

<b>Company: Devon Energy Corp</b>	<b>Ticker: DVN</b> <b>Current Price: \$ 39.08</b>	<b>Industry: Oil &amp; Gas E&amp;P</b>	
Target Price: \$ 50 Stop Loss: \$33.15 (15%) 52 Week High/ Low: \$28.79 / \$ 50.69	TTM P/E: 7.4 Forward P/E: 16.34 EPS: \$1.7	Beta: 1.8 Credit Rating: BBB Rating Outlook: S&P	Market Cap: \$20.54b Avg Vol: 4.1m Dividend Yield: 0.69%

#### Company Background:

Devon Energy Corporation is a leading independent oil and natural gas exploration and production company. Devon's operations are focused onshore in the United States and Canada. The company's portfolio of oil and gas properties provides stable, environmentally responsible production and a platform for future growth. Devon has more than doubled its onshore North American oil production since 2011. Today the company produces approximately 250,000 barrels a day and has a deep inventory of development opportunities to deliver future oil growth. Devon also produces about 1.3 billion cubic feet of natural gas a day and about 100,000 barrels of natural gas liquids per day. It is a Fortune 500 company and is included in the S&P 500 Index.

#### Industry Outlook:

cost of The oil industry is recovering slowly from multi-years low. OPEC has been cutting oil production since the end of 2016. When the news announced, it pushed up whole oil industry. Since US oil inventory is too high, far more exceeds than the demands, it takes half year till 2017/07, US crude oil inventory fell below the 5-year average. But since US shale oil is taking up market share from OPEC, OPEC's impacts to oil becomes less efficiency and takes longer to see the output. In order to enforce it and drive up the oil price higher, OPEC is considering extending the production cut till the end of 2018 or even cutting more production for each OPEC country plus Russia. When the oil price is up, it can be expected US shale oil will take advantage. Since US is not part of OPEC so it is not binding to production cut but produce more to occupy the market that OPEC left. EIA forecasts total U.S. crude oil production to average 9.2 million b/d in 2017 and 9.9 million b/d in 2018, which would mark the highest annual average production in U.S. history, surpassing the previous record of 9.6 million b/d in 1970.

#### Investment Thesis:

**We give a buy rating with a target price of \$50 (26% upside), which implies average of \$35(2012-2017 average PE 41.76x of EPS 0.85) and \$65 (2016-2017 average PE 23.41x of EPS 2.76).** This stock is correlated to oil and gas price. The oil price is correlated to OPEC's direction. The direction is clear that they are going to maintain the production cut till March,2018 and further production cut extension is in discussion. They will do whatever they consider is necessary to push up the oil price. It is the matter of many countries' life line. With OPEC's support and endorsement, DVN can enjoy the uptrend of oil price. Its cost control and production efficiency will also benefit its earning. Even oil price is low, DVN is able to improve its financial side to have positive net income this year and is able to keep its dividend. From macro energy economy and its own improved financial position, it is a good stock to pick during this phase of economy.

#### Investment Risks:

- Global economy of energy. OPEC's action to reduce global oil inventory and drive up the oil price matters.
- Natural disaster that impact production/delivery which will cause uncertainty but will be temporary.
- Weather impacts consumption of energy but will be only seasonal impact.

#### Most recent quarter financial highlights (2Q 2017):

- Oil production from U.S. resource plays exceeds guidance/Production exceeds midpoint of hurricane-adjusted guidance
- Operational momentum builds with high-rate wells in STACK and Delaware Basin
- Efficiencies drive 2017 capital outlook \$100 million lower/Capital expenditures were 12 percent below guidance year to date
- Free cash flow generation increases cash balances to \$2.8 billion
- Divestiture program advances with \$420 million of asset sales

#### Financial Performance:

In Millions of USD	2012	2013	2014	2015	2016	2017 Est	2018 Est
Revenue	9,678	10,783	17632	15058	10494	13113	14228
Operating Profit	3133	3721	4631	3017	1353	2327	
Net Income	-206	-20	1,607	-14,454	-3,302	1482.6	1134.4
Revenue Growth %	-11.7	11.4	63.5	-14.6	-30.3	25	8.5
EBITDA%	30.52	32.18	40.14	-134.17	-12.01		
Operating Profit %	32.37	34.51	26.26	20.04	12.89	17.75	
Net Income Margin	-2.13	-0.19	9.11	-95.99	-31.47		
D/E	54.72	58.65	52.29	184.88	171.32	153.04	
EPS	3.26	4.29	4.91	2.52	-0.13	1.7	2.25
PE Ratio	16.4	15.28	12.75	12.52	62.24	21.28	17.31
Current Ratio	1.49	1.2	1.09	1.22	1.44		
ROE	-0.96	-0.1	7.56	-101.15	-51.02	13.59	13.35
ROA	-0.49	-0.05	3.44	-36.1	-11.93	3.21	4.13
Dividend Per share	0.8	0.86	0.94	0.96	0.42	0.24	0.24
FCF	-3,269	-1,322	-7,469	-1,042	-2,225	209.6	-157.2

#### Discounted Cash Flow

	2012-17	2018-22
Avg Revenue growth	7.216667	15
Avg EBITDA Margin	-8.668	0.27
Avg Net Income Margin	-24.134	15.4
Avg Debt/Equity	112.4833	74
Avg FCF / Margin	-1.18	8
Cost of Debt		3.1%
Tax Rate		41%
Cost of Equity		13.5%
WACC		9.8%
Perpetuity growth rate		3%

#### Analyst Opinion

Strong Buy: 8	Buy: 14	Hold: 12	Sell: 0
Target Price Range		30~66	Avg. 41.48

Source: Yahoo Finance

#### Relative Valuation

	ConocoPhillips	Eog Resources Inc	Occidental Petroleum Corp	DVN	Industry Avg.*
P/E	--	--	83.22	36.98	15.38
P/B	2.06	4.13	2.36	2.74	1.06
Dividend Yield	2.06	0.67	4.74	0.67	0
Revn Grth	4.26	43.49	20.9	21.51	8.56
NI Grth	--	--	--	--	93.52
Operating Margin	-11.71	-0.66	0.03	27.67	14.98
Debt / Equity	76.95	50.26	46.7	93.19	115.99
Market Cap	62.25B	57.47B	49.37B	19.39B	
Revenue TTM	30799.5	10657.4	12475.8	13113	--
Net Income TTM	-2469	-280.8	111	2314	--
FCF TTM	1966	172.6	-1284	310	-74.23

#### Total Return

	DVN	Industry	S&P 500
YTD	-14.55%	-47.41	13.08%
2016	44.73	49.54	11.24%
Last 3 Years	-29.44	-59.23	36.37%
Last 5 Years	-27.36	-64.21	77.29%

#### CSR Characteristics

	DVN	Industry
Governance Disclosure Score	58.26	51.79
ESG Disclosure:	23.7	14.94
Social Disclosure Score	10.155	17.19
Environmental Disclosure Score	14.9	11.16

Data: Bloomberg data of FY 2016 (CSR)