO) through operations at the Horizon Oil Sands and its interest in the Athabasca Oil Sands Project. The Exploration and Production (E&P) segment consists of exposure to major natural gas and crude oil plays including the Montney, Deep Basin, and Pelican Lake. This segment also includes light crude oil production in the North Sea and offshore West Africa. Lastly, the Midstream and Refining segment comprises of crude oil pipeline systems, a 50% ownership in an electricity cogeneration plant at Primrose, and a 50% working interest in the North West Redwater Partnership.

Original Investment Thesis

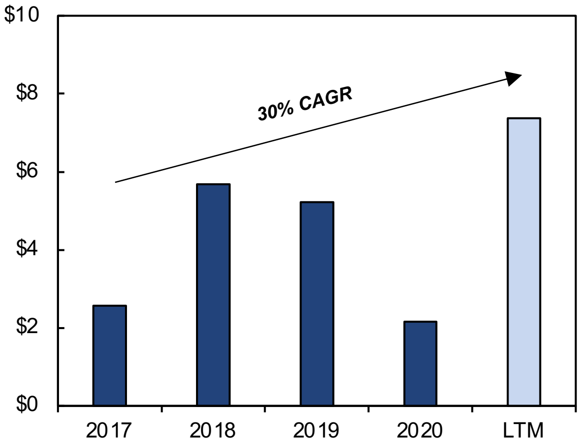
The CPMT entered a position in CNQ in November 2020. The original investment thesis saw CNQ as a top-tier Canadian producer with long-life assets and a demonstrated track record of capital discipline. CNQ had industry-leading low operating costs (operating breakeven of US$25 - $26 WTI) and led its peers in FCF yield. It was also noted that the Company was in a strong balance sheet position with net debt recovering to near 2019 levels, while also having ~$4.1B in liquidity to weather downturns in commodity pricing.

Mandate Fit

Quality Management: CNQ's management structure is differentiated in that it is led by a Management Committee composed of 18 members from its management group rather than a CEO. The CPMT views such a structure favourably as it has enabled the Company to seamlessly manage leadership succession and keep pace with the increased complexity of its operations. Furthermore, the Fund favours management's successful execution of environmental targets and continual investment in carbon capture and storage projects. In 2020, CNQ achieved past environmental targets, reducing its oil sands mining and thermal greenhouse gas emissions intensity by 38% and North America E&P absolute methane emissions by 28% from 2016 levels. CNQ also decreased water usage intensity for in-situ and mining operations from 2017 levels by 75% and 70%, respectively. In 2021, CNQ joined the Oil Sands Pathways to Net Zero initiative, an alliance of large Canadian oil sands producers to achieve net zero greenhouse gas emissions from oil sands operations by 2050. The initiative, along with the setting of new internal targets, demonstrates CNQ's commitment to improving the long-term sustainability of its operations.

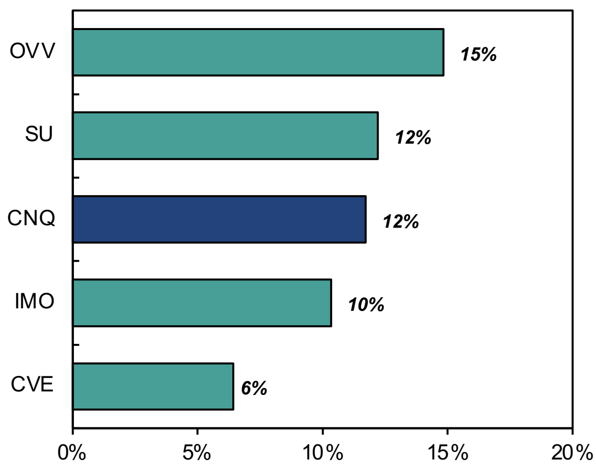
Competitive Advantage: CNQ's competitive advantage stems from the low-decline nature of its asset base, which provides the Company with a sector-leading cost structure that generates sustainable returns throughout pricing cycles. Following the past two years of disciplined capital expenditure cuts to preserve FCF, management plans to strengthen its competitive advantage through the deployment of strategic growth capital ($700mm budgeted for 2022) towards its Oil Sands Mining and Upgrading segment. With additional capital budgeted for 2023 and 2024, this (cont.)

Figure 2: Free Cash Flow ($B)



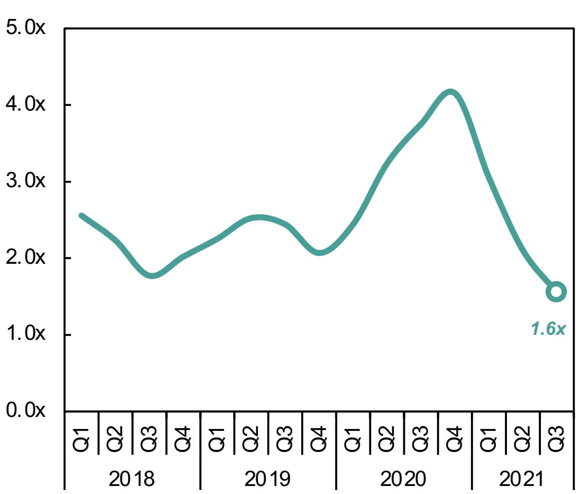
Source: S&P Capital IQ

Figure 3: LTM FCF Yield vs Peers



Source: S&P Capital IQ

Figure 4: LTM Total Debt/EBITDA



Source: Company Filings

investment is targeted at reducing future turnaround times and increasing the capacity of zero-decline, high-value production of SCO by ~5mmbbl/d in 2023 and ~14mmbbl/d in 2025.

Strong Balance Sheet: At the end of Q3 2021, CNQ's LTM Total Debt/EBITDA was 1.6x. In 2021, management continued to demonstrate its commitment to preserving balance sheet health, setting a target net debt position of $15B for the end of the year . The the early achievement of this target (in Q3 2021) allowed the Company to partake in opportunistic M&A before the year end. In November 2021, CNQ announced the acquisition of Storm Resources (TSX: SRX), for $960mm in cash, adding cash flow and land which is contiguous to its own in northeastern British Columbia. The Fund does not expect this transaction to materially impact CNQ's balance sheet, given the recent strength in the pricing environment and the fact that it currently has net debt levels below its 2021 target. With ~$5.8B in liquidity at the end of Q3 2021, the CPMT believes that CNQ is in a sufficiently strong liquidity position that will allow it to continue to thrive in the current commodity price environment and deploy capital towards strategic investments.

Growing Free Cash Flow: Although CNQ's FCF did not grow in 2020 due to severely depressed pricing cycles, the Company's strong capital discipline and low maintenance capital allowed it to generate positive FCF while its peers did not. The Company currently has a strong FCF yield of ~12% that is in line with its peer group (TSX: CVE, IMO, OVV, SU). In 2021, the Company generated strong FCF and the CPMT continues to deem management's capital allocation framework attractive for shareholders. CNQ has had 22 consecutive years of dividend increases and has increased its 2021 dividend by 38% YoY. Additionally, with the recovery of FCF, the Company has reinstated its share repurchase program and plans to allocate 50% of future post-dividend FCF to share buybacks.

Investment Thesis and Valuation

The Fund's target price of $70 was determined by applying a projected 6.0x EV/EBITDA multiple to the 2022E EBITDA of ~$16.7B. The projected multiple consists of a 30/70 blend of the peer group's average NTM EV/EBITDA multiple of 4.3x and CNQ's four-year historical average multiple of 6.7x. A higher weighting was allocated to the four-year historical average multiple as the Fund believes that CNQ's attractive return of capital framework, meaningful value creation initiatives (through strategic growth investments, M&A, and high environmental standards), and strong capital discipline warrants a premium over its peers and a valuation that is more in-line with historical levels.

The CPMT believes that the original investment thesis for CNQ has remained intact. Since the initial investment, the Company has continued to demonstrate strong capital discipline when making strategic investments to strengthen the long-term sustainability of its operations. Despite the significant macroeconomic and regulatory risks that CNQ faces within the Canadian oil and gas industry, the Fund believes that the low-cost nature of the Company's operations positions it well to withstand down cycles in commodity pricing and continue to return capital to shareholders. With an implied return of ~35% (including a 4.4% dividend yield), the CPMT believes that CNQ's current valuation provides significant upside. As a result, the Fund looks to increase its current 2.0% AUM position in CNQ to 4.0% AUM, reflecting an increase in conviction from 1 to 2.