

Devon Pullback Offers Opportunity Ahead of Key Canada Decision

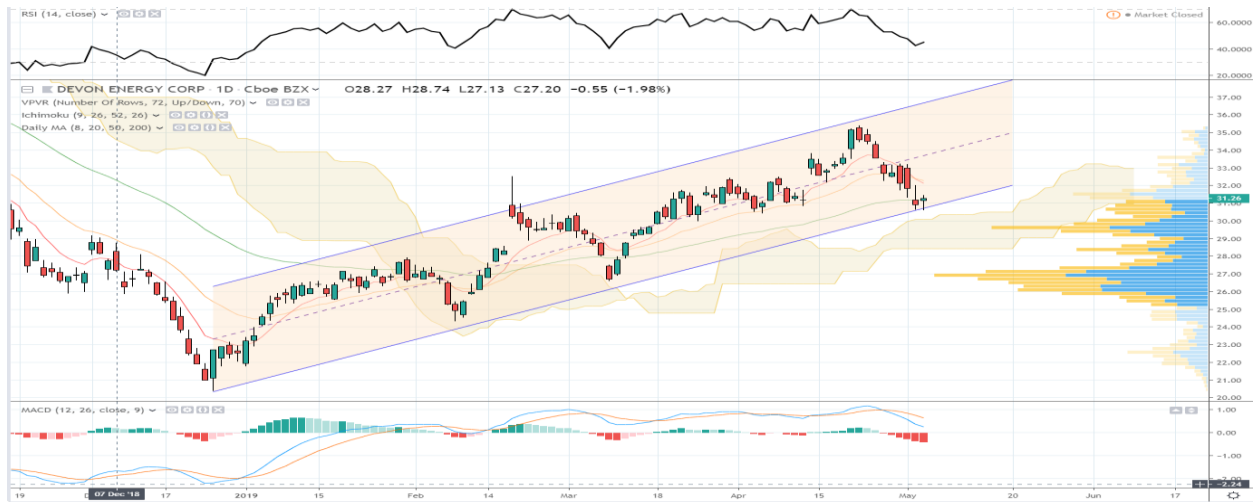
Date: 5/5/19



Devon Energy (DVN) shares have pulled back to channel support and the rising 50-EMA with crude back at key support ahead of the OPEC meeting in June. DVN has room to the upside around \$36 while RSI is back at an optimal spot and MACD is turning back higher after a reset. Long-term, DVN has a low-volume gap back up to \$39 to target and above \$35 moves it out of a big downward channel from the 2017 highs. DVN has seen a lot of bullish flow position including 4,500 May \$33 calls and 24,000 July \$34 calls. The July \$36 calls also active in late April.

The \$14B energy company trades 12X earnings, 1.3X sales, and 5.8X cash with a 1.15% yield. DVN is growing EPS around 4-5% up to \$2.55/share with revenues roughly flat. DVN has been trimming their portfolio by exiting unprofitable or non-core businesses including their Canadian Oil Sands projects which will give them relief from Alberta production curbs. They are evaluating options for the Barnett properties including a potential sale to someone like Suncor or Husky Energy. A deal could fetch up to \$4B but some estimates are much higher. DVN has a short-term goal of \$780M in cost savings by 2021 and their more narrow-focus will makes them a preferred play in the US.

Analysts have an average target for shares of \$46 with 13 buy ratings, 12 hold, and 1 sell. BAML has shares at Buy rating with a \$47 PT. They note that “New Devon” is delivering with strong production performance and a commitment to capital discipline. They think the Canada decision remains a material catalyst that will close the gap between a sum of the parts valuation discount and one of the lowest multiples of the large cap US oils.”



Short interest is 3.5% and down in 2019. Institutional ownership rose 25% last quarter. Elliott Management a buyer of 5.48M shares and now with over 16.7M, their 11th largest. Fisher Asset Management also with a new 2.4M share position. In February, a director bought \$350K in stock at \$30 the first insider buy since June 2018 when a director bought \$500K at \$41.90.

Trade to Consider: Long the **DVN** July \$34 Calls for \$1.15