

Ovintiv Inc

4Q23 Earnings recap: Solid oil/condensate beat: 2024 guide fails upside surprise

Reiterate Rating: BUY | PO: 56.00 USD | Price: 46.06 USD

EPS, cashflow beat on stronger production and lower opex

Ovintiv's (OVV) adj EPS of 2.34/share handily beat consensus and BofA estimates of \$1.94 and \$1.89. Versus our estimate, the delta was strong oil & condensate volumes of 240 Mbbl/d that bettered our estimate of 226 Mbbl/d as well as lower costs (opex, transport, and production taxes). The production beat is not only in the Permian but also the Montney and Uinta. Critically, management has updated its Permian type where it is observing a 10% improvement on end-to-end wells on the acreage acquired from Encap. Given the volume beat, cash flow (ex w/c) of \$1.237bn topped our estimate of \$1.18bn; after capex of \$660mm (vs street / BofAe at \$682mm) OVV generated FcF of \$577mm.

Updated oil & condensate guide may disappoint

In what has been widely anticipated by the market given the outperformance on its asset base, OVV updated its long-term ex growth oil & condensate guide which is expected to be in the range of 203-208 Mbbl/d, or ~205 Mbbl/d at the midpoint, versus 200 Mbbl/d prior. Please note that the updated guide does incorporate OVV's initiatives to improve performance on the Encap acreage. While there was a lot of speculation ahead of results on what the new range could be, we believe management has met the threshold for the minimum expected by the Street.

Capex guide narrowed – rate of change intact: Buy

For FY 2024, OVV expects spending of \$2.2-2.4bn, a narrower range than its prior (\$2.1-2.5bn), although it had already been signaling \$2.3bn as appropriate. As for FY 2024 corporate and oil volumes, it expects those to be in the range of 545-575 Mboe/d and 202-208 Mbbl/d respectively vs street expectations of 553 MBoe/d. Note its 1Q24 oil and condensate guide of 208-212 Mbbl/d reflects about 8 Mbbl/d of refinery turnarounds, weather, and planned maintenance. All-in-all, we see 4Q as mixed given the strong production beat, which is offset by longer term oil & condensate guide that has likely met but not exceeded street expectations. Still, with upside from applying OVV architecture to the acquired Encap assets we believe OVV retains the rate of change in operating results to support relative outperformance vs peers. Our rating is unchanged at Buy with ~22% upside to our \$56 DCF-based PO (assuming long-term \$70 WTI/4 HH).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.97	6.09	5.17	5.97	6.29
GAAP EPS	14.20	7.94	5.17	5.97	6.29
EPS Change (YoY)	40.8%	-12.6%	-15.1%	15.5%	5.4%
Consensus EPS (Bloomberg)			6.37	7.77	8.34
DPS	0.95	1.10	1.20	1.20	1.20
EPS (YOYV - C\$)	9.07	8.22	6.99	8.07	8.50
DPS (YOYV - C\$)	1.24	1.48	1.62	1.62	1.62
Valuation (Dec)					
P/E	6.6x	7.6x	8.9x	7.7x	7.3x
GAAP P/E	3.2x	5.8x	8.9x	7.7x	7.3x
Dividend Yield	2.1%	2.4%	2.6%	2.6%	2.6%
EV / EBITDA*	4.2x	4.0x	4.3x	4.1x	4.0x
Free Cash Flow Yield*	16.0%	11.2%	12.1%	13.3%	13.0%

* For full definitions of *IQmethod*SM measures, see page 5.

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Stock Data

Price (NYS / TOR)	46.06 USD / 62.31 CAD
Price Objective	56.00 USD / 75.00 CAD
Date Established	5-Jan-2024 / 5-Jan-2024
Investment Opinion	C-1-7 / C-1-7
52-Week Range	32.07 USD - 51.60 USD
Market Value (mn)	12,726 USD
Free Float	99.6%
Average Daily Value	113.59 USD
Shares Outstanding (mn)	276.3 / 276.3
BofA Ticker / Exchange	OVV / NYS
BofA Ticker / Exchange	YOYV / TOR
Bloomberg / Reuters	OVV US / OVV.N
ROE (2024E)	13.1%
Net Dbt to Eqty (Dec-2023A)	55.3%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

Glossary

HH- Henry Hub
Mbbl-thousand barrels
Mboe-thousand barrels of oil equivalent
WTI-West Texas Intermediate

iQprofileSM Ovintiv Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	28.9%	15.8%	9.5%	9.8%	9.3%
Return on Equity	28.0%	17.7%	13.1%	13.5%	12.7%
Operating Margin	30.9%	26.3%	29.9%	31.7%	31.5%
Free Cash Flow	2,035	1,423	1,546	1,687	1,654

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.2x	2.6x	2.8x	2.6x	2.6x
Asset Replacement Ratio	1.6x	1.5x	1.1x	1.1x	1.0x
Tax Rate	NM	16.9%	24.0%	24.0%	24.0%
Net Debt-to-Equity Ratio	46.4%	55.3%	46.5%	36.3%	27.4%
Interest Cover	12.4x	8.1x	5.5x	6.0x	6.0x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	12,464	10,883	7,490	7,628	7,639
% Change	44.0%	-12.7%	-31.2%	1.8%	0.1%
Gross Profit	10,678	9,117	5,965	6,156	6,188
% Change	51.6%	-14.6%	-34.6%	3.2%	0.5%
EBITDA	4,484	4,701	4,443	4,643	4,681
% Change	34.2%	4.8%	-5.5%	4.5%	0.8%
Net Interest & Other Income	(326)	(374)	(408)	(404)	(400)
Net Income (Adjusted)	1,785	1,599	1,394	1,529	1,528
% Change	36.9%	-10.4%	-12.8%	9.7%	-0.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	3,637	2,085	1,394	1,529	1,528
Depreciation & Amortization	1,113	1,825	2,122	2,148	2,191
Change in Working Capital	(244)	268	0	0	0
Deferred Taxation Charge	(87)	144	248	230	154
Other Adjustments, Net	(553)	(155)	80	80	80
Capital Expenditure	(1,831)	(2,744)	(2,298)	(2,300)	(2,300)
Free Cash Flow	2,035	1,423	1,546	1,687	1,654
% Change	27.5%	-30.1%	8.6%	9.2%	-2.0%
Share / Issue Repurchase	(326)	(426)	(574)	(540)	(532)
Cost of Dividends Paid	(239)	(307)	(320)	(304)	(288)
Change in Debt	(1,639)	2,092	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	5	3	655	1,498	2,332
Trade Receivables	1,594	1,442	1,442	1,442	1,442
Other Current Assets	96	231	231	231	231
Property, Plant & Equipment	9,468	14,640	14,816	14,968	15,077
Other Non-Current Assets	3,893	3,671	3,671	3,671	3,671
Total Assets	15,056	19,987	20,815	21,810	22,753
Short-Term Debt	393	284	284	284	284
Other Current Liabilities	2,387	2,528	2,528	2,528	2,528
Long-Term Debt	3,177	5,453	5,453	5,453	5,453
Other Non-Current Liabilities	1,410	1,352	1,624	1,878	2,057
Total Liabilities	7,367	9,617	9,889	10,143	10,322
Total Equity	7,689	10,370	10,926	11,667	12,431
Total Equity & Liabilities	15,056	19,987	20,815	21,810	22,753

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Oil & Gas Producers

Company Description

Ovintiv is a multibasin operator with exposure to four top onshore plays, Permian, Anadarko Basin, Bakken, Eagle Ford, Duvernay and Montney. The company has over 11,000 premium locations with multiple years of inventory that extends well beyond the company's five year drill plan.

Investment Rationale

Our Buy rating on OVV reflects meaningful exposure to what we perceive as a potentially improving natural gas environment long-term despite near-term hedging

Stock Data

Average Daily Volume	2,466,238
Shares / Common - Dual Listed	1.00

Quarterly Earnings Estimates

	2023	2024
Q1	1.82A	1.05E
Q2	0.93A	1.26E
Q3	1.74A	1.50E
Q4	2.35A	1.37E

4Q23 earning summary

The table below represents actual 4Q23 earnings versus our estimates as well as compared on a q/q and y/y basis:

Exhibit 1: 4Q23 actual earnings

Actual earnings; beat on strong production and lower expenses- Beat is mainly only oil and condensate volumes followed by lower costs

Segment Earnings	4Q23A	4Q23E	4Q22A	YOY	3Q23A	QOQ
Total Rev & Non-Op Inc	3,166	2,114	3,212	-1%	2,551	24%
Production Expenses	(519)	(529)	(553)	6%	(539)	4%
DD&A	(556)	(490)	(280)	-99%	450	-224%
Income Tax Expense	(211)	(163)	225	-194%	(126)	-67%
Other Income / Expenses	(1,024)	(414)	(1,269)	19%	(1,849)	45%
Net Income (Reported)	856	517	1,335	-36%	487	76%
Special Items	(209)	-	(1,107)	81%	(37)	-465%
Net Income (Adjusted)	647	517	228	184%	450	44%
Earnings (Reported)	3.11	1.89	5.33	-42%	1.97	58%
Earnings (Adjusted)	2.35	1.89	0.91	158%	1.82	29%
Dividend	0.30	0.30	0.25	20%	0.25	20%

Source: BofA Global Research; Company Data

BofA GLOBAL RESEARCH

The table below reflects updated earnings estimates updated for actual 4Q23 and formal guidance, as well as comparison to Bloomberg consensus estimates through 2025: Our estimates move lower mainly higher unit costs, particularly transportation and processing.

Exhibit 2: OVV Earnings Estimates

Earnings estimates updated for actual 4Q23 earnings through 2025 and versus consensus

	Q1	Q2	Q3	Q4	FY	BBG Consensus
2022A	2.17	2.41	1.44	0.91	6.97	8.16
2023E	1.82	0.93	1.74	2.35	6.09	6.41
Previous	1.82	0.93	1.74	1.89	6.38	n/a
2024E	1.05	1.26	1.50	1.37	5.17	6.37
Previous	1.59	1.71	1.83	1.70	6.83	n/a
2025E	1.52	1.38	1.54	1.53	5.97	7.77
Previous	1.93	1.84	1.98	1.98	7.73	n/a

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Price objective basis & risk

Ovintiv Inc (OVV / YOVV)

Our price objective of \$56 US (\$75 CN) assumes \$75 Brent and \$70 WTI long-term. We assume long-term HH natural gas of \$4.00. We apply a long-term (post-tax) weighted average cost of capital (WACC) of 8.5%, 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 and (5) is contingent upon the acquisition of certain Midland Basin assets closing by mid-2023. Upside risks to our price objective are (1) potentially improving cost of capital as company deleverages balance sheet and (2) higher oil & gas prices.

Analyst Certification

I, Doug Leggate, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	APA Corporation	APA	APA US	Doug Leggate
	Canadian Natural Resources	YCNQ	CNQ CN	Doug Leggate
	Canadian Natural Resources	CNQ	CNQ US	Doug Leggate
	Chesapeake Energy	CHK	CHK US	Doug Leggate
	Chevron Corp.	CVX	CVX US	Doug Leggate
	ConocoPhillips	COP	COP US	Doug Leggate
	Coterra Energy Inc	CTRA	CTRA US	Doug Leggate
	EQT Corporation	EQT	EQT US	John H. Abbott
	ExxonMobil Corp.	XOM	XOM US	Doug Leggate
	Granite Ridge Resources, Inc	GRNT	GRNT US	John H. Abbott
	Imperial Oil	IMO	IMO US	Doug Leggate
	Imperial Oil	YIMO	IMO CN	Doug Leggate
	Kimbell Royalty Partners	KRP	KRP US	John H. Abbott
	Magnolia Oil and Gas	MGY	MGY US	Noah Hungness
	Occidental Petroleum Corp.	OXY	OXY US	Doug Leggate
	Ovintiv Inc	YOVV	OVV CN	Doug Leggate
	Ovintiv Inc	OVV	OVV US	Doug Leggate
	Range Resources Corp	RRC	RRC US	Doug Leggate
	Suncor	YSU	SU CN	Doug Leggate
	Suncor	SU	SU US	Doug Leggate
NEUTRAL				
	California Resources Corporation	CRC	CRC US	Kalei Akamine
	CNX Resources	CNX	CNX US	John H. Abbott
	Delek US Holdings, Inc.	DK	DK US	Doug Leggate
	Devon Energy Corp.	DVN	DVN US	Doug Leggate
	Diamondback Energy Inc.	FANG	FANG US	Doug Leggate
	EOG Resources	EOG	EOG US	Doug Leggate
	Gulfport Energy Corporation	GPOR	GPOR US	Doug Leggate
	HF Sinclair Corporation	DINO	DINO US	Doug Leggate
	Marathon Petroleum Company	MPC	MPC US	Doug Leggate
	PBF Energy	PBF	PBF US	Doug Leggate
	Permian Resources Corporation	PR	PR US	Doug Leggate
	Phillips 66	PSX	PSX US	Doug Leggate
	Valero Energy Corp.	VLO	VLO US	Doug Leggate

US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	Chord Energy Corporation	CHRD	CHRD US	John H. Abbott
	Crescent Energy Company	CRGY	CRGY US	John H. Abbott
	Marathon Oil Corp.	MRO	MRO US	Doug Leggate
	National Fuel Gas Company	NFG	NFG US	John H. Abbott
	Northern Oil and Gas	NOG	NOG US	John H. Abbott
	Vital Energy Inc	VTLE	VTLE US	John H. Abbott
RSTR	Pioneer Natural Resources	PXD	PXD US	Doug Leggate

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales
Basic EBIT + Depreciation + Amortization

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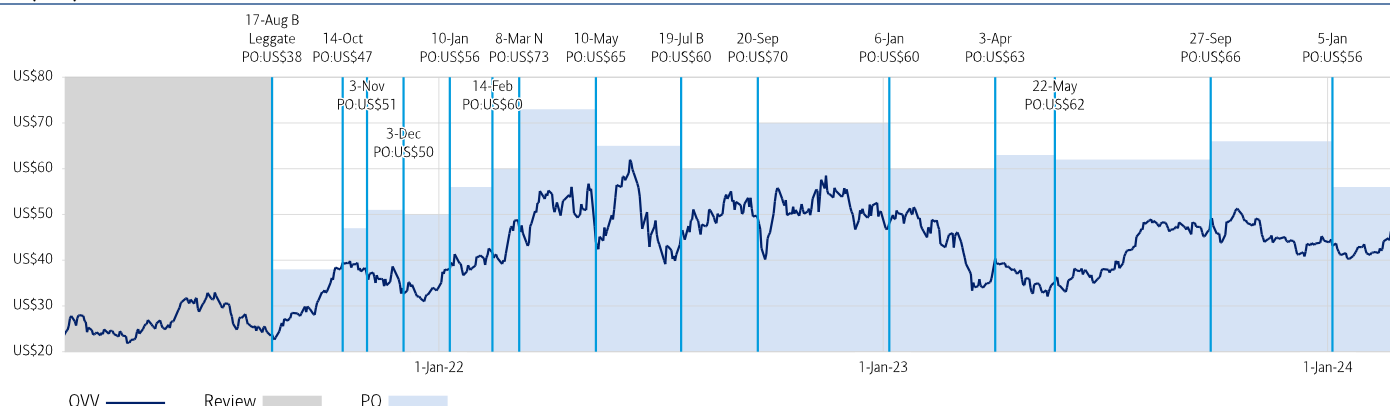
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Disclosures

Important Disclosures

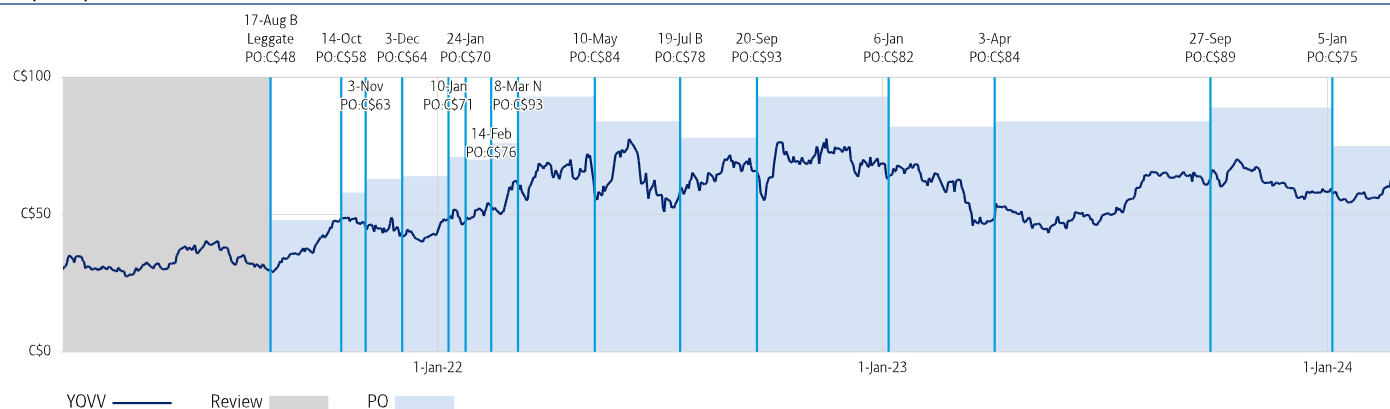
Ovintiv (OVV) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Ovintiv (YOVV) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

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%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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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%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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