Devon Energy Corporation (DVN)

Updated March 7th, 2024, by Tiago Dias

Key Metrics

Current Price:	$46	**5 Year CAGR Estimate:**	2.1%	**Market Cap:**	$29 B
Fair Value Price:	$80	**5 Year Growth Estimate:**	-10.0%	**Ex-Dividend Date:**	03/14/2024
% Fair Value:	58%	**5 Year Valuation Multiple Estimate:**	11.6%	**Dividend Payment Date:**	03/29/2024
Dividend Yield:	2.4%	**5 Year Price Target**	$47	**Years Of Dividend Growth:**	0
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Sell

Overview & Current Events

Founded in 1971, Devon Energy Corporation (DVN) is an independent energy company engaged primarily in the exploration, development and production of oil, natural gas and NGLs. On January 7th, 2021, Devon and WPX Energy completed an all-stock merger of equals. The combined $29 billion market cap company benefits from enhanced scale, improved margins, higher free cash flow, and the financial strength to accelerate the return of cash to shareholders through a "fixed plus variable" dividend strategy.

Devon reported Q4 and full year 2023 earnings on February 27th, 2024. For the quarter, earnings per share equalled $1.81 compared to the $1.84 per share reported in the same period last year. For the full year, earnings per share add up to $5.30 per share, below the prior year. In line with its fixed-plus-variable dividend pay-out, Devon declared a $0.77 quarterly dividend, an increase over the previous quarter.

The company exited 2023 with positive momentum, delivering a solid quarter of execution that surpassed the management teams expectations and targets. With record breaking oil production and $2.7 billion in free cash flow generation, shareholders were rewarded with an impressive cash-return yield of 10 percent, balanced between buybacks and dividends. In 2024 the company plans to sustain oil production at around 315,000 barrels per day, capex is expected to decline by 10% and this program is estimated to be funded at oil levels below $40 per barrel.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$4.91	$2.52	-$0.13	$1.59	$1.28	$1.41	-$0.09	$3.52	$9.12	$5.87	***$5.30***	***$3.13***
DPS	$0.94	$0.96	$0.42	$0.24	$0.30	$0.35	$0.68	$1.97	$5.17	$2.87	***$1.10***	***$0.65***
Shares[1]	409	418	523	525	449	382	382	671	653	638	***635.0***	***630.0***

The cyclicality inherent to commodity producers, and particularly oil and gas companies makes it difficult to accurately estimate a future growth rate over the next five years, particularly given that Devon Energy's earnings will be heavily impacted by the price of oil five years from now, which is something we cannot predict.

That said, the currently elevated oil and gas prices are the result of temporary supply constraints stemming from supply chain disruptions, lack of investment in new production since the 2014 oil price crash, and geopolitical issues with Russia. While none of these issues have a clear end in sight now, it's reasonable to assume that they will be worked out at some point over the next five years, and oil prices will subsequently drop.

For these reasons we expect that 2029 earnings and dividends will be significantly lower than 2024, at only around $3.13 per share in earnings and $0.65 in regular quarterly dividends.

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[1] In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	13.7	21.0	--	23.8	28.9	18.7	--	8.5	6.0	7.8	***8.7***	***15.0***
Avg. Yld.	1.4%	1.8%	1.2%	0.6%	0.8%	1.3%	3.2%	1.5%	9.5%	6.2%	***2.4%***	***1.4%***

Devon has traded at a surprisingly elevated average P/E of around 17 times earnings over the last decade. Part of the reason for this is because much of that time was spent in an oil and gas bear market, which depressed earnings and subsequently led to increases in P/E ratios. While this premium has since reversed given the massive earnings growth the business saw in the past two years, we believe the company will continue to trade in line with the market average of 15, as the top of the oil cycle could slowly unwind over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	19%	38%	-323%	15%	23%	25%	-756%	56%	57%	49%	***21%***	***21%***

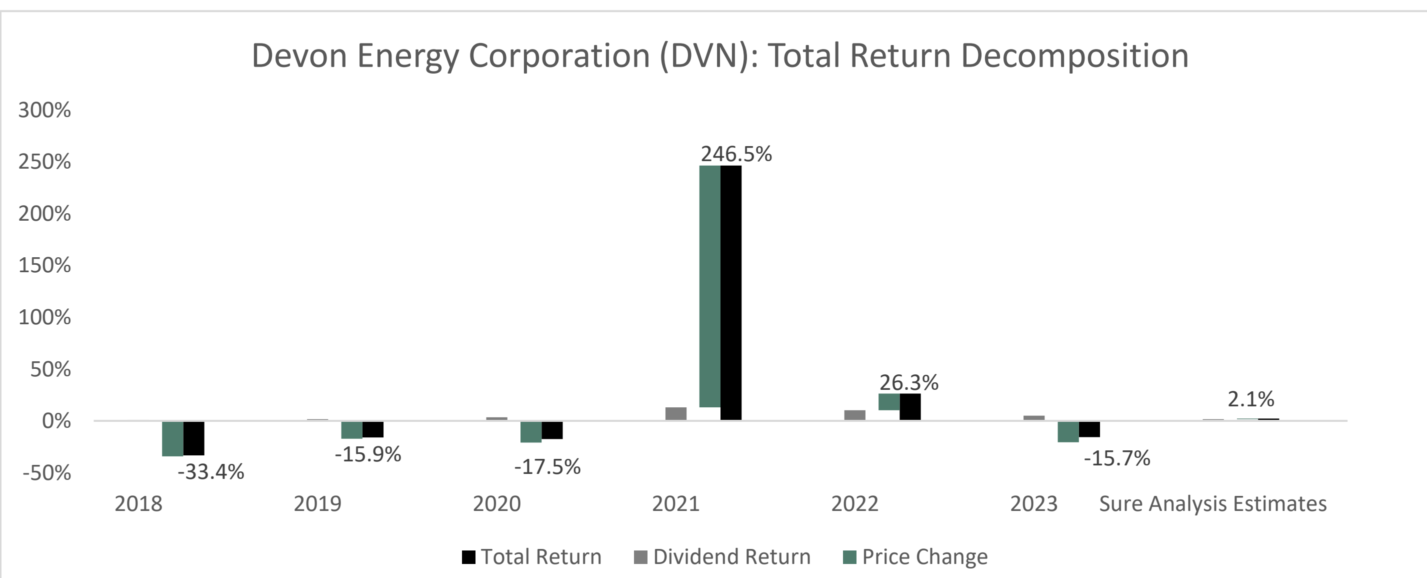
The focus that the management team has in strengthening the balance sheet and returning capital to investors, rather than re-invest into the business at what is most likely the top of an oil cycle means that Devon Energy is well prepared for any downturn in the foreseeable future and will likely survive another oil price crash.

It's important to be aware though that in the event of such a crash the fixed-plus-variable dividend structure will likely result in a dividend cut.

Final Thoughts & Recommendation

Cyclical oil companies like Devon are best purchased at the bottom of a cycle, and so despite seemingly good performance over the past few years, investors would do well to be skeptical of that outperformance continuing in the mid to long term. As such, we expect the next five years to give a total return of only 2.1% annually. The bulk of that loss comes from our -10% earnings and dividend contraction estimate, which comes from our expectation that oil prices will return to levels closer to their historical norms. Devon Energy shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	10,397	19,566	13,145	10,304	6,501	8,896	6,220	4,828	12,206	19,169
Gross Profit	5,603	8,897	223	872	1,143	2,194	714	392	3,679	8,369
Gross Margin	53.9%	45.5%	1.7%	8.5%	17.6%	24.7%	11.5%	8.1%	30.1%	43.7%
SG&A Exp.	617	847	1,193	865	645	574	475	338	391	395
Operating Profit	2,606	5,625	(1,496)	(283)	152	1,492	160	(133)	3,246	7,920
Op. Margin	25.1%	28.7%	-11.4%	-2.7%	2.3%	16.8%	2.6%	-2.8%	26.6%	41.3%
Net Profit	(20)	1,607	(12,896)	(1,056)	898	3,064	(355)	(2,680)	2,813	6,015
Net Margin	-0.2%	8.2%	-98.1%	-10.2%	13.8%	34.4%	-5.7%	-55.5%	23.0%	31.4%
Free Cash Flow	(1,322)	(7,429)	(996)	(733)	1,251	533	130	193	2,892	3,405
Income Tax	169	2,368	(6,213)	141	7	230	(30)	(547)	65	1,738

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	42,877	50,637	29,451	28,675	30,241	19,566	13,717	9,912	21,025	23,721
Cash & Equivalents	6,066	1,480	2,310	1,959	2,642	2,414	1,464	2,047	2,111	1,314
Acc. Receivable	1,520	1,959	1,105	1,356	989	812	832	601	1,543	1,767
Goodwill & Int.	5,858	6,836	5,722	4,007	841	753	753	753	753	753
Total Liabilities	22,378	24,296	18,462	15,953	16,137	10,380	7,797	6,893	11,626	12,425
Accounts Payable	1,229	1,400	906	642	633	530	428	242	500	859
Long-Term Debt	12,022	11,262	13,032	10,154	6,864	4,454	4,294	4,298	6,482	6,440
Total Equity	20,499	21,539	7,049	8,274	9,254	9,186	5,802	2,885	9,262	11,167
D/E Ratio	0.59	0.52	1.85	1.23	0.74	0.48	0.74	1.49	0.70	0.58

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.0%	3.4%	-32.2%	-3.6%	3.0%	12.3%	-2.1%	-22.7%	18.2%	26.9%
Return on Equity	-0.1%	7.6%	-90.2%	-13.8%	10.2%	33.2%	-4.7%	-61.7%	46.3%	58.9%
ROIC	-0.1%	4.6%	-41.9%	-4.5%	4.1%	17.7%	-3.0%	-30.6%	24.3%	35.8%
Shares Out.	406	409	418	523	525	449	382	382	671	653
Revenue/Share	25.86	48.07	32.30	20.32	12.50	17.90	15.51	12.81	18.35	29.36
FCF/Share	(3.29)	(18.25)	(2.45)	(1.45)	2.41	1.07	0.32	0.51	4.35	5.21

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.