Devon Energy Corporation (DVN)

Updated March 11th, 2025 by Samuel Smith

Key Metrics

Current Price:	$35	**5 Year CAGR Estimate:**	10.8%	**Market Cap:**	$22.5B
Fair Value Price:	$43	**5 Year Growth Estimate:**	3.6%	**Ex-Dividend Date:**	03/14/2025
% Fair Value:	81%	**5 Year Valuation Multiple Estimate:**	4.2%	**Dividend Payment Date:**	03/31/2025
Dividend Yield:	2.7%	**5 Year Price Target**	$51	**Years Of Dividend Growth:**	7
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Buy

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 $22.5 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 Energy Corporation (NYSE: DVN) reported its fourth-quarter and full-year 2024 financial results on February 18, 2025. The company's production increased by 28% year-over-year, reaching 848,000 barrels of oil equivalent per day (boepd) in the fourth quarter, bolstered by the acquisition of Grayson Mill Energy's Williston Basin assets. Total revenue for the quarter rose by 6% to $4.4 billion, despite a 10.5% decrease in average realized prices compared to the previous year. Net income for the quarter was $639 million, down from $1.15 billion in the same period last year, primarily due to higher expenses. Adjusted earnings per share (EPS) were $1.16, surpassing analysts' expectations of $1.00. Reflecting its strong performance, Devon increased its quarterly dividend by 9%. Looking ahead to 2025, Devon projects production between 805,000 and 825,000 boepd and plans capital expenditures ranging from $3.8 billion to $4.0 billion, with more than half allocated to the Delaware Basin. The company also announced leadership changes, with Chief Operating Officer Clay Gaspar succeeding Rick Muncrief as CEO on March 1, 2025.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$2.52	-$0.13	$1.84	$1.19	$1.38	-$0.12	$3.53	$8.31	$5.84	$4.56	***$4.78***	***$5.70***
DPS	$0.96	$0.42	$0.24	$0.30	$0.35	$0.68	$1.97	$0.69	$0.80	$1.45	***$0.96***	***$1.78***
Shares[1]	441.3	524.6	526.1	438.3	382.9	673.1	664.2	654.0	634.6	648.6	***648.6***	***630.0***

Devon Energy is positioned for solid growth over the next five years, with earnings per share projected to rise from $4.78 to $5.70, reflecting improved operational efficiency and strong commodity pricing. The company's dividend per share is expected to nearly double from $0.96 to $1.78, indicating a commitment to shareholder returns. Devon's disciplined capital allocation, focus on low-cost production, and strategic acquisitions should drive sustainable cash flow growth. While oil price volatility remains a risk, its variable dividend structure and balance sheet strength provide resilience. If market conditions remain favorable, Devon could deliver strong total returns to investors.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	19.9	NA	23.3	29.5	22.1	NA	10.2	4.8	7.8	11.1	***7.3***	***9.0***
Avg. Yld.	1.9%	0.9%	0.6%	0.9%	1.1%	2.6%	5.5%	1.7%	1.8%	2.9%	***2.7%***	***3.5%***

[1] In millions.

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DVN is currently trading at a P/E ratio of 7.3, which is well below its historical average and significantly lower than the peak valuations seen in prior years, such as 29.5 in 2018. This suggests that the market is currently valuing DVN conservatively, likely due to commodity price volatility, concerns about energy sector cyclicality, and investor uncertainty about long-term oil and gas demand. The 10-year historical average P/E is approximately 15, but given DVN's recent transformation into a more disciplined, cash-flow-focused energy company, a more realistic fair multiple over the next five years is likely between 9-12, assuming stable oil prices and continued strong financial performance. If oil prices remain favorable, DVN's multiple could expand toward 12-15, but if commodity prices weaken, it could remain in the 6-9 range. The dividend yield of 2.7% is higher than pre-2020 levels, reflecting DVN's commitment to returning capital to shareholders, but lower than its peak 5.5% in 2021, when energy stocks surged. If the company continues its disciplined capital return strategy, dividend growth is likely, though yield compression could occur.

Safety, Quality, Competitive Advantage, & Recession Resiliency

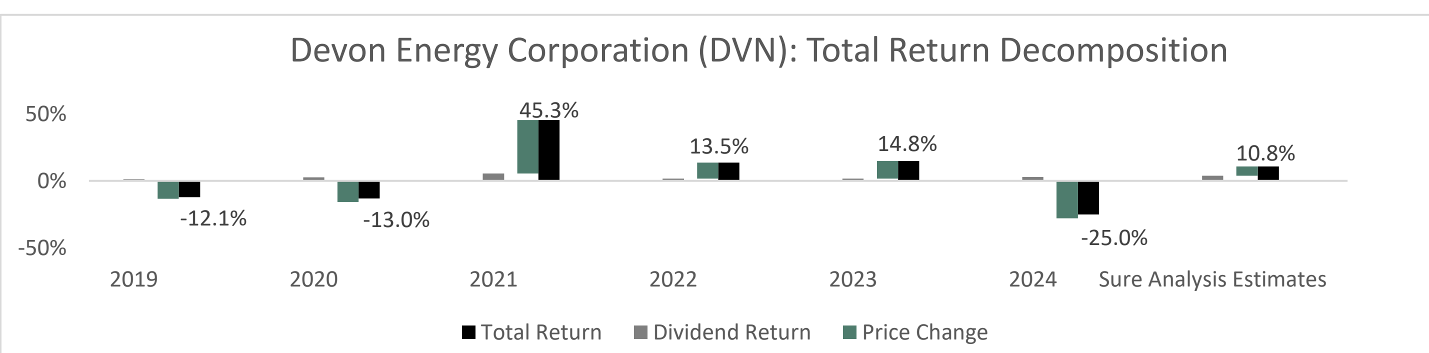
Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2030**
Payout	38%	-323%	13%	25%	25%	-567%	56%	8%	14%	32%	***20%***	***31%***

DVN's competitive advantage lies in its disciplined capital allocation strategy, low-cost production, and strong free cash flow generation. Following its merger with WPX Energy, DVN has transformed into a high-margin, capital-efficient oil and gas producer with a focus on shareholder returns rather than aggressive production growth. The company benefits from premier acreage in U.S. shale plays, particularly the Permian Basin, which offers low breakeven costs and strong production economics, efficient capital deployment, allowing for high returns on invested capital, and a flexible capital return strategy, balancing dividends and share buybacks. During the 2008-2009 recession, DVN saw earnings decline due to collapsing oil prices but remained operationally strong through cost discipline and a solid asset base. The 2014-2016 oil crash was more severe, prompting debt reduction, asset sales, and restructuring to stabilize finances. In 2020, the COVID-19-driven downturn led to negative earnings, but the WPX merger strengthened DVN's financial position, making it more resilient. The 2021-2022 energy boom boosted earnings, though the P/E ratio remained low due to cyclical concerns. DVN has significantly reduced debt, maintaining strong interest coverage and capital discipline. With minimal near-term maturities, it has flexibility in capital allocation, supporting dividends and buybacks while managing oil price volatility. The payout ratio has fluctuated but now sits at a sustainable 20%, balancing shareholder returns with reinvestment. If earnings stay strong, the ratio could stabilize at 25-35%, supporting dividend growth. In a downturn, DVN can adjust payouts while maintaining financial strength, with its variable dividend policy ensuring flexibility in capital returns.

Final Thoughts & Recommendation

Between its 2.7% dividend yield, 3.6% expected five-year EPS CAGR, and 4.2% expected five-year valuation multiple CAGR, we project a 10.8% annualized total return for DVN over the next half-decade, making it a Buy at the moment.

Total Return Breakdown by Year



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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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	13,145	10,304	6,501	8,896	6,220	4,828	12,206	19,169	15,258	15,940
Gross Profit	223	872	1,143	2,194	714	392	3,679	8,369	5,367	4,710
Gross Margin	1.7%	8.5%	17.6%	24.7%	11.5%	8.1%	30.1%	43.7%	35.2%	29.5%
SG&A Exp.	1,193	865	645	574	475	338	391	395	408	500
Operating Profit	(1,496)	(283)	152	1,492	160	(133)	3,246	7,920	4,910	4,143
Op. Margin	-11.4%	-2.7%	2.3%	16.8%	2.6%	-2.8%	26.6%	41.3%	32.2%	26.0%
Net Profit	(12896)	(1,056)	898	3,064	(355)	(2,680)	2,813	6,015	3,747	2,891
Net Margin	-98.1%	-10.2%	13.8%	34.4%	-5.7%	-55.5%	23.0%	31.4%	24.6%	18.1%
Free Cash Flow	(996)	(733)	1,251	533	130	193	2,892	3,405	2,597	(853)
Income Tax	(6,213)	141	7	230	(30)	(547)	65	1,738	841	770

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	29,451	28,675	30,241	19,566	13,717	9,912	21,025	23,721	24,490	30,489
Cash & Equivalents	2,310	1,959	2,642	2,414	1,464	2,047	2,099	1,454	875	846
Acc. Receivable	1,105	1,356	989	812	832	601	1,543	1,767	1,573	1,972
Goodwill & Int.	5,722	4,007	841	753	753	753	753	753	753	753
Total Liabilities	18,462	15,953	16,137	10,380	7,797	6,893	11,626	12,425	12,273	15,785
Accounts Payable	906	642	633	530	428	242	500	859	760	806
Long-Term Debt	13,032	10,154	6,864	4,454	4,294	4,298	6,482	6,440	6,155	8,883
Total Equity	7,049	8,274	9,254	9,186	5,802	2,885	9,262	11,167	12,061	14,496
D/E Ratio	1.85	1.23	0.74	0.48	0.74	1.49	0.70	0.58	0.51	0.61

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	-32.2%	-3.6%	3.0%	12.3%	-2.1%	-22.7%	18.2%	26.9%	15.5%	10.5%
Return on Equity	-69.1%	-8.9%	6.7%	26.3%	-4.7%	-60.0%	45.3%	58.1%	31.9%	21.5%
ROIC	-41.9%	-4.5%	4.1%	17.7%	-3.0%	-30.6%	24.3%	35.8%	20.8%	13.8%
Shares Out.	441.3	524.6	526.1	438.3	382.9	673.1	664.2	654.0	634.6	648.6
Revenue/Share	32.30	20.32	12.50	17.90	15.51	12.81	18.35	29.36	23.77	25.14
FCF/Share	(2.45)	(1.45)	2.41	1.07	0.32	0.51	4.35	5.21	4.05	(1.35)

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