Devon Energy

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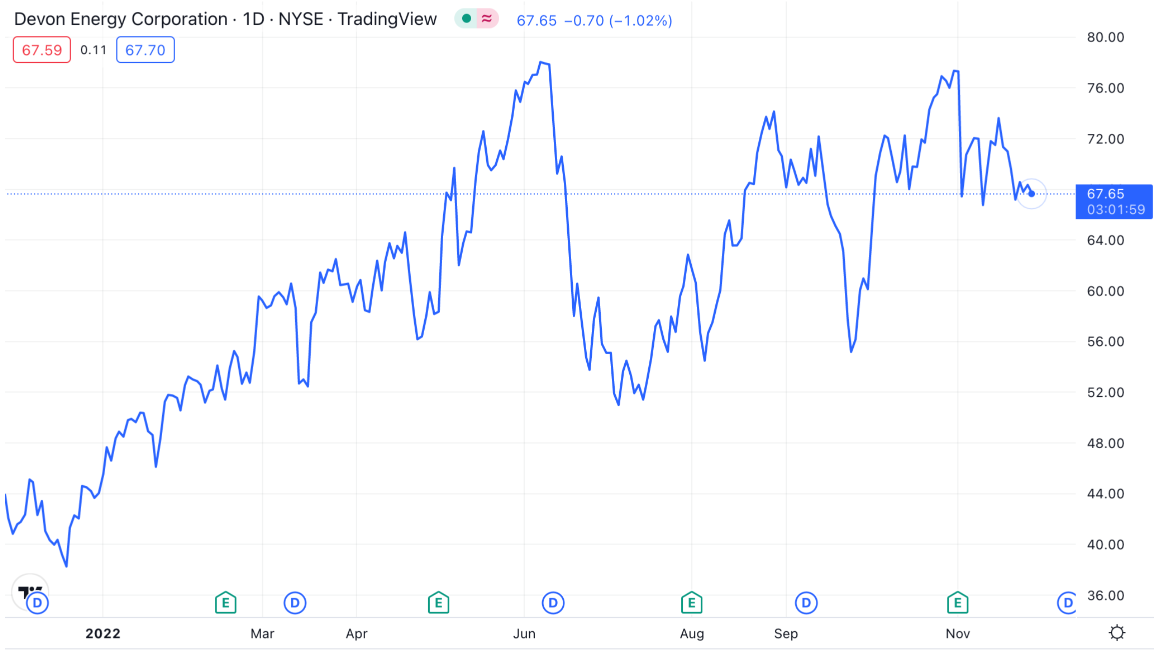
Investment Summary

Recommendation: Do not Invest **Valuation Price: $66.26**

DVN 1 Year Chart



DVN Market Data	
Share Price (11/28/2022)	66.94
Shares Outstanding	653.7M
PE Ratio	7.11
Market Cap	44.0B

Business Overview

Company/Management Notes

- Devon is an Energy company specifically in the Oil Drilling and Gas Extraction Business
- 61% increase in dividend payout from last year Q3, with ongoing execution of a 2.0 billion stock buyback program
- **Revenue closely linked to volatile crude prices**
- **Increase in interest rates threatens investment activity**

Oklahoma City, OK

MNST 2021 Revenue	
Upstream	9.5B
Percent of Total Net Sales	69%
Midstream	4.2B
Percent of Total Net Sales	31%

Business Strategy

- Devon Energy's Strategy: Devon has put a large focus on sustainability and environmental responsibility, as well as delivering a high dividend and competitive return compared to competitors.

- Acquisitions: Devon Energy acquired Validus Energy, an operator in Eagle Ford, for $1.8 billion in September 2022. Provides opportunity to expand their production and output.

VALIDUS ENERGY

Key Drivers and Risk

- Innovation and acquisitions
- Productivity and demand increasing
- Risk: Oil and gas price volatility
- Risk: Competition in the industry

Industry Overview

Strengths

- Innovation
- High barrier to entry
- Steady workforce

Opportunities

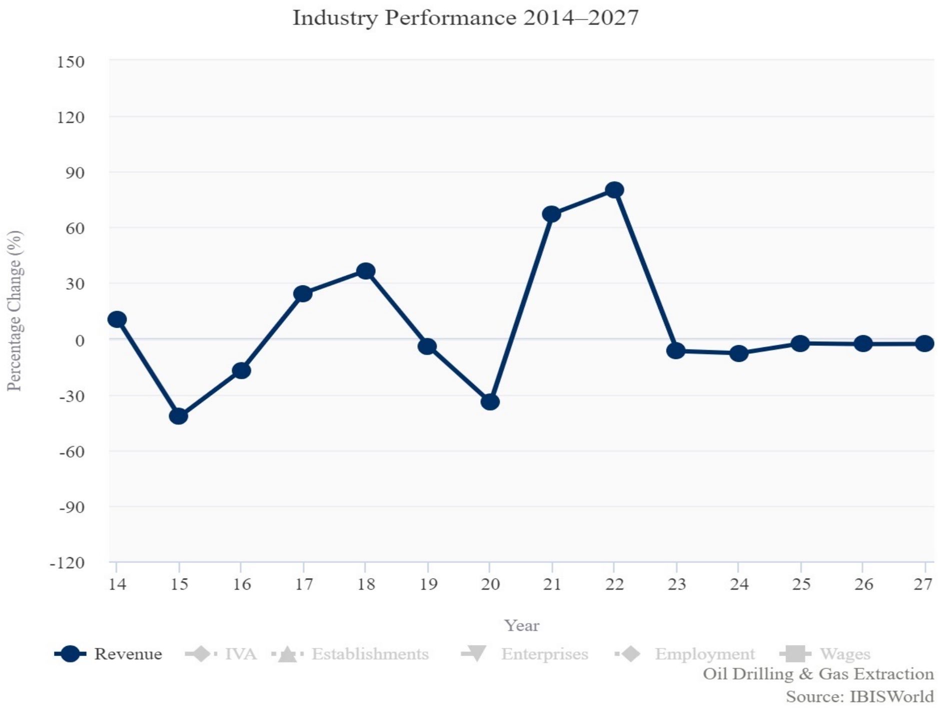
- High Revenue
- Output increase
- Renewables

Weaknesses

- Very volatile industry
- High capital requirements
- Competitive

Threats

- Energy price decrease
- Economic downturn



Investment Summary | Business Overview | Industry Overview | Financial Analysis | Valuation & Investment Risks

Comps

Chesapeake Energy	
EV/EBITDA	78.46
P/E	72.92
P/FCF	54.89

SM Energy	
EV/EBITDA	63.00
P/E	51.50
P/FCF	44.92

Company	P/E	Debt-to-EBITDA	Interest Coverage	Debt-to-Capital	Debt-to-Equity
DVN	7.18	0.66	27.5	0.36	0.56
Chesapeake Energy	7.66	0.64	19	0.3	0.43
SM Energy	5.41	0.83	17.51	0.5	0.55

DCF

Free Cash Flow						
NOPAT	4,954	5,728	6,335	6,817	7,063	7,210
Net Capital Expenditures	(3,384)	(2,538)	(1,946)	(1,498)	(687)	(354)
Net working capital changes	(265)	(201)	(157)	(123)	(60)	(34)
Free cash flow	1,305	2,988	4,233	5,196	6,315	6,822
WACC	14.36%					
Total present value of free cash flow	15,573					

- LT-growth rate: .62%
- Net reinvestment rate:5.39%
- ROIC:11.72%

Implied Valuation: **$56.51**
Current Price: **$66.94**
Overvalued:**15%**

		WACC				
	$ 56.51	12%	13%	14.36%	15%	16%
Long-Term Growth Rate	0%	68.53	61.99	54.59	51.57	47.35
	0.25%	69.68	62.94	55.33	52.23	47.92
	0.63%	71.53	64.45	56.50	53.28	48.80
	0.75%	72.14	64.95	56.88	53.63	49.09
	1%	73.45	66.02	57.71	54.36	49.71

DDM

Dividend Discount Valuation Model								
	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
Net Income	-2671	2833	6786	7710	8529	9177	9507	9706
Shares Outstanding	380	660	660	660	660	660	660	660
EPS	-7.03	4.29	10.28	11.68	12.92	13.90	14.40	14.71
Payout Ratio	-9.67%	43.33%	50.28%	46.81%	50.00%	50.00%	50.00%	50.00%
Dividend Per Share	0.68	1.86	5.17	5.47	6.46	6.95	7.20	7.35
Dividend Yield	1.02%	2.78%	7.72%	8.17%	9.65%	10.39%	10.76%	10.98%
DDM Valuation	8.72	23.84	66.26	70.08	82.81	89.11	92.31	94.24

- Perpetual Dividend Growth Rate: 24.87%
- Last 5yrs Growth Rate: 78%

Implied Valuation: **$66.26**
Current Price: **$66.94**
Overvalued: **1.01%**

Recommendation

Current Price: $66.94 **Valuation Price: $66.26** **Recommendation: Do not Invest**

Recommendation Reasoning

- Uncertainty in the dividend yield
- Uncertainty in Oil and Gas
- Not much room for the stock to grow. Only upside is the dividend
- High Beta

Investment Recommendation:

Do not Invest