



Ovintiv



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Ovintiv Enhanced by Drilling Efficiency Improvements

Price \$25.58

Recent Purchase

August 24, 2021

- Growing Free Cash Flow and Compelling Valuation.
- Free cash reducing debt and raising dividends.
- Aggressive efficiency campaign, which is improving profitability and cash flow.
- 540 MBOe/d portfolio of hydrocarbon wells across the US and Canada.
- Diversified product mix of crude oil, NGLs, natural gas.

Investment Thesis

Ovintiv (OVV) is an oil and natural gas producer and developer with assets across the United States and Canada.

OVV is one of the largest producers of oil, natural gas liquids (NGLs), and natural gas in North America, with 540 thousand barrels of oil equivalent a day (MBOe/d) in total assets. With a recent 50% increase in dividends, coupled with an aggressive debt reduction strategy, we believe OVV is an excellent choice for dividends and capital appreciation.

Wells

OVV holds a multi-basin portfolio, with its primary wells being in the Permian basin in Texas, Anadarko in Oklahoma, and Montney in British Columbia and Alberta. It also holds other smaller positions in Utah, North Dakota, Alberta, and Texas, which according to OVV, "[are] assets that are not part of the Company's strategic focus". This means that the focused assets have significant drilling opportunities that mix competitive output with efficiency.



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2020 Annual Report

The Permian basin had record drilling performance in 2020, with costs decreasing by nearly 30% since FY 2019. In 2021, Ovintiv will invest approximately \$600 million in capital expenditures to increase efficiency and production while further reducing drilling costs. As of the end of FY 2020, there were 102 wells drilled during the year and a remaining lease term of 13 years.

The Anadarko basin also had record performance in 2020, with a similar ~30% decrease in costs since FY 2019. Additionally, though, this basin has cheaper drilling costs, leading it to a lower Capex budget of \$300 million in 2021. As of the end of FY 2020, there were 72 wells drilled in 2020 and a remaining lease term of 4-11 years, depending on the exact well.

The Montney basin is natural gas-rich. OVV is developing this opportunity with \$400 million in Capex and a 25% reduction in costs since FY 2019. Montney expanded by 73 horizontal wells in 2020 and is seeing increased production.

The efficiency increases in natural gas development have led to an 8% increase in drilling performance.

Production Basis	Oil Output Daily Average(Mbbls/d)	NGLs Output Daily Average(Mbbls/d)	Natural Gas Daily Average (MMcf/d)	Net Number of Wells
Permian (Texas)	63.2	25.3	124	1,454
Anadarko (Oklahoma)	43.0	45.8	331	817
Montney (Alberta/BC)	0.1	51.0	918	1,341
Other USA Wells	44.7	9.76	74	1,796
Other CAN wells	0.5	5.0	82	564

Mbbls/d = Thousands of barrels per day

MMcf/d = millions of cubic feet per day

Net wells factor in the operating interest percentage for the number of wells on a basin.

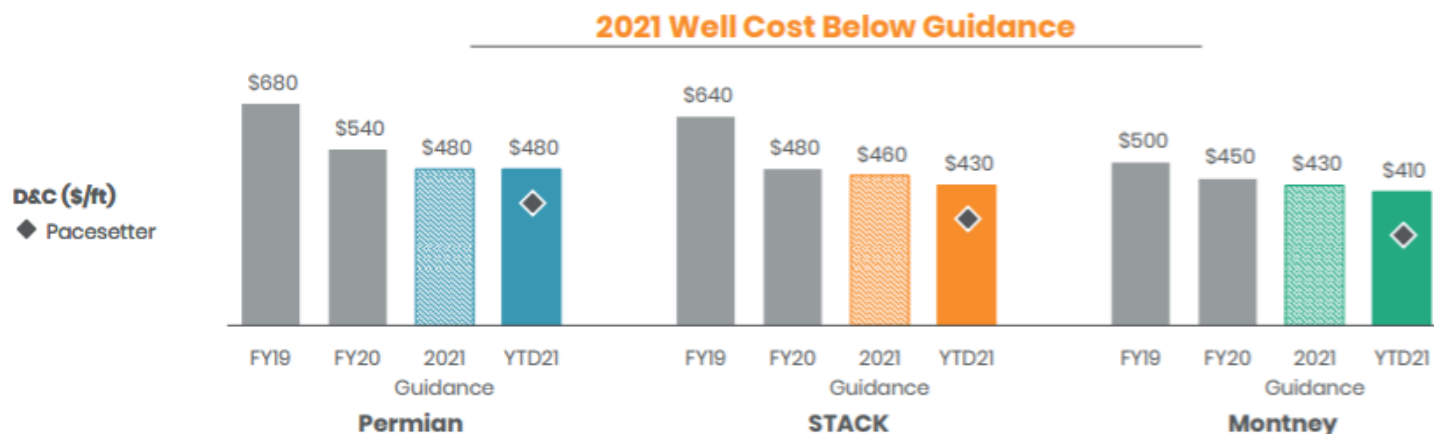
Figures are as of years end 2020.

Priorities

The primary goal of OVV is the continued efficiency improvements which will allow for further debt reduction. Currently, the target is a total reduction of 40% by 2022 (40% from 2020-2022).

Cost reduction initiatives have resulted in a 20% reduction in cost per foot of well-drilled since 2019. Other efficiency improvements include the cost of sand, the horizontal length of the well (more output per foot drilled), time from initial drill to capturing output (tie-in time). For example, at the Permian well, sand costs are down 40%, horizontal length is up 30%, and

tie-in time is down 40%. As a result, OVV is well on its way to beating its efficiency goals in 2021 and beyond.



Q2 Presentation

ESG

OVV's ESG target is primarily the reduction in methane emitted into the atmosphere. Already, they have reduced this by 33%. There has also been a 14% reduction in carbon emissions and a 36% decrease in venting operations.

In 2020, OVV hit its 7th consecutive year of safety improvements and has been rated a top drilling firm by MSCI, ISS, Dow Jones, and Sustainalytics, all financial firms that rate firms based on their commitment to ESG advances.

OVV is offering every employee a bonus to meet these targets if they continue to reduce their emissions at their current pace.

Risk

Regulatory risks for drilling and production and permitting new drilling prospects are the most significant risks. In addition, the global objective of reducing carbon-based energy to reduce climate change is a longer-term risk. The oil demand could be peaking on a worldwide basis. We expect the demand for natural gas to continue to grow over the next 5 or 10 years as electricity production moves away from coal.

Should a well rupture, oil spill, or other environmental event be found to be the fault of OVV, it could spell disaster for the firm's public image and subject them to regulatory actions, fines, and interrupted production.

While OVV is an upstream firm and does not operate pipelines, the restrictions on building new pipelines could potentially drive costs up if OVV is forced to use inefficient routes to customers and reduce revenues if pipeline transport cannot be obtained.

Metrics

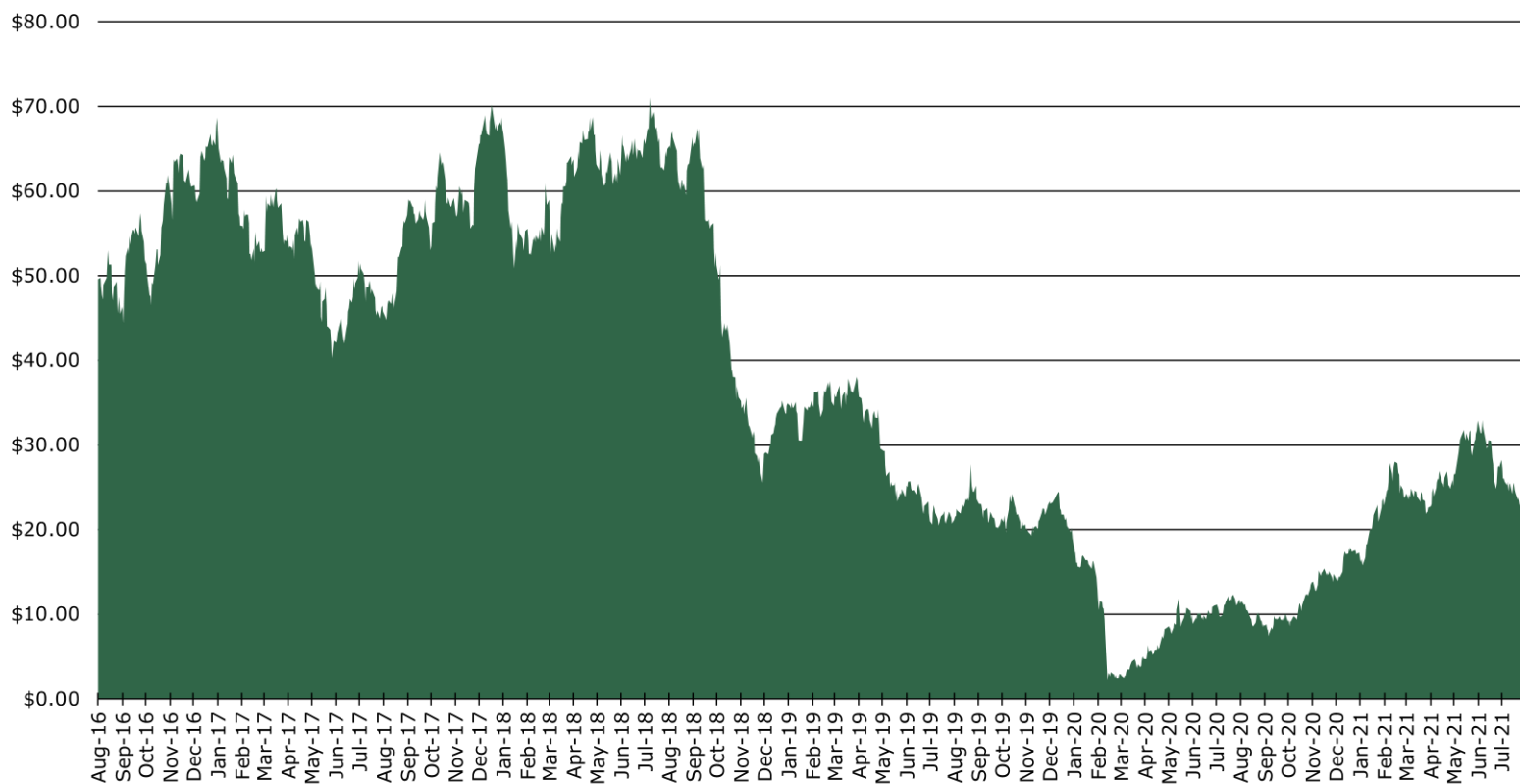
During Q2 2021, there was strong drilling performance and continued Free Cash Flow (FCF) generation of \$350 million, with an updated figure of \$890 million in FCF for the first half of 2021. Additionally, \$383 million in capital expenditures toward efficiency increases was spent during Q2. Debt was reduced by around \$1.2 billion.

Dividends are increasing by 50% for the September 2021 distribution, thanks to the dramatic increase in FCF.

Estimated Next 12 Months	Current Yield	Price-to- Earnings	EV/EBITDA	Price-to- Book
Ovintiv (OVV)	2.2%	3.9	3.3	1.3
APA Corp (APA)	0.8%	5.7	3.8	48.7
Range Resources (RRC)	0%	6.5	5.1	1.5
Devon Energy (DVN)	1.7%	6.7	4.2	1.8
EOG Resources (EOG)	2.7%	8.5	4.0	1.6
Pioneer Natural Resources (PXD)	2.9%	8.8	5.0	1.3



Ovintiv (OVV)



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