

Devon Energy Corp.

4Q23 Earnings recap: in-line earnings, recovery path laid out for 2024

Reiterate Rating: NEUTRAL | PO: 50.00 USD | Price: 44.32 USD

Past the worst: 2024 aims to reset operating efficiency

DVN's 2024 plan aims to reset operating efficiency from underperformance in the Bakken that weighed on shares. On the margin, capital is shifting back to New Mexico, where two third of a fifteen year inventory life is concentrated. Critically, shifting away from less productive Texas acreage means an incremental lift in capital efficiency that allows spending to fall 10% y/y while maintaining production at 650 mboed. Notable is that capital returns have swung hard to buybacks that can lower the share count 9% in 2024 and reinstate the growth per share mantra that drove strong share performance from 2021. While 4Q23 looks broadly in line, the message we take is that operations have turned the corner and is enough perhaps to neutralize negative perceptions after a tough 2023. With that said limited upside keeps us at Neutral, PO unchanged at \$50.

Earnings in line; but cash returns now favor buybacks

Adj EPS of \$1.41/sh looks in line with consensus of \$1.40. Versus our est. of \$1.38 we see some positive variance on stronger vols that offset higher costs. 4Q23 oil & total production of 317 mbd & 662 mboed beat guidance of 315 mbd & 657 mboed, signaling a strong starting point despite setbacks in the Bakken in 1Q. Cashflow ex-w/c of \$1.69bn is slightly ahead of the street at \$1.65bn, while in-line capex of \$910mm leaves FCF of \$827mm. Notable is the swing towards buy backs: of \$501mm returned, \$234mm is buybacks, \$127mm in base dividends and \$140mm in variable dividends – 67% payout of FCF. For 24/25 DNV plans to retire \$1.0bn in debt, in a move to further solidify its balance sheet – net debt moved down to \$5.28bn at YE23.

2024 guide: Capital shifts from Bakken to Delaware

Reiterating prior guidance, FY24 capex is \$3.45bn at the midpoint (\$3.3 – 3.6bn) and effectively a 10% reduction y/y. FY24 volumes are now expected to be 640-660 (vs street at 655mboed), while oil is guided to 312-318 (vs street 315mbd). Notable is that 2024 capex is reallocated with nearly 60% of capital (\$2.0bn) now going to the Delaware, while the Bakken bears a 50% y/y reduction - implying a productivity swing that in our view can help continued improvement in operational outperformance. Note that for 1Q24 guidance points to a 2% reduction sequentially on adverse winter in North Dakota. But this has already recovered with no material change in 2024 guide.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	8.29	5.71	4.65	5.25	5.70
GAAP EPS	9.13	5.84	4.61	5.22	5.67
EPS Change (YoY)	134.8%	-31.1%	-18.6%	12.9%	8.6%
Consensus EPS (Bloomberg)			5.39	5.81	5.85
DPS	0.68	0.80	0.96	1.12	1.28
Valuation (Dec)					
P/E	5.3x	7.8x	9.5x	8.4x	7.8x
GAAP P/E	4.9x	7.6x	9.6x	8.5x	7.8x
Dividend Yield	1.5%	1.8%	2.2%	2.5%	2.9%
EV / EBITDA*	3.2x	4.4x	4.7x	4.6x	4.7x
Free Cash Flow Yield*	20.9%	9.3%	9.2%	10.0%	10.3%

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

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Stock Data

Price	44.32 USD
Price Objective	50.00 USD
Date Established	5-Jan-2024
Investment Opinion	C-2-7
52-Week Range	40.47 USD - 57.13 USD
Mkrt Val (mn) / Shares Out (mn)	28,453 USD / 642.0
Free Float	99.3%
Average Daily Value (mn)	359.43 USD
BofA Ticker / Exchange	DVN / NYS
Bloomberg / Reuters	DVN US / DVN.N
ROE (2024E)	23.3%
Net Dbt to Eqty (Dec-2023A)	43.2%
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".

FcF – Free Cashflow

Mboed – Thousand barrels of oil equivalent per day

Mbd – Thousand barrels per day

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iQprofileSM Devon Energy Corp.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	32.7%	18.8%	14.0%	14.3%	14.1%
Return on Equity	53.5%	31.6%	23.3%	23.7%	23.2%
Operating Margin	60.2%	45.8%	38.7%	40.1%	40.3%
Free Cash Flow	5,954	2,638	2,624	2,847	2,920

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.6x	1.8x	2.1x	2.1x	2.0x
Asset Replacement Ratio	1.1x	1.5x	1.2x	1.2x	1.2x
Tax Rate	22.4%	18.2%	22.5%	22.5%	22.5%
Net Debt-to-Equity Ratio	44.1%	43.2%	39.1%	38.3%	37.0%
Interest Cover	26.2x	16.0x	13.1x	13.9x	13.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	13,424	10,791	10,403	10,475	10,420
% Change	40.4%	-19.6%	-3.6%	0.7%	-0.5%
Gross Profit	11,285	8,620	8,062	8,151	8,119
% Change	74.3%	-23.6%	-6.5%	1.1%	-0.4%
EBITDA	10,336	7,513	6,899	7,036	7,010
% Change	91.4%	-27.3%	-8.2%	2.0%	-0.4%
Net Interest & Other Income	(309)	(308)	(307)	(302)	(302)
Net Income (Adjusted)	5,464	3,675	2,880	3,022	3,022
% Change	130.3%	-32.7%	-21.6%	4.9%	0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	6,015	3,755	2,860	3,002	3,002
Depreciation & Amortization	2,252	2,574	2,875	2,835	2,809
Change in Working Capital	(226)	(144)	0	0	0
Deferred Taxation Charge	1,179	336	280	277	271
Other Adjustments, Net	(690)	23	92	92	92
Capital Expenditure	(2,576)	(3,906)	(3,483)	(3,358)	(3,254)
Free Cash Flow	5,954	2,638	2,624	2,847	2,920
% Change	106.1%	-55.7%	-0.5%	8.5%	2.5%
Share / Issue Repurchase	(718)	(979)	(1,640)	(2,200)	(2,175)
Cost of Dividends Paid	(3,379)	(1,861)	(720)	(641)	(674)
Change in Debt	0	(242)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,454	875	1,139	1,145	1,215
Trade Receivables	1,767	1,573	1,573	1,573	1,573
Other Current Assets	670	709	709	709	709
Property, Plant & Equipment	18,106	19,328	19,656	19,903	20,077
Other Non-Current Assets	1,724	2,005	2,021	2,037	2,053
Total Assets	23,721	24,490	25,099	25,367	25,628
Short-Term Debt	251	483	483	483	483
Other Current Liabilities	2,854	2,466	2,466	2,466	2,466
Long-Term Debt	6,189	5,672	5,672	5,672	5,672
Other Non-Current Liabilities	3,131	3,652	3,652	3,652	3,652
Total Liabilities	12,425	12,273	12,273	12,273	12,273
Total Equity	11,296	12,217	12,826	13,094	13,355
Total Equity & Liabilities	23,721	24,490	25,099	25,367	25,628

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

Company Sector

Oil & Gas Producers

Company Description

DVN is a diversified large cap US Exploration and Production company with 2.0Bboe of reserves and 611 mboe/d of production from core assets during 2016. Production is weighted towards crude oil while growth opportunities are liquids focused - anchored by the Delaware Basin, SCOOP/STACK, Eagle Ford Shale, and Canadian Oil Sands, and the Barnett. Devon also owns equity in the publically traded midstream MLP, EnLink.

Investment Rationale

Our Neutral rating on DVN reflect an investment case that aligns more towards a commodity view, albeit less conservative hedge exposure supports strong expectations of variable cash returns that were already captured on forward expectations of free cash flow beyond the payout.

Stock Data

Average Daily Volume 8,109,789

Quarterly Earnings Estimates

	2023	2024
Q1	1.46A	0.98E
Q2	1.18A	1.19E
Q3	1.66A	1.28E
Q4	1.43A	1.20E

Earnings Variance

The table below compares actual 4Q23 results with our estimate and prior periods.

Exhibit 1: DVN Earnings Variance

Y/Y and Q/Q Comparison (\$ in Millions, except in per share data)

Segment Earnings	4Q23A	4Q23E	4Q22A	YOY	3Q23A	QOQ
Total Rev	4,145	2,720	4,299	-37%	3,836	-29%
Production Expenses	(381)	(394)	(308)	28%	(367)	7%
DD&A	(654)	(644)	(638)	1%	(654)	-1%
Income Tax Expense	(269)	(248)	(349)	-29%	(152)	63%
Other Income / Expenses	(1,431)	(562)	(1,687)	-67%	(1,901)	-70%
Net Income (Adjusted)	910	873	1,085	-20%	1,058	-18%
Special Items	(250)	-	(116)		148	-100%
Net Income (Reported)	1,160	873	1,201	-27%	910	-4%
Earnings (Adjusted)	1.43	1.38	1.66	-17%	1.66	-17%
Earnings (Reported)	1.82	1.38	1.83	-25%	1.42	-3%
Dividend	0.20	0.20	0.18	11%	0.20	0%

Source: BofA Global Research estimates; Company reports

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Exhibit 2: DVN Earnings Estimates

Lowered EPS estimates largely reflect updated Depreciation guidance

	Q1	Q2	Q3	Q4	FY	BBG Consensus
2022A	1.88	2.58	2.18	1.66	8.29	8.45
2023E	1.46	1.18	1.66	1.43	5.71	5.68
Previous	1.46	1.18	1.66	1.38	5.67	n/a
2024E	0.98	1.19	1.28	1.20	4.65	5.38
Previous	1.19	1.39	1.50	1.42	5.49	n/a
2025E	1.27	1.27	1.37	1.35	5.25	5.78
Previous	1.45	1.46	1.56	1.55	6.01	n/a

Source: BofA Global Research estimates, Bloomberg

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Price objective basis & risk

Devon Energy Corp. (DVN)

Our price objective of \$50/sh assumes ex growth discounted cash flow value, which assumes \$75 Brent and \$70 West Texas Intermediate (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 about 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, and (3) inability to capture the price environment due to cost pressures (opex, capex, and taxation). Upside risks to our price objective are 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
UNDERPERFORM				
	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
	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
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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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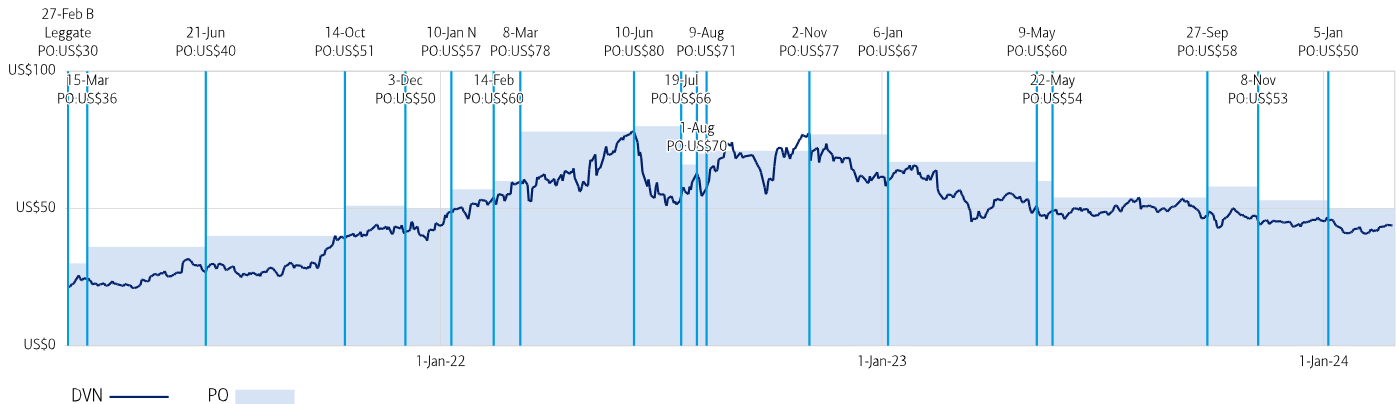
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Disclosures

Important Disclosures

Devon Energy (DVN) 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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