

## Ovintiv Inc

# Midland field trip: showcasing line of sight to improved capital efficiency

Maintain Rating: BUY | PO: 56.00 USD | Price: 40.91 USD

## Trimul-frac, another step-up in capital efficiency

Takeaways from OVV's 'Trimul-frac' tour to the Midland basin on 1/18 come more from discussions w/ management, noting the full 'C' suite in attendance to showcase its triple well completion capability that is another modest step up in capital efficiency. Moving up to 50% of Permian activity in 2024 from half that level last year means capital cost savings can potentially keep OVV at the lower end of its \$2.1bn - \$2.5bn 'maintenance' capital range. More important, is the anticipated guide to what oil & condensate production this capital program can support. We continue to believe once the inertia of peak Encap activity on the acquired assets has stabilized, OVV can hold levels of 205 kbd – 215 kbd vs 'more than 200 kbd' guidance offered at 3Q23 earnings.

## Upside to >200,000 bpd 2024 guidance

In our view, the prospect of higher liquids / lower spending differentiates OVV vs peers with the full benefit of a well-timed deal still ahead. OVV's 'new architecture' completions on legacy assets has seen productivity improve >15% in 2023 alone. While it is still reluctant to declare improved recovery, it is aware that the bar for Street expectations has moved higher. With no updated guidance yet, directionally, we see the event as a sign of confidence in its go forward trajectory. From discussions with management, associated momentum in productivity is not assumed for the Encap assets acquired at the peak of the regional bank crisis in 2Q23. With the implementation of best practices management acknowledges room for a positive revision in guidance.

## Rate of change differentiates vs peers reiterate Buy

Feedback from the trip suggests Encap assets are now fully integrated as the site visit centered around these assets in Martin County. Efficiencies with the recently acquired E-fleet, also seem to be moving ahead – noting OVV's field personnel seem eager to push the envelope to a 'quadro-frac' and beyond – exploiting what it sees as a large-scale logistical advantage. Separately we believe OVV's M&A attention could reasonably turn back to its Montney position (oil window) versus the crowded Permian. Overall, we continue to view OVV as differentiated vs peers through a rate of change in capital efficiency still playing out in 2024. Maintain Buy, PO unchanged at C\$75 / US\$56.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	4.95	6.97	6.37	6.77	7.67
GAAP EPS	5.37	14.20	6.56	6.77	7.67
EPS Change (YoY)	NM	40.8%	-8.6%	6.3%	13.3%
Consensus EPS (Bloomberg)			6.42	6.58	7.77
DPS	0.47	0.95	1.10	1.20	1.20
EPS (YOYV - C\$)	6.21	9.07	8.58	9.12	10.33
DPS (YOYV - C\$)	0.59	1.24	1.48	1.62	1.62
Valuation (Dec)					
P/E	8.3x	5.9x	6.4x	6.0x	5.3x
GAAP P/E	7.6x	2.9x	6.2x	6.0x	5.3x
Dividend Yield	1.1%	2.3%	2.7%	2.9%	2.9%
EV / EBITDA*	5.2x	3.9x	4.1x	3.7x	3.7x
Free Cash Flow Yield*	14.1%	18.0%	10.7%	16.1%	15.3%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

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22 January 2024

### Equity

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### Stock Data

Price (NYS / TOR)	40.91 USD / 54.93 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 - 52.47 USD
Market Value (mn)	11,303 USD
Free Float	99.6%
Average Daily Value	118.47 USD
Shares Outstanding (mn)	276.3 / 276.3
BofA Ticker / Exchange	OW / NYS
BofA Ticker / Exchange	YOYV / TOR
Bloomberg / Reuters	OW US / OW.N
ROE (2023E)	18.9%
Net Dbt to Eqty (Dec-2022A)	46.4%
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".

Kbd - thousand of barrels per day

OVV- Ovintiv Inc

# iQprofile<sup>SM</sup> Ovintiv Inc

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	11.4%	28.9%	13.2%	11.6%	11.4%
Return on Equity	29.3%	28.0%	18.9%	17.5%	17.0%
Operating Margin	17.5%	30.9%	24.9%	36.7%	38.7%
Free Cash Flow	1,596	2,035	1,205	1,818	1,734

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	2.4x	2.2x	2.4x	2.3x	2.1x
Asset Replacement Ratio	1.3x	1.6x	1.6x	1.3x	1.4x
Tax Rate	NM	NM	17.9%	24.0%	24.0%
Net Debt-to-Equity Ratio	90.5%	46.4%	57.6%	44.6%	33.0%
Interest Cover	4.5x	12.4x	7.0x	7.0x	7.5x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	8,658	12,464	9,817	7,665	7,701
% Change	42.2%	44.0%	-21.2%	-21.9%	0.5%
Gross Profit	7,042	10,678	8,049	6,048	6,071
% Change	53.6%	51.6%	-24.6%	-24.9%	0.4%
EBITDA	3,341	4,484	4,233	4,663	4,743
% Change	48.5%	34.2%	-5.6%	10.2%	1.7%
Net Interest & Other Income	(317)	(326)	(351)	(403)	(399)
<b>Net Income (Adjusted)</b>	<b>1,304</b>	<b>1,785</b>	<b>1,670</b>	<b>1,830</b>	<b>1,962</b>
<b>% Change</b>	<b>NM</b>	<b>36.9%</b>	<b>-6.4%</b>	<b>9.5%</b>	<b>7.2%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	1,416	3,637	1,720	1,830	1,962
Depreciation & Amortization	1,190	1,113	1,759	1,772	1,684
Change in Working Capital	(80)	(244)	143	0	0
Deferred Taxation Charge	(21)	(87)	181	436	309
Other Adjustments, Net	619	(553)	167	80	80
Capital Expenditure	(1,528)	(1,831)	(2,766)	(2,300)	(2,300)
<b>Free Cash Flow</b>	<b>1,596</b>	<b>2,035</b>	<b>1,205</b>	<b>1,818</b>	<b>1,734</b>
<b>% Change</b>	<b>904.1%</b>	<b>27.5%</b>	<b>-40.8%</b>	<b>50.9%</b>	<b>-4.6%</b>
Share / Issue Repurchase	(111)	(326)	(273)	(615)	(553)
Cost of Dividends Paid	(122)	(239)	(307)	(321)	(303)
Change in Debt	(2,085)	(1,639)	2,419	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	195	5	405	1,287	2,164
Trade Receivables	1,294	1,594	1,524	1,524	1,524
Other Current Assets	98	96	54	54	54
Property, Plant & Equipment	8,761	9,468	14,706	15,234	15,850
Other Non-Current Assets	3,707	3,893	3,804	3,804	3,804
<b>Total Assets</b>	<b>14,055</b>	<b>15,056</b>	<b>20,493</b>	<b>21,903</b>	<b>23,396</b>
Short-Term Debt	0	393	709	709	709
Other Current Liabilities	2,748	2,387	2,834	2,834	2,834
Long-Term Debt	4,786	3,177	5,454	5,454	5,454
Other Non-Current Liabilities	1,447	1,410	1,505	1,964	2,297
<b>Total Liabilities</b>	<b>8,981</b>	<b>7,367</b>	<b>10,502</b>	<b>10,961</b>	<b>11,294</b>
<b>Total Equity</b>	<b>5,074</b>	<b>7,689</b>	<b>9,991</b>	<b>10,941</b>	<b>12,102</b>
<b>Total Equity &amp; Liabilities</b>	<b>14,055</b>	<b>15,056</b>	<b>20,493</b>	<b>21,903</b>	<b>23,396</b>

\* For full definitions of iQmethod<sup>SM</sup> 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	2,849,561
Shares / Common - Dual Listed	1.00

## Quarterly Earnings Estimates

	2022	2023
Q1	2.17A	1.82A
Q2	2.41A	0.93A
Q3	1.44A	1.74A
Q4	0.91A	1.85E

# Trimul-frac cost & efficiency savings

## Chart 3: OVV technology trajectory in the Permian

After Trimul-frac, will we see 4x or 5x frac?

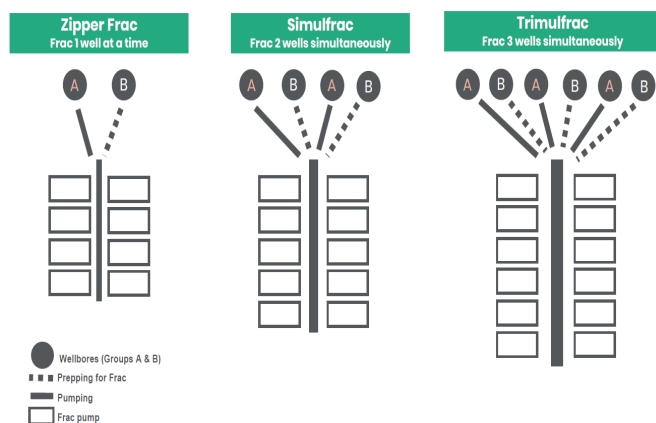


Source: OVV

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## Exhibit 1: what is a Trimul-frac?

Triple coincident well completions



Source: OVV

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## Exhibit 2: What does Trimul-frac do?

Faster completion times, lower costs

### Efficient Drilling Supports Trimulfrac

#### Faster drilling optimizes rig : frac ratio

5 rigs and 1 frac crew  
Maximizes capital efficiency

#### Centralized geo steering

Less downtime and faster cycle times

#### Longer laterals increase cube value

Routinely drilling >2.5 miles

### Permian Drilling Highlights

5

High spec rigs  
operating today

~12,000

Avg. lateral Length (ft)

#2

in drilling speed  
across Midland Basin<sup>1</sup>

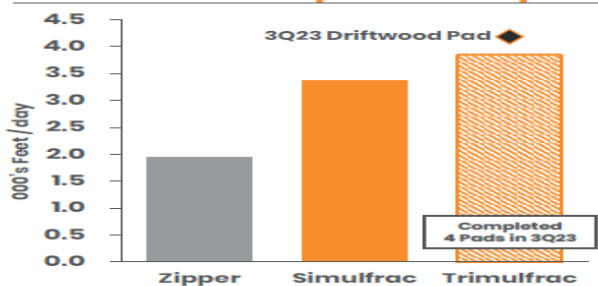
Source: OVV

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## Exhibit 3: Impact of Trimul-frac on drilling efficiency

Faster completion times: doubling Trimul-frac activity in 2024

### Permian Completions Speed



### Permian Completions Mix

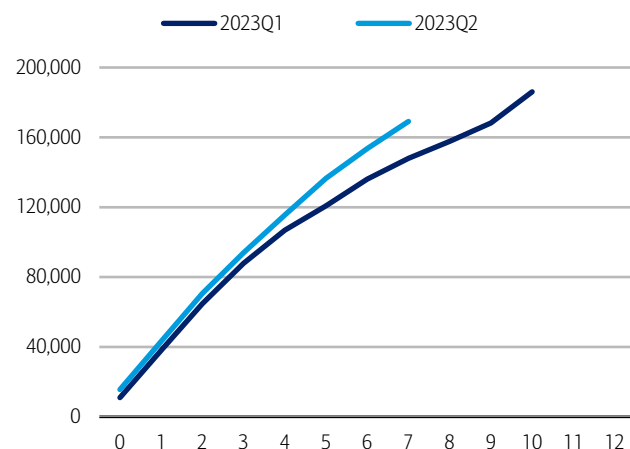
25% Trimulfrac in 2023 >>> >50% Trimulfrac in 2024

Source: OVV

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## Exhibit 4: OVV cumulative production trend 1Q23-2Q23

OVV architecture continues to improve cum productivity



Source: BofA Global Research estimates; Rystad

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## 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
<b>BUY</b>				
	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
	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
<b>NEUTRAL</b>				
	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
	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
<b>UNDERPERFORM</b>				
	Chord Energy Corporation	CHRD	CHRD US	John H. Abbott
	Crescent Energy Company	CRGY	CRGY US	John H. Abbott

## US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Diamondback Energy Inc.	FANG	FANG US	Doug Leggate
	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
	Southwestern Energy Corp.	SWN	SWN US	Doug Leggate

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**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

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**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**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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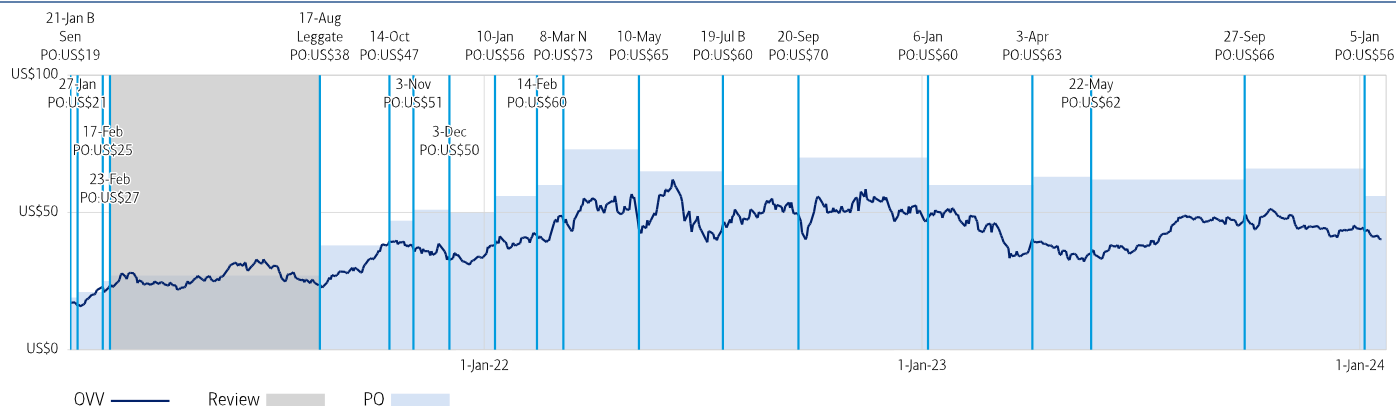
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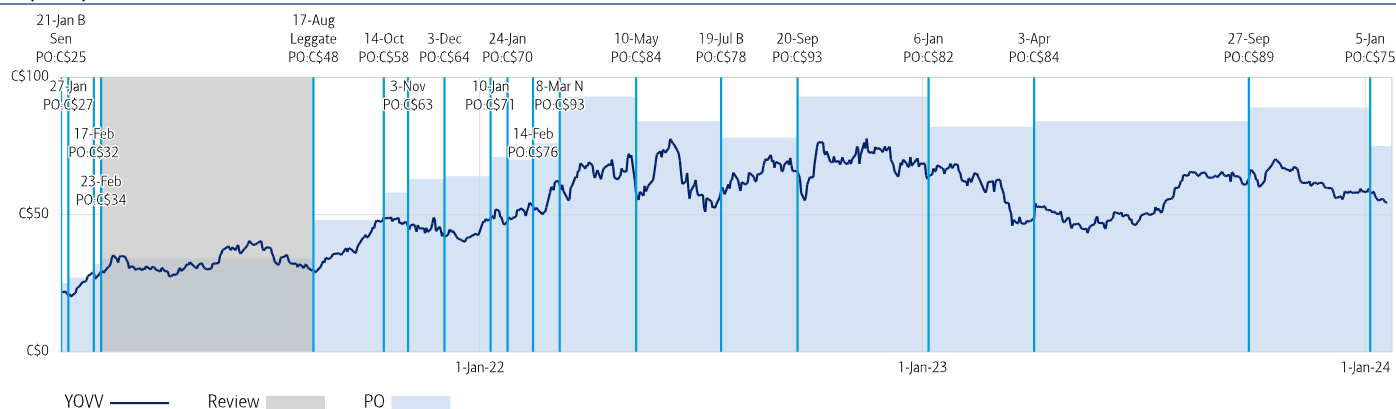
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### Ovintiv (OVV) Price Chart



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



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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>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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