EQUITY RESEARCH

Devon Energy Corporation

DVN | NYSE

RATING	PRICE TARGET	CURRENT PRICE	MARKET CAP
BUY	$51	$45.13	$52.1B

EXECUTIVE SUMMARY

Investment Thesis

Devon Energy spent the first half of 2026 turning itself into a different company. The all-stock merger with Coterra Energy, announced in February and closed on May 7, combined two disciplined mid-cap operators into a large-cap shale platform with a leading position in the economic core of the Delaware Basin, a lower cost of capital, and a management team that had already delivered one billion-dollar cost program ahead of schedule before this deal even closed. The stock has not caught up to the change. Devon trades at roughly 8.7 times forward earnings and about 5.2 times our estimate of 2026 EBITDAX, a discount to EOG Resources, Diamondback Energy, and ConocoPhillips despite a net debt-to-EBITDAX ratio near 0.9 times that sits at the low end of the large-cap E&P group. A renewed war between the United States and Iran has pushed oil prices well above the levels built into most Street models for this year, and Devon's hedged, investment-grade balance sheet means more of that upside should flow through to free cash flow and buybacks than to debt service. Our discounted cash flow model, built on the combined company's own long-range projections filed with the SEC as part of the merger proxy, points to a fair value of $51 per share, about 13% above the July 31 close of $45.13. Add the 2.8% dividend and total expected return approaches 16%. We rate Devon Energy a Buy.

Key Highlights

- Devon completed its all-stock merger with Coterra Energy on May 7, 2026, an approximately $58 billion combined-enterprise-value transaction that created a large-cap, multi-basin shale operator with more than ten years of high-quality Delaware Basin inventory. Legacy Devon holders own about 54% of the combined company and legacy Coterra holders about 46%.
- Q2 2026 results, due August 4 (the day after this report), will be the first full quarter reflecting the combined company. Consensus estimates call for revenue near $6.3 billion and EPS near $1.30.
- Management's 2026 outlook targets combined production of 1.38 million Boe/d, capital spending of about $4.9 billion (over 60% directed to the Permian), and the return of up to 70% of free cash flow to shareholders via a fixed $0.32 quarterly dividend and an $8 billion buyback authorization.
- The company is targeting $1.0 billion of annual pre-tax merger synergies by year-end 2027 and is exploring a sale of its Eagle Ford and Powder River assets that Bloomberg has reported could exceed $4 billion, a process activist investor TOMS Capital is pushing to move along faster.
- Our DCF, built on the combined company's own long-range plan filed with the SEC, implies a fair value of $51 per share, about 13% above the July 31 close; including the 2.8% dividend yield, total expected return approaches 16%.

Snapshot

Metric	Value	Metric	Value
Rating	Buy	52-Week Range	$31.47 – $52.71
Price Target	$51.00	Beta (reported / normalized)	0.43 / 1.00
Current Price (7/31/26)	$45.13	Dividend (annualized)	$1.28
Implied Upside	13.0%	Dividend Yield	2.8%
Market Capitalization	$52.1B	Credit Ratings (Moody's / S&P)	Baa2 / BBB+
Shares Outstanding	1.15B	Next Earnings Date	Aug 4, 2026

COMPANY & INDUSTRY OVERVIEW

Company Overview

Devon Energy Corporation (NYSE: DVN) is an independent oil and gas company engaged in the exploration, development, and production of crude oil, natural gas, and natural gas liquids across the onshore United States. The company traces its roots to 1971 in Oklahoma City and for decades operated as a mid-cap, Permian-weighted producer known for shareholder-friendly capital allocation. That changed on May 7, 2026, when Devon completed an all-stock merger with Coterra Energy, a deal signed on February 1 and approved by both companies' shareholders on May 4. Coterra holders received 0.70 shares of Devon stock for each Coterra share they owned, leaving legacy Devon shareholders with about 54% of the combined company and legacy Coterra shareholders with about 46%. Devon common stock continues to trade under the ticker DVN; Coterra's shares were delisted from the NYSE at closing, and the transaction implied a combined enterprise value of roughly $58 billion based on Devon's share price at announcement.

The combined company is headquartered in Houston and keeps a significant office in Oklahoma City. Clay Gaspar, Devon's president and CEO before the merger, continues in that role. Tom Jorden, Coterra's former chairman and CEO, became non-executive chairman of an eleven-member board split six seats to five in Devon's favor. Leadership below the CEO level blends both legacy teams: Coterra's Shannon Young is now Devon's CFO, Devon's John Raines runs the Permian business unit, and Coterra's Michael DeShazer oversees the Anadarko, Eagle Ford, Marcellus, and Rockies assets.

Operationally, the combined portfolio spans the Delaware Basin in the Permian, the Anadarko Basin in western Oklahoma, the Eagle Ford in South Texas, the Marcellus Shale in Appalachia (brought in through Coterra), and the Powder River and Williston basins in the Rockies and North Dakota. Management has been explicit that the Permian is now the priority: more than 60% of the roughly $4.9 billion 2026 capital budget, or about $2.9 billion, is earmarked for the Delaware Basin, where the company holds what it describes as more than ten years of high-quality drilling inventory and where field-level cash margins have run above $25 per barrel of oil equivalent, among the lowest breakeven costs of any major U.S. shale position. The 2026 plan calls for 31 rigs and 10 completion crews bringing 460 to 480 net wells online, targeting average combined production of about 1.38 million barrels of oil equivalent per day, including 500,000 barrels per day of oil.

Role	Name	Legacy Affiliation
President & CEO	Clay Gaspar	Devon
Non-Executive Chairman	Tom Jorden	Coterra
Chief Financial Officer	Shannon Young	Coterra
EVP, Permian Business Unit	John Raines	Devon
EVP, Anadarko / Eagle Ford / Marcellus / Rockies	Michael DeShazer	Coterra
Board composition	11 members (6 legacy Devon, 5 legacy Coterra)	

Industry Development

The backdrop for U.S. shale in 2026 has been unusually volatile. A renewed military conflict between the United States and Iran, which flared again in the back half of July after a spring lull, has repeatedly disrupted tanker traffic through the Strait of Hormuz and pushed crude prices well above where they started the year. WTI, which traded near $55 a barrel in late 2025, spent much of the summer in an $80 to $90 range, with Brent briefly touching $90 in late July on reports that Iranian forces had targeted tankers transiting the Strait. Prices have swung sharply in both directions on individual headlines: WTI jumped more than 6% in a single session in late July after President Trump threatened retaliation for an Iranian missile attack on U.S. forces, and Goldman Sachs has told clients that Brent could settle back toward $80 by year end if the Strait fully reopens. That volatility cuts both ways for a producer like Devon: near-term realizations have been better than the price decks most analysts built their 2026 models on, but the tailwind is not guaranteed to hold, and a durable de-escalation could remove much of the current premium quickly.

Financing conditions have tightened alongside the war premium. The Federal Reserve held rates steady through the summer but has signaled it is not finished, and the 10-year Treasury yield rose to 4.73% in late July, its highest level since January 2025, on hawkish commentary from several regional Fed presidents and persistent inflation concern. Higher long-term rates raise the discount rate applied to E&P cash flows just as commodity prices have improved, a tension that helps explain why energy equities have not fully kept pace with the move in crude.

Consolidation has been the other defining theme of the year. Devon and Coterra followed ExxonMobil's purchase of Pioneer Natural Resources, Diamondback's acquisition of Endeavor Energy, and ConocoPhillips' purchase of Marathon Oil in a wave of large-cap shale mergers aimed at extending drilling inventory, spreading corporate overhead over a larger production base, and giving management teams more room to return cash to shareholders rather than chase production growth for its own sake. ConocoPhillips has said its Marathon integration is now delivering more than $1 billion of run-rate synergies and is targeting 45% of operating cash flow returned to shareholders in 2026, a useful reference point for what Devon is chasing with its own $1 billion synergy program a little over a year behind ConocoPhillips on the integration clock.

Key Corporate Timeline

Date	Event
February 1, 2026	Devon and Coterra announce definitive all-stock merger agreement
May 4, 2026	Shareholders of both companies approve the transaction
May 7, 2026	Merger closes; Coterra shares delisted, Devon continues trading as DVN
June 2026	Devon completes private exchange offers to move legacy Coterra notes onto its balance sheet
June 9, 2026	Devon issues updated 2026 outlook for the combined company
Late July 2026	Devon confirms review of a potential Eagle Ford / Powder River asset sale; TOMS Capital stake reported
August 4, 2026	**Q2 2026 earnings, the first full quarter as a combined company**

FINANCIAL HIGHLIGHTS

Key Metrics Snapshot (Devon Standalone, Pre-Merger)

Metric	FY2024	FY2025	YoY Change
Total revenue ($M)	15,170	16,040	+5.7%
Net income ($M)	2,888	2,640	(8.6)%
Average net production (MBoe/d)	n.a.	~848	n.a.
Net debt / EBITDAX	n.a.	~0.9x	n.a.

Recent Quarterly Trend

Period	Basis	Revenue ($M)	Core / Adj. EPS	GAAP EPS
Q1 2025A	Devon standalone	4,456	$0.82	n.a.
Q1 2026A	Devon standalone	3,810	$1.04	$0.19
Q2 2026E	**Combined company (consensus)**	**~6,300**	**~$1.30**	**n.a.**

Financial Evaluation

Devon's standalone results, the last full clean year before Coterra's contribution shows up in reported numbers, reflect a business that worked through a soft pricing stretch even as production held up well. Revenue grew 5.7% to $16.04 billion in FY2025, but net income fell 8.6% to $2.64 billion as realized prices lagged the broader crude tape for parts of the year and hedge positions taken on before the Iran conflict flared periodically worked against the company. That pattern carried into the first quarter of 2026, when GAAP net income of just $120 million, or $0.19 per share, masked a stronger underlying story: core, non-GAAP earnings of $641 million, or $1.04 per share, beat consensus and were up 27% from the $0.82 per share Devon posted in the same quarter of 2025, even as reported revenue of $3.81 billion was down 14.5% year over year on realized pricing and a roughly $701 million non-cash hedge loss. Production was never the issue: Q1 2026 output of 833,000 Boe/d, including 387,000 barrels of oil per day, came in at the top end of guidance, and capital spending of $848 million landed about 6% below the midpoint of the company's plan.

An important point for readers new to the name: none of the tables above yet include a full quarter of Coterra's production or cash flow, since the merger only closed on May 7. Q2 2026, due out August 4, will be the first period that shows the combined company's actual reported numbers rather than management's pro forma estimates, and we would treat it as the more important data point for judging integration progress than anything in the tables above.

DETAILED INVESTMENT THESES

Thesis 1: A billion-dollar synergy program turns scale into earnings power

Devon's logic for combining with Coterra was straightforward: two disciplined, well-run mid-cap operators with complementary but largely non-overlapping acreage could become a single company with a lower cost of capital, more inventory depth, and enough scale to spread technology and overhead across a bigger base. Management has targeted $1.0 billion of annual pre-tax synergies on a run-rate basis by the end of 2027, with $600 million of that captured during 2027 alone as integration work moves from planning into execution. That target is not a stretch goal invented for the deal roadshow. Devon's standalone team had already delivered on a similar promise once before: a $1 billion annual free cash flow improvement program launched in 2025 was substantially complete by the time the Coterra deal closed, arriving ahead of the original schedule and giving management a credible track record for turning stated cost targets into cash.

The combined company's own long-range projections, filed with the SEC as part of the merger proxy, show EBITDAX growing from about $12.2 billion in the first projected year to $13.6 billion five years out, with free cash flow rising from roughly $5.2 billion to nearly $5.9 billion over the same stretch even as capital spending stays in a fairly narrow $5.8 to $6.1 billion band. None of that growth depends on higher commodity prices; it comes from synergy capture, well productivity, and the kind of capital efficiency that comes from running a single integrated technology and procurement platform across the combined asset base, not two separate ones. Devon holds what management describes as more than ten years of high-quality inventory in the economic core of the Delaware Basin, where field-level cash margins have run above $25 per barrel of oil equivalent, among the lowest breakeven costs of any major U.S. shale position. That inventory depth is what lets Devon commit to a stable, moderate capital budget for years without running out of premium locations, a discipline that shows up directly in the flat-to-growing free cash flow path above.

Thesis 2: A fortress balance sheet funds an aggressive capital return program while the portfolio gets reshaped

Devon ended the first quarter of 2026, just before the merger closed, with $1.8 billion of cash, an undrawn $3.0 billion credit facility, and a net debt-to-EBITDAX ratio of 0.9 times, among the lowest leverage ratios in the large-cap E&P group. Coterra brought a similarly conservative balance sheet into the combination, and management has indicated the combined entity's leverage should hold near that same 0.9x level, with Moody's rating the company Baa2 and S&P raising its rating to BBB+ in May as the deal closed. That capacity is being put to work for shareholders, not left idle: the board has committed to a fixed $0.32 quarterly dividend, an $8 billion share buyback authorization, and a target of returning up to 70% of free cash flow to shareholders, all while still retiring roughly $1.25 billion of debt during 2026.

The more interesting development is the active portfolio review underway. Devon confirmed in late July that it is exploring the sale of its Eagle Ford and Powder River assets for what Bloomberg reported could exceed $4 billion, a move that would concentrate capital even further around the Permian and free up proceeds for buybacks or additional debt paydown. Activist investor TOMS Capital Investment Management has built a stake large enough to place it among Devon's top five holders and has reportedly pressed management to move faster on both asset sales and a broader strategic review. We see the activist involvement as a net positive catalyst, not a distraction: TOMS is pushing in the same direction management has already signaled (simplify the portfolio, return more cash, prove out the synergy case), and a credible outside voice tends to keep integration timelines honest. The balance sheet gives Devon room to run this playbook on its own terms rather than being forced into a rushed sale, which matters given how choppy the market for shale asset packages can get when oil prices swing this much.

Thesis 3: The stock has not repriced for the new company, and it is not paying for a friendly oil market

Despite the improved scale, balance sheet, and free cash flow outlook, Devon trades at about 8.7 times forward earnings and roughly 5.2 times our estimate of 2026 EBITDAX, versus a peer average nearer 10.6 times and 6.6 times across EOG Resources, Diamondback Energy, ConocoPhillips, and Occidental Petroleum. That is close to a 20% discount on both metrics to companies with comparable or, in Occidental's case, meaningfully weaker balance sheets: Occidental began 2026 carrying $13.1 billion of debt against a $10 billion target and a debt-to-equity ratio near 0.7 times, well above Devon's post-merger leverage. Part of the discount is understandable. Devon is digesting a large, still-fresh merger, its GAAP earnings have been noisy because of hedge losses, and the market tends to apply a holding-company discount to any stock in active portfolio-review mode until the asset sales are actually signed.

There is also a commodity price call embedded here that the market is not fully paying for. WTI has spent much of 2026 well above the $55 handle it carried in late 2025, driven by the renewed U.S.-Iran conflict and repeated disruptions to Strait of Hormuz tanker traffic, yet the long-range projections underlying our DCF were prepared by Devon and Coterra's management teams in late 2025 and early 2026, before the worst of the price spike, and assume roughly $6.0 billion of 2026 capital spending, about $1.1 billion above the $4.9 billion the company has since guided to. If realized capital intensity comes in at the lower, more current guidance while EBITDAX benefits from a commodity backdrop stronger than what management originally modeled, free cash flow could run ahead of the base case we use in our valuation below, an asymmetry we think is underappreciated at the current share price.

FINANCIAL ANALYSIS

Income Statement Highlights

($M)	FY2024A	FY2025A	YoY Δ
Total revenue	15,170	16,040	+5.7%
Net income	2,888	2,640	(8.6)%

Devon's standalone results still reflect a business that worked through a soft pricing year in 2025, even as production held up well. Revenue grew 5.7% to $16.04 billion, but net income fell 8.6% to $2.64 billion as realized prices lagged the broader crude tape and hedge positions periodically worked against the company. That pattern continued into Q1 2026, when GAAP net income of $120 million masked a stronger core result of $1.04 per share, up 27% year over year, on reported revenue of $3.81 billion, down 14.5% on realized pricing and a roughly $701 million non-cash hedge loss.

Balance Sheet Overview

Metric	Q1 2026 (Standalone, pre-merger close)
Cash and equivalents	$1.8B
Undrawn revolving credit facility	$3.0B
Total debt	$8.4B
Net debt	$6.6B
Net debt / EBITDAX	0.9x
Credit ratings (Moody's / S&P)	Baa2 / BBB+

The figures above are Devon's last standalone snapshot, taken days before the Coterra merger closed. Coterra brought a comparably conservative balance sheet into the combination, and management's own deal materials point to a pro forma net debt-to-EBITDAX ratio holding near that same 0.9 times, implying combined net debt in the neighborhood of $11 billion against the roughly $12.2 billion of 2026 EBITDAX we use in our model below. S&P raised its rating on Devon to BBB+ when the deal closed in May, and Moody's rates the combined company Baa2. Management completed private exchange offers in June to move legacy Coterra notes onto Devon's balance sheet and has guided to roughly $1.25 billion of debt retirement during 2026, on top of the $8 billion buyback authorization and fixed $0.32 quarterly dividend discussed under Thesis 2.

Cash Flow Statement

Metric	Q1 2026 (Standalone)
Cash flow from operations	$1.7B
Capital expenditures (ex. acquisitions)	$848M
Free cash flow	$816M
Total capital investment (incl. leasehold)	$999M

Devon's last standalone quarter was a clean demonstration of the capital discipline that made it an attractive partner for Coterra in the first place: capital spending of $848 million came in about 6% below the midpoint of guidance even as production hit the top end of the range, and the resulting $816 million of free cash flow covered the dividend with room to spare. On a combined basis, management's 2026 guidance calls for capital spending of roughly $4.9 billion against production of 1.38 million Boe/d, a figure that sits meaningfully below the $6.0 billion of capital spending assumed in the first year of the SEC-filed long-range projections we use in our DCF below, a gap we return to under Valuation because it is one of the more interesting swing factors in the free cash flow outlook.

Margin Analysis

Metric	TTM (as of Q1 2026)
Gross margin	43.8%
EBITDA margin	~42.0%
Net margin	13.9%
Return on equity	15.1%

Trailing margins look reasonable but not spectacular next to peers, a function of the hedge losses and realized-pricing headwinds that ran through Q1 2026 GAAP results discussed above. We would expect reported margins to normalize higher over the balance of 2026 as those hedge positions roll off, as combined-company synergies begin showing up in per-unit operating costs, and as the current, more favorable commodity price environment feeds through to realized pricing with a normal lag.

Hedging Program

Devon layers on oil and gas hedges roughly a year in advance to protect the capital program and dividend from near-term price swings, and that discipline is exactly what produced the roughly $701 million non-cash hedge loss in Q1 2026: positions put on before the Iran conflict re-escalated moved against the company as spot prices rose through the quarter. We view this as the ordinary cost of a conservative hedging policy rather than a signal of any change in the underlying business, and it is worth remembering that the same policy protects realized cash flow if the current price backdrop reverses quickly. As legacy hedge positions roll off through the back half of 2026 and the combined company sets its own go-forward hedging strategy, we would expect GAAP earnings to track core earnings more closely than they did in the first quarter.

FINANCIAL ESTIMATES

Combined Company Long-Range Projections

($M)	2026E	2027E	2028E	2029E	2030E
EBITDAX	12,199	12,722	13,224	13,394	13,638
Cash flow from operations	11,179	11,222	11,433	11,641	11,804
Capital expenditures	(6,004)	(5,780)	(5,775)	(6,118)	(5,907)
Free cash flow	**5,175**	**5,443**	**5,659**	**5,523**	**5,897**

Sell-side consensus on the newly combined entity is still settling and covers a wide range across the roughly two dozen analysts who follow the name, reflecting how new the combined-company numbers are. Estimates we have seen point to 2026 revenue in the $19 to $20 billion range and adjusted EPS between roughly $4.50 and $5.20, a range broadly consistent with the $5.22 in next-twelve-month EPS implied by Devon's current 8.65 times forward earnings multiple on its share price. We would expect that range to narrow considerably once Q2 results and initial combined-company guidance for the back half of 2026 are in hand.

2026 Operating Guidance Summary

Metric	2026 Guidance
Total production	~1.38 MMBoe/d
Oil production	~500 MBbl/d
Capital expenditures	~$4.9B
Permian share of capex	>60%
Rig count / completion crews	31 / 10
Net wells online	460–480
Planned debt retirement	~$1.25B
Target FCF return to shareholders	Up to 70%

VALUATION

DCF Assumptions: WACC Build

Component	Input	Value
Risk-free rate (Rf)	10-yr U.S. Treasury, 7/31/26	4.73%
Equity risk premium	Long-run market ERP	5.50%
Beta	Normalized large-cap E&P beta*	1.00
Cost of equity (Ke)	Rf + Beta × ERP	10.23%
Pre-tax cost of debt (Kd)	Investment-grade E&P spread over UST	6.25%
Tax rate	Normalized effective rate	22.0%
After-tax cost of debt	Kd × (1 – tax rate)	4.88%
Equity weight	Market cap / (Market cap + Net debt)	82.6%
Debt weight	Net debt / (Market cap + Net debt)	17.4%
WACC		**9.30%**

DCF Model

($M)	2026E	2027E	2028E	2029E	2030E
Free cash flow	5,175	5,443	5,659	5,523	5,897
Discount factor @ 9.30%	0.915	0.837	0.766	0.701	0.641
PV of free cash flow	**4,735**	**4,556**	**4,334**	**3,870**	**3,780**

DCF Output

Sum of PV (2026E–2030E free cash flow)	$21,276M
Terminal EBITDAX (2030E)	$13,638M
Exit multiple (EV / EBITDAX)	5.5x
Terminal value	$75,009M
PV of terminal value	$48,085M
Enterprise value	**$69,361M**
Less: estimated net debt (pro forma, ~0.9x 2026E EBITDAX)	($11,000M)
Implied equity value	**$58,361M**
Shares outstanding	1,150M
Implied share price	**$50.75**
Current share price (7/31/26)	$45.13
Implied upside	12.5%

As a sanity check, a perpetuity-growth approach (2.0% terminal growth applied to 2030E free cash flow) implies an enterprise value near $74.1 billion and a share price near $55, while applying the peer group's average 10.6 times forward earnings multiple to Devon's implied 2026 EPS of roughly $5.22 points to a similar $51 to $55 area. We set our price target at $51, close to the exit-multiple DCF output, which reflects the base-case projections without crediting the company for the near-term commodity tailwind discussed under Thesis 3.

Price Target Sensitivity

WACC \ Exit Multiple (EV/EBITDAX)	4.5x	5.5x	6.5x
8.30%	$45.25	$53.21	$61.17
9.30% (base case)	**$43.15**	**$50.75**	**$58.36**
10.30%	$41.15	$48.41	$55.67

Comparable Company Analysis

Company	Ticker	Mkt Cap ($B)	Fwd P/E	EV/EBITDA	Div Yield
Devon Energy	**DVN**	**52.1**	**8.7x**	**5.2x**	**2.8%**
EOG Resources	EOG	72.0	9.3x	5.1x	3.0%
Diamondback Energy	FANG	57.1	10.2x	n.a.	2.2%
ConocoPhillips	COP	146.8	12.3x	7.1x	2.6%
Occidental Petroleum	OXY	63.0	n.a.	7.5x	1.9%
Peer average (ex-DVN)		**n.a.**	**10.6x**	**6.6x**	**2.4%**
DVN premium / (discount)		n.a.	(17.9)%	(21.2)%	+0.4 pts

Devon's discount to this peer group is consistent across both earnings and cash flow multiples, for the reasons discussed under Thesis 3. Occidental's premium on EV/EBITDA is arguably the least deserved of the group given its still-elevated leverage. ConocoPhillips' premium is easier to justify given its scale, geographic diversification, and multi-year Marathon Oil integration track record, which is roughly a year ahead of where Devon sits today in its own integration process.

CATALYSTS & RISKS

Key Catalysts

- **Q2 2026 earnings (August 4, 2026):** The first full quarter reporting the combined company. Consensus looks for revenue near $6.3 billion and EPS near $1.30; the print and accompanying updated full-year guidance should give the market its first clean read on combined-company margins and cost trends.
- **Synergy capture:** Management has guided to $600 million of captured synergies in 2027 on the way to a $1.0 billion annual run rate by year-end 2027. Each incremental disclosure of realized savings is a low-risk, high-visibility catalyst.
- **Eagle Ford and Powder River sale:** A transaction north of $4 billion, as reported by Bloomberg in late July, would sharpen the Permian focus, fund buybacks or debt paydown, and give the market a concrete data point on how buyers value Devon's non-core acreage.
- **Activist-driven urgency:** TOMS Capital's stake and public pressure raise the odds that portfolio simplification and capital return commitments arrive sooner, not later.
- **Buyback execution:** An $8 billion authorization against a $52 billion market cap is sizable; every dollar deployed below our $51 fair value estimate is accretive to remaining shareholders.
- **Debt reduction and a possible ratings upgrade:** $1.25 billion of planned 2026 debt retirement, layered on an already investment-grade balance sheet (Baa2 / BBB+), could support further ratings improvement and a lower cost of capital over time.
- **Commodity price backdrop:** Continued tightness around the Strait of Hormuz would keep realized prices above the levels built into the base-case projections we use in our DCF.

Key Risks

- **De-escalation risk:** A durable resolution to the U.S.-Iran conflict and a reopened Strait of Hormuz could send crude back toward the $80 Brent level Goldman Sachs has flagged as a year-end target, removing a meaningful part of the current price support.

- **Integration execution risk:** Large mergers rarely run exactly to plan. Any slippage in the synergy timeline or unexpected integration costs would weigh on both the earnings trajectory and market confidence in management's credibility.
- **Activist and portfolio-review uncertainty:** An activist campaign can also cut the other way, pressuring management into a rushed asset sale at a discount, a break-up that gives up scale benefits, or a prolonged distraction for a leadership team that is simultaneously integrating two large organizations.
- **Basis and differential risk:** Waha natural gas pricing exposure, which management expects to run 10 to 15% of gas volumes until the Blackcomb pipeline comes online later in 2026, has been a periodic drag on realized gas prices in the Permian.
- **Interest rate risk:** A 10-year Treasury yield near 4.73%, its highest level since January 2025, raises the discount rate applied to future cash flows and could pressure the multiple the market is willing to pay even if operating results are in line.
- **Leverage and capital markets risk:** Devon completed private exchange offers in June 2026 to refinance legacy Coterra notes onto its own balance sheet; any disruption in credit markets during a period of active portfolio repositioning could raise the cost or complicate the timing of that work.
- **General commodity and regulatory risk:** Oil and gas prices remain inherently volatile and subject to OPEC+ decisions, global demand trends, and potential shifts in U.S. energy or tax policy that sit outside management's control.

CONCLUSION

Devon Energy is not the stock it was six months ago. The Coterra merger converted a well-run mid-cap producer into a large-cap operator with meaningfully more inventory, a lower cost of capital, and a credible path to $1 billion of annual synergies, all funded by one of the stronger balance sheets in the group. The market has been slow to reward the change, in part because GAAP earnings have been messy through the transition, in part because the ongoing portfolio review keeps a modest holding-company discount in place, and in part because a genuinely volatile oil market has kept investors cautious across the entire E&P sector.

Our $51 price target, built from the combined company's own SEC-filed long-range plan and cross-checked against peer multiples, implies about 13% upside from the July 31 close, with the 2.8% dividend pushing total expected return toward the high teens. With Q2 earnings landing the day after this report, the Eagle Ford and Powder River sale process progressing, and synergy capture still in its early innings, we see more catalysts than risks over the next two quarters and rate Devon Energy a Buy.

Rating History & Coverage

Date	Rating	Price Target	Note
August 3, 2026	Buy (Initiation)	$51.00	Coverage initiated post-merger close