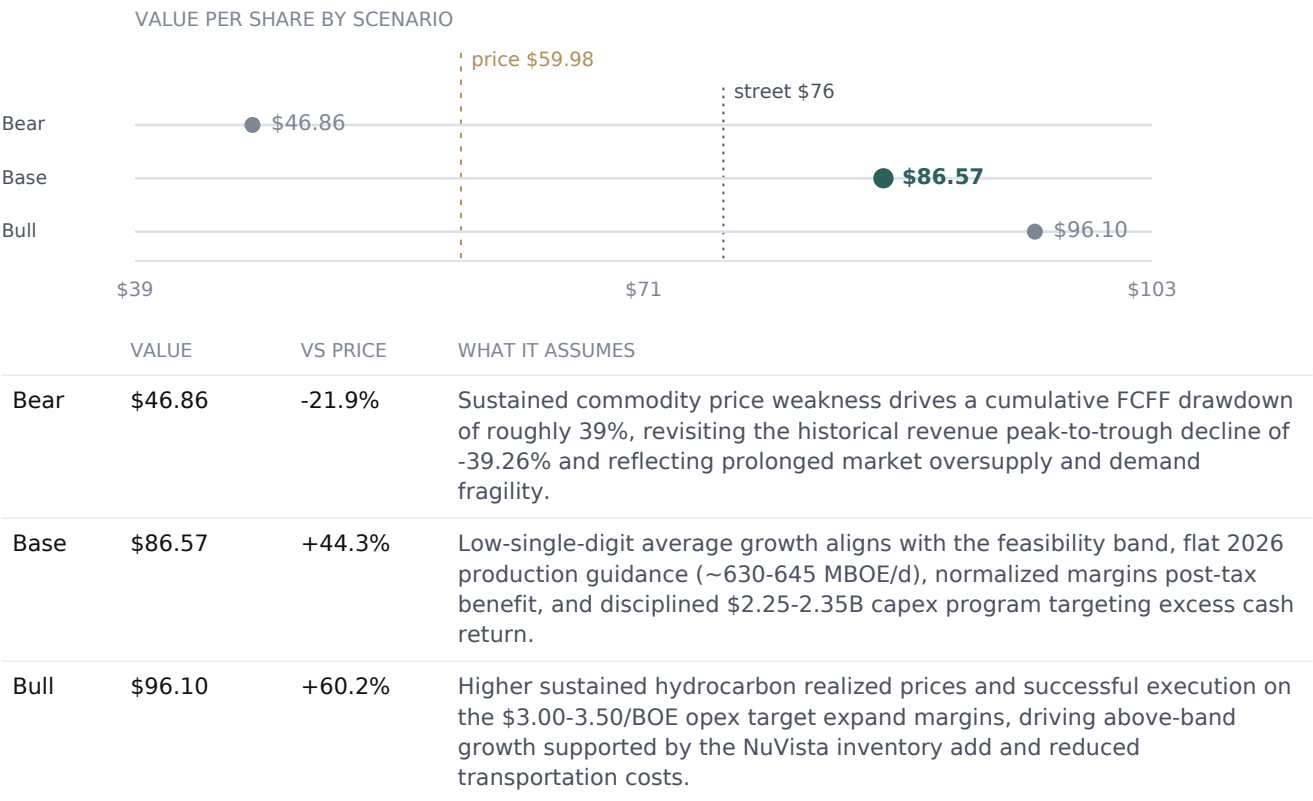


EQUITY RESEARCH / OVV

Ovintiv Inc

LONG CANDIDATE · historical study through 2026-10-01 · horizon 540 days · DCF

PRICE	BASE CASE	UPSIDE	PROB-WEIGHTED	MARKET CAP	TRAILING P/E
\$59.98	\$86.57	+44.3%	\$76.56	\$16.52B	16.8x



STREET CHECK

Street target **\$76** (+27.5% vs price) · 18 buy / 5 hold / 0 sell · forward P/E 9.0x · EPS estimates \$7.47 this year, \$7.45 next

Our base case is **1.13x** the Street target: within the Street's range.

Consensus is shown for calibration only. The model never receives it.

Thesis

Ovintiv operates a high-quality, multi-basin upstream portfolio in the Permian and Montney basins, generating substantial and predictable free cash flow driven by disciplined capital allocation and a commitment to return 50-100% of excess cash to shareholders. The stock trades at a 16.75x trailing P/E, a severe premium to its 5-year historical range of 3.6x-9.62x, due to full-cost accounting ceiling test impairments and non-recurring deferred tax windfalls that distort GAAP earnings. A DCF on normalized FCF reveals a base-case value of \$86.57, implying the market is significantly mispricing the underlying asset portfolio's cash generation capability and management's capital allocation discipline.

What the market may be missing

The market prices Ovintiv at \$59.98 based on a distorted trailing P/E of 16.75x, failing to normalize earnings through the full-cost accounting ceiling test and the ~\$700M deferred tax benefit recognized in TTM. The underlying asset portfolio, guided for flat 2026 production (630-645 MBOE/d) and a \$2.25-2.35B capex program, generates normalized FCF of approximately \$1.93B, supporting a value of \$86.57 per share.

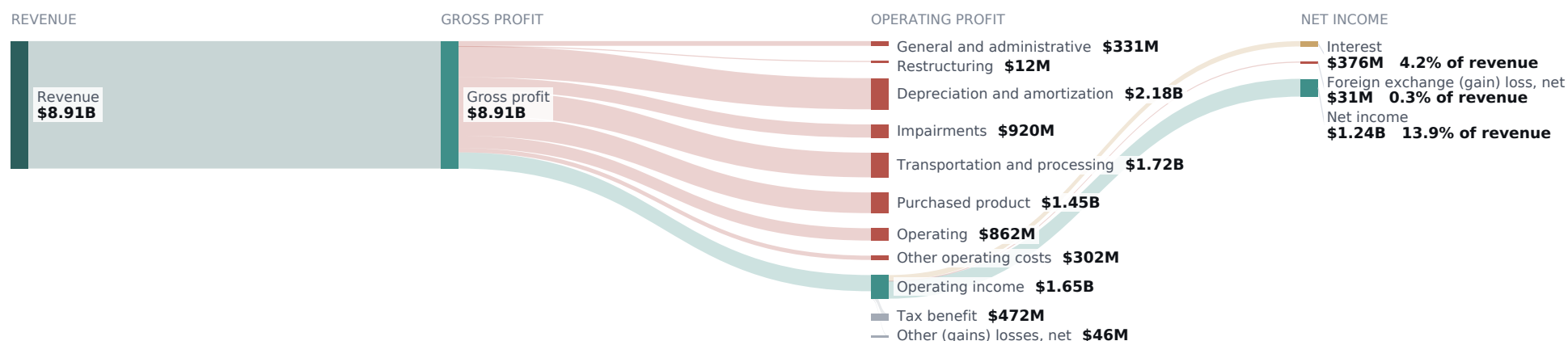
Why the opportunity exists

Complexity. The market applies a 16.75x trailing P/E, heavily pricing in a regime of permanently higher cash generation and lower risk, while struggling to normalize earnings through the full-cost accounting ceiling test and non-recurring deferred tax windfalls. This accounting complexity distorts the multiple, obscuring the underlying asset portfolio's normalized FCF yield and management's commitment to excess cash returns. Evidence: Historical P/E range of 3.6x-9.62x versus current 16.75x; DCF base case value of \$86.57 versus price \$59.98; stripping ~\$700M deferred tax benefit reveals a normalized starting FCF of \$1.93B.

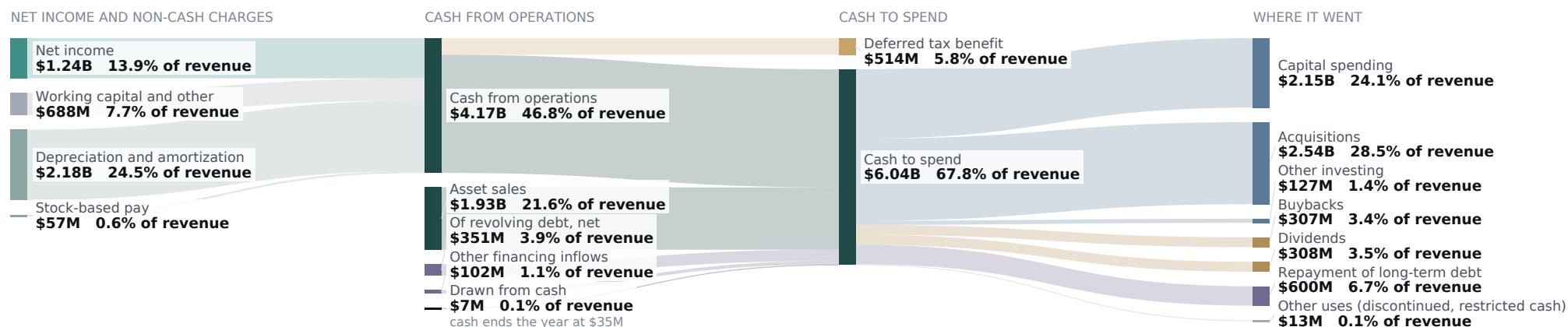
Follow the money: fiscal 2025

Of every \$100 of revenue, \$0.0 went to cost of revenue, \$87 to operating costs and \$4.2 to interest and tax, and \$14 became net income. Operations turned that into \$41 of cash; \$24 went to capital spending and \$6.9 back to shareholders.

1 WHERE EVERY DOLLAR OF REVENUE WENT



2 HOW PROFIT BECAME CASH, AND WHERE THE CASH WENT SHOWN 2.3 TIMES LARGER THAN PANEL 1



From the 10-K for the fiscal year ended 2025-12-31, XBRL accession 0001193125-26-064309. Every band ties to a reported figure; where the tagged lines do not add up, the difference appears as an explicit other or working-capital band. Lines outside the standard set are placed by the filing's own calculation links, under the company's labels; borrowing and investment flows are netted by instrument.

The business

Ovintiv Inc. is an independent upstream energy company engaged in the exploration, development, and production of oil, natural gas liquids (NGLs), and natural gas primarily in North America.

What it sells

Oil, NGLs, and natural gas. The company's financial performance and condition are substantially dependent on the prevailing prices it receives for these hydrocarbons, which are sold to customers and counterparties subject to benchmark pricing and regional differentials. Oil, plant condensate, other NGLs, and natural gas production. Also engages in sales of purchased third-party products for operational flexibility and market diversification, plus office sublease revenues. Oil, natural gas liquids (NGLs, including plant condensate and other C2-C4), and natural gas production.

Customers and channels

Sells production to customers and counterparties. Pricing may be discounted relative to benchmarks (e.g., Brent, WTI, Henry Hub, AECO) due to constraints on the ability to transport and sell production to certain markets. Operations and revenues/expenses are denominated in both USD and CAD, subject to exchange rate fluctuations. Sales are diversified across multiple downstream markets and regional pricing hubs (WTI, NYMEX, AECO, Houston, Dawn, JKM, Chicago city-gates). The company uses firm transportation contracts and derivatives to optimize realized prices and mitigate regional exposure. Sells production through diversified downstream markets and regional hubs (Houston, WTI, Edmonton Condensate, AECO, Dawn) using firm transportation contracts and commodity derivatives to mitigate price risk and optimize margins.

Unit economics and costs

Not explicitly disclosed in the excerpt. The company notes that operations involve substantial costs, reliance on vendors/suppliers/contractors and service providers, access to drilling rigs and completion equipment, and expenses denominated in CAD affected by currency fluctuations. Operational interruptions or reserve inaccuracies could expose the company to substantial losses. Upstream operating expenses were \$3.80/BOE in 2025 (guided \$3.00-\$3.50/BOE for 2026). Upstream transportation and processing costs were \$7.51/BOE in 2025 (guided \$8.75-\$9.25/BOE for 2026). Production/mineral taxes were ~4% of revenues (guided 3.25%-3.75% for 2026). DD&A averaged \$9.62/BOE in 2025, with USA Ops at \$12.81/BOE and Canadian Ops at \$6.26/BOE. H1 2026 upstream operating expenses of \$3.49/BOE, transportation and processing costs of \$8.45/BOE, and production/mineral taxes of 3.55% of upstream product revenues. Full year cost guidance targets upstream T&P of \$8.75-\$9.25/BOE, upstream opex of \$3.00-\$3.50/BOE, and taxes of 3.25-3.75%.

Segments

- **USA Operations**
- **Canadian Operations**
- **Corporate & Other**

Revenue drivers

- Prevailing prices for oil, NGLs, and natural gas
- Production volumes of oil, NGLs, and natural gas
- Price differentials relative to benchmark indices
- USD/CAD exchange rate fluctuations
- North American and global supply and demand dynamics
- Oil production volumes and realized prices
- NGL production volumes and realized prices
- Natural gas production volumes and realized prices

Competitive position

The oil and natural gas industry is highly competitive, and many competitors have available resources in excess of Ovintiv's. The company's performance is subject to global supply and demand, OPEC+ production levels, geopolitical stability, and the availability of infrastructure for gathering, transportation, processing, and refining. High-quality multi-basin portfolio in the US and Canada. Utilizes large-scale cube development with multi-well pads and advanced completions to maximize recovery. Focuses on operational efficiency, innovation, and ESG integration, including emissions intensity targets tied to compensation. Multi-basin, multi-product portfolio in the Permian and Montney enables flexible capital investment. Utilizes stacked innovation, large-scale cube development, and advanced completion designs to maximize returns and recoverable resources, supported by a deep inventory of high-quality well locations.

Industry direction

The industry faces increasing regulatory scrutiny, evolving environmental laws, and a transition to a lower-carbon economy. Climate change concerns, conservation efforts, and the availability of alternative energy sources (coal, biofuels, nuclear, hydro, solar, wind) are creating uncertainty regarding future demand for hydrocarbons and could restrict exploration and development areas. Cyclical oil and gas markets driven by global supply/demand, OPEC+, geopolitical events, and macroeconomic uncertainties. Natural gas markets impacted by LNG exports, weather, and structural supply changes. Industry trending toward decarbonization, operational efficiency, and integrated sustainability reporting. Oil and gas industry is cyclical with volatile prices. Oil prices driven by global supply/demand, OPEC+ production, and geopolitical conflicts. Natural gas prices influenced by structural supply/demand shifts, LNG export changes, weather, and supply chain constraints.

Recent developments

- Closed divestiture of Anadarko assets for ~\$2.8 billion, repaid Term Credit Agreement, and terminated facility.
- Redeemed \$700 million senior notes due May 2028, generating ~\$40 million annualized interest savings.
- Closed NuVista Energy acquisition for ~\$2.8 billion, adding ~930 net well locations to Montney inventory.
- Updated shareholder return framework to return 50-100% of annual Non-GAAP Cash Flow in excess of capital expenditures.

- Recognized \$337 million loss on Anadarko divestiture and \$1.485 billion before-tax ceiling test impairment in H1 2026.
- Completed workforce reductions as part of corporate reorganization to align with transformed portfolio.
- Repurchased ~7.6 million shares for \$429 million and paid \$169 million in dividends YTD.
- Feb 2026: Announced updated shareholder return framework targeting 50-100% of excess Non-GAAP Cash Flow via dividends/buybacks.

Management outlook

Company expects full year 2026 total production of 630-645 MBOE/d, with oil and condensate at 210-212 Mbbls/d, NGLs at 83-85 Mbbls/d, and natural gas at 2,025-2,075 MMcf/d. Capital investment remains guided at \$2.25-\$2.35 billion. Shareholder returns are expected to exceed 60% of Non-GAAP Free Cash Flow. Management plans to execute the 2026 capital program focusing on high-margin oil and condensate, optimizing returns, and generating cash flows in excess of capital expenditures. Maintain capital discipline and optimize allocation in 2026. Focus on high-margin oil and condensate. Expect cash flows to exceed capex. Dividend levels expected to remain unchanged. Commitment to 50% Scope 1&2 GHG emissions reduction by 2030, tied to compensation. Safety performance goals incorporated into annual compensation.

Accounting flags

- Full cost accounting with quarterly ceiling test impairments.
- Non-GAAP measures used for performance evaluation (Non-GAAP Cash Flow, Free Cash Flow, Adjusted EBITDA).
- Ceiling test impairment of \$1.485 billion before tax in H1 2026 driven by lower 12-month average trailing prices.
- Loss on divestiture of Anadarko assets recognized at \$337 million.
- Allocation of \$502 million goodwill to the Anadarko transaction.
- Recognition of \$25 million gain on fair value remeasurement of previously acquired NuVista shares.

Key figures

KEY FIGURES	TTM TO 2026-06-30	FY2025	
Revenue	\$9.52B	\$8.66B	-3.1% y/y
Operating income	\$949.0M	\$1.13B	10.0% margin
Net income	\$920.0M	\$1.24B	
Diluted EPS	\$3.58	\$4.78	16.8x trailing P/E
Operating cash flow	\$4.45B	\$3.65B	-1.8% y/y
Capital spending	\$2.19B	\$2.15B	23.0% of revenue
Unlevered FCFF	\$2.57B		15.6% yield
Cash and short-term investments	\$700.0M		
Net debt	\$3.00B		1.0x EBITDA
Share repurchases	\$589.0M	\$307.0M	3.6% yield
Market capitalisation	\$16.52B		20.6x EV/EBIT

Figures from the filings' XBRL; definitions in the method section. Flows are trailing twelve months to 2026-06-30 (fiscal year 2025 plus year to date less the same period a year earlier, from the 10-Q filed 2026-07-23). Balance-sheet items are as of 2026-06-30 from the quarterly report. Interest tax shield uses the 21.0% statutory rate from the filing's rate reconciliation. WACC anchor 9.1%: cost of equity 9.3% (risk-free 5.29%, beta 0.80, ERP 5.0%), after-tax cost of debt 8.0%, debt 18% of capital.

The counter-case

The market is correctly pricing in structural risks such as prolonged natural gas weakness, CAD appreciation, increasing regulatory carbon costs, and the integration risk of the \$2.8B NuVista acquisition, which could permanently compress FCF margins below the current normalized levels and invalidate the excess cash return framework. A sustained commodity price downturn compresses realized prices and FCF margins, triggering another full-cost ceiling test impairment and reducing distributable cash flow, dragging fair value down to the bear case value of \$46.86 per share.

Valuation

Upstream E&P businesses generate volatile accounting earnings due to full-cost ceiling test impairments and deferred tax adjustments, but produce predictable, capital-expenditure-driven free cash flow. DCF on FCFF bypasses accounting noise, isolates the asset portfolio's cash generation, and aligns with management's stated focus on shareholder returns from excess cash flow.

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Bear	FCFF growth -25%, -15%, -5%, +0%, +1%; WACC 9.1%; terminal growth 2.0%	\$46.86	-21.9%
Base	FCFF growth +2%, +1%, +0%, +1%, +1%; WACC 9.1%; terminal growth 2.0%	\$86.57	+44.3%
Bull	FCFF growth +5%, +4%, +3%, +2%, +2%; WACC 9.1%; terminal growth 2.0%	\$96.10	+60.2%

- Discount rate: the model used 9.1% against an anchor of 9.1% (risk-free 5.29%, beta 0.80, equity risk premium 5.0%, cost of equity 9.3%, after-tax cost of debt 8.0%, debt 18% of capital).
- The price implies constant five-year FCFF growth of -6.1% at the base-case WACC and terminal growth.
- Anchors from the company's own history: base-case growth band -15.3% to +14.0% a year; worst revenue decline -39% (2022-2025); own trailing P/E 3.6-9.62x (median 6.33x) over the last five fiscal year ends.
- Sensitivity to discount rate: 7.1% gives \$125, 8.1% gives \$103, 9.1% gives \$87, 10.1% gives \$75, 11.1% gives \$65.
- Sensitivity to terminal growth: 1.0% gives \$77, 1.5% gives \$82, 2.0% gives \$87, 2.5% gives \$92, 3.0% gives \$99.
- Per-share values use 275,503,580 shares as of 2026-07-17; the fiscal-year diluted average differs by -5.7%.
- Probability-weighted value \$76.56 (+27.6% vs price) at 30%/50%/20% weights.

Bear case assumes sustained hydrocarbon price weakness driving a cumulative ~39% FCF drawdown, revisiting the historical revenue peak-to-trough decline, and compressing margins to the lower bound. Base case assumes low-single-digit average FCF growth (1.3% annualized) aligned with the feasibility band, flat 2026 production (~630-645 MBOE/d), normalized margins post-tax benefit, and disciplined \$2.25-2.35B capex. Bull case assumes higher sustained realized prices and successful execution on the \$3.00-3.50/BOE opex target, expanding margins and driving ~3.5% annualized growth supported by the NuVista inventory add.

What breaks the case

SHOCK TO THE BASE CASE	VALUE	VS PRICE
Base case as planned	\$86.57	+44.3%
WACC 100bp higher	\$74.55	+24.3%
Pre-tax cost of debt 200bp higher	\$82.75	+38.0%
Every year's FCFF growth 5 points lower	\$67.33	+12.3%
Every year's FCFF growth 5 points higher	\$109.69	+82.9%
Starting FCFF 10% lower	\$76.82	+28.1%
Starting FCFF 10% higher	\$96.31	+60.6%

The base case equals the price at a 11.7% WACC or if every annual FCFF growth rate were -7.2% points different. These are thresholds, not forecasts.

No listed peer was judged comparable. The feasibility packet reports that peer financials and comparability data are unavailable for this quarter; no frozen peer tree exists to substitute industry proxies. Consequently, valuation relies exclusively on Orintiv's historical self-anchors, DCF inputs, and disclosed guidance rather than cross-company relative multiples.

What would change the view

Key debates

- Hydrocarbon price trajectory: FCFF is highly leveraged to realized oil and gas prices; a 10% move shifts FCF by ~\$55M and materially impacts terminal value at a 9% discount rate. (Commodity price sensitivity disclosures; revenue drivers; TTM revenue vs historical cycles.)
- Execution on cost discipline and unit economics: Upstream opex, T&P, and tax rates dictate FCF margin expansion; failure to hit guided \$3.00-3.50/BOE opex and \$8.75-9.25/BOE T&P will compress cash generation regardless of volume. (Unit economics and cost guidance; historical D&A and capex intensity trends.)
- Capital allocation and buyback durability: The company targets 50-100% of excess Non-GAAP Cash Flow for returns; sustained buyback funding depends on stable FCF generation post-debt repayment and ceiling test normalization. (Shareholder return framework; buyback history and trailing buyback yield of 3.56%.)

Sensitivities the company discloses

- Oil price: 10% increase gives \$(41) million
- Oil price: 10% decrease gives \$36 million
- Natural gas price: 10% increase gives \$8 million
- FX rate (C\$ to US\$): 10% increase gives \$29 million
- Interest rate: 1% change gives \$4 million
- Oil Price: 10% Increase gives \$(55)M
- Oil Price: 10% Decrease gives \$39M
- Natural Gas Price: 10% Increase gives \$61M
- Foreign Currency Exchange: 10% Increase gives \$(48)M
- Interest Rate: 1% Change gives Nil

Catalysts

- Q3 2026 production guidance delivery (615-640 MBOE/d)
- Full-year 2026 capex and unit cost execution update
- NuVista integration results and inventory add verification
- Implementation of the 50-100% excess cash shareholder return framework
- Cedar LNG 12-year liquefaction capacity utilization milestones

Invalidation

- TTM FCF margin decline exceeding 15% on a sustained multi-year basis
- Failure to maintain the guided \$2.25B-\$2.35B full-year capital investment discipline
- Realized oil prices falling below \$60/bbl for consecutive quarters, permanently impairing the full-cost ceiling
- Inability to execute the \$3.00-\$3.50/BOE upstream opex target and \$8.75-\$9.25/BOE T&P cost guidance

Risks

- Substantial or extended decline in oil, NGLs, or natural gas prices
- CAD/USD foreign exchange rate fluctuations impacting Canadian operations
- Regulatory scrutiny, carbon pricing, and ESG compliance costs
- Integration and execution risks from the NuVista Energy acquisition
- Full-cost accounting ceiling test impairments driven by trailing price averages
- Upstream operational interruptions and reliance on third-party vendors

Short side

Not applicable for this long disposition; however, a short thesis would rely on prolonged commodity weakness or execution failure, which faces standard borrow availability for a large-cap upstream producer, potential short squeeze if prices recover, unbounded loss risk, and timing challenges given management's capital return commitment.

Open questions

What is the exact volume breakdown and realized price mix for H2 2026 versus H1 2026, and how will hedging mature? (forecast uncertainty)

Modeled into base case guidance assuming flat production and normalized realized price differentials. Watch: Q3 2026 production report and updated hedging disclosures.

How does the \$502M goodwill allocated to Anadarko and the \$1.485B ceiling test impairment affect future statutory tax basis and future impairment calculations? (missing fact)

Assumed normalized going-forward FCF excludes future recurring impairment volatility by stripping the non-cash benefit. Watch: Future 10-K footnote disclosure on tax basis and ceiling test mechanics.

Limitations

The DCF relies on a normalized starting FCF of \$1.93B by stripping an ~\$700M deferred tax windfall. Historical FCFF margins peaked at 19.5% in 2024, making the current 27.0% TTM margin an outlier. The model assumes low-single-digit FCF growth consistent with flat production guidance, but terminal value comprises ~71% of enterprise value, making the base case highly sensitive to the 2.0% terminal growth rate and the 9.06% WACC. Furthermore, a 5.7M share count gap exists between the valuation shares (275.5M) and diluted weighted-average shares (259.7M), introducing dilution uncertainty. Per-share values use point-in-time shares outstanding; the fiscal-year diluted weighted average differs by -5.7%. This historical count difference also reflects timing and share repurchases; it is not an estimate of future dilution. Outstanding options, RSUs or convertibles require a separate analysis. Software checks raised during valuation: the bear case's cumulative FCFF change over the forecast (-39%) is milder than the company's worst historical revenue decline (-39%, 2022-2025); a bear case should at least revisit history or say why this time differs. This memo is an initial research product from a frozen historical filing and price; it is not investment qualification.

Software flags: bear shallower than history; exposure quote unverified:consumer demand; exposure quote unverified:fx; exposure quote unverified:regulation; guidance quote unverified:6.

Sources

10-K for the fiscal year ended 2025-12-31, filed 2026-02-23 (accession 0001193125-26-064309).

10-Q for the quarter ended 2026-06-30, filed 2026-07-23 (accession 0001193125-26-314501).

8-K for the earnings release dated 2026-07-23, filed 2026-07-23 (accession 0001193125-26-314272).

- Price: historical close of \$59.98 on 2026-10-01.
- 8 cited claims and 16 recorded calculations; every figure in the key-figures table is bound to a tagged XBRL fact, and every calculation reproduces independently.
- Street consensus from the market-data vendor on the same date, shown for calibration only.

Model: Qwen3.6-35B-A3B-NVFP4 · run discovery-20260911 · job 384 · memo SHA-256 d0bab67935bca166... · full memo and audit attached as JSON.

This note was written by a model from a single annual filing and a closing price. It is a starting point for human research, not a recommendation; nothing here has been investment-qualified.