



# Independent Stock Idea

February 12, 2010

rating: buy  
s&p 500: 1078

## EnCana Corporation (ECA) Best Large Cap Clean Energy Investment

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	3,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	92
<i>Price (US\$/sh)</i>	31.50	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/11/10	<i>Adjusted Reserves/Production NTM</i>	9.1
<i>Shares (mm)</i>	751	<i>EV/Ebitda</i>	8.3
<i>Market Capitalization (US\$mm)</i>	23,700	<i>PV/Ebitda</i>	8.9
<i>Debt (US\$mm)</i>	8,800	<i>Undeveloped Reserves (%)</i>	38
<i>Enterprise Value (EV) (US\$mm)</i>	32,400	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	3.53
<i>Present Value (PV) (US\$mm)</i>	35,100	<i>Present Value Proven Reserves(US\$/boe)</i>	16.98
<i>Net Present Value (US\$/share)</i>	35	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.83
<i>Debt/Present Value</i>	0.25	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.73
<i>McDep Ratio - EV/PV</i>	0.93	<i>Price/Earnings Next Twelve Months</i>	43
<i>Dividend Yield (%/year)</i>	2.5	<i>Indicated Annual Dividend (US\$/sh)</i>	0.80
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.			
For historical analysis of ECA since 2001 see <a href="http://www.mcdep.com/3eca.htm">www.mcdep.com/3eca.htm</a>			

### Summary and Recommendation

Buy-recommended **EnCana Corporation (ECA)** offers unlevered appreciation potential of 8% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$35 a share. Fourth quarter results, released on February 11, support our estimate for unlevered cash flow (Ebitda) in 2010 (see table [Next Twelve Months Operating and Financial Estimates](#)). Following the November 30 spinoff of buy-recommended oil producer, **Cenovus Energy (CVE)**, EnCana intensifies its concentration on natural gas to 93% of NPV (see table [Functional Cash Flow and Present Value](#)). We call EnCana the best large cap clean energy investment for at least three reasons. First, we believe natural gas is the runaway first choice as clean energy, particularly with the promise of more abundant economical supply. Second, EnCana's 93% concentration on natural gas is the highest among large cap stocks. Third, the company is well-managed, starting at the top. Chairman David O'Brien has a long record of value creation from the day he took over at resource-rich Canadian Pacific and turned the conglomerate into a series of high performing independent companies. Meanwhile, despite its advantages, natural gas gets little recognition on a long-term basis. Futures prices for delivery over the next six years trade on the 40-week average and at less than half their oil equivalent heating value (see chart [Six-Year Commodity Price Meter](#)). Yet, there is a sign of new investor interest in the positive trend for one-year futures (see chart [Natural Gas One-Year Futures](#)).

Kurt H. Wulff, CFA



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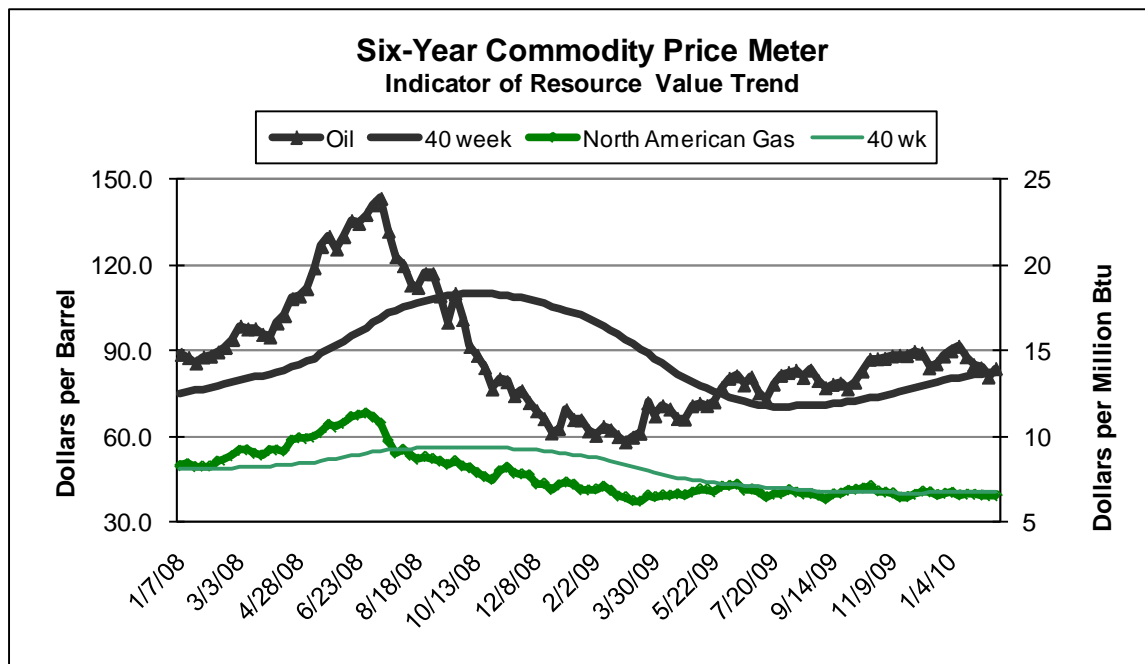
EnCana Corporation									
Next Twelve Months Operating and Financial Estimates									
				Pro Forma					Next
	Q4	Q2	Q3	Q4	Q1E	Q2E	Q3E	Q4E	Twelve
	12/31/08	6/30/09	9/30/09	12/31/09	3/31/10	6/30/10	9/30/10	12/31/10	Months
	12/31/08	6/30/09	9/30/09	12/31/09	3/31/10	6/30/10	9/30/10	12/31/10	12/31/10
<b>Volume</b>									
Natural Gas (bcf)	355	345	327	247	261	264	267	267	<b>1,059</b>
Natural Gas (mmcf)	3,858	3,788	3,551	2,687	2,900	2,900	2,900	2,900	<b>2,900</b>
Days	92	91	92	92	90	91	92	92	<b>365</b>
Oil (mmb)	12.5	12.4	12.8	2.2	2.2	2.2	2.2	2.2	<b>9</b>
Oil (mbd)	136	136	139	24	24	24	24	24	<b>24</b>
Total (bcf)	430	419	403	260	274	277	280	280	<b>1,111</b>
Total (mmcf)	4,674	4,604	4,385	2,831	3,044	3,044	3,044	3,044	<b>3,044</b>
<b>Price</b>									
Henry Hub (US\$/mmbtu)	6.95	3.50	3.39	4.16	5.52	5.45	5.63	6.08	<b>5.67</b>
Differential	1.51	0.38	0.28	(0.31)	-	-	-	-	<b>(0.00)</b>
EnCana (\$/mcf)	5.44	3.12	3.11	4.47	5.52	5.45	5.63	6.08	<b>5.67</b>
WTI Cushing (US\$/bbl)	58.45	59.52	68.22	76.09	74.01	72.72	74.20	75.54	<b>74.11</b>
Differential	24.64	10.38	10.82	13.78	13.40	13.17	13.43	13.68	<b>13.42</b>
EnCana (\$/bbl)	33.81	49.14	57.40	62.31	60.61	59.55	60.76	61.86	<b>60.70</b>
Total (\$/bbl)	32.84	24.11	26.03	28.63	34.44	33.98	35.07	37.69	<b>35.30</b>
<b>Revenue (\$mm)</b>									
Natural Gas	1,931	1,075	1,016	1,105	1,442	1,439	1,503	1,623	<b>6,006</b>
Oil	423	608	734	138	131	130	134	137	<b>532</b>
Other	4,005	1,988	2,131						
Total	6,359	3,672	3,881	1,243	1,573	1,569	1,637	1,759	<b>6,538</b>
<b>Expense</b>	4,662	2,541	2,780	534	629	627	655	704	<b>2,615</b>
<b>Ebitda (\$mm)</b>									
Natural Gas and Oil	1,697	977	1,015	708	944	941	982	1,056	<b>3,923</b>
Other	-	154	86						<b>-</b>
Total	1,697	1,131	1,101	708	944	941	982	1,056	<b>3,923</b>
Deprec., Deplet., & Amort	996	999	992		663	663	663	663	<b>2,652</b>
Hedging and other	(150)	(996)	(838)	(749)					<b>-</b>
Interest	158	129	155		106	106	106	106	<b>424</b>
<b>Ebt</b>	693	998	792	578	175	172	213	287	<b>847</b>
Income tax	243	82	18	202	61	60	75	100	<b>296</b>
<b>Net Income (\$mm)</b>	451	916	774	376	113	112	139	186	<b>550</b>
Per share (\$)	0.60	1.22	1.03	0.50	0.15	0.15	0.18	0.25	<b>0.73</b>
<b>Shares (millions)</b>	751	751	751	751	751	751	751	751	<b>751</b>
Ebitda margin	72%	58%	58%	57%	60%	60%	60%	60%	<b>60%</b>
Tax rate	35%	8%	2%	35%	35%	35%	35%	35%	<b>35%</b>



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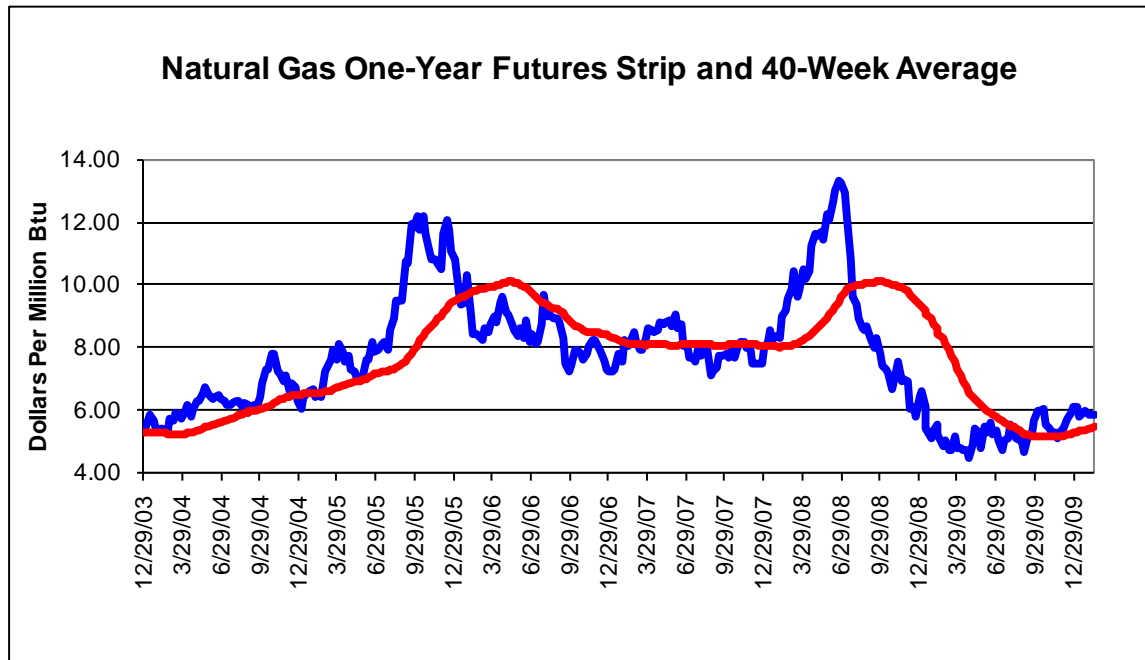
EnCana Corporation					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	3,600	9.1	9.1	32,700	93%
Oil	320	7.6	7.5	2,400	7%
	3,920	9.1	9.0	35,100	100%
Debt					8,800
Net Present Value (\$mm)					26,300
Shares					751
Net Present Value - Standard Estimate (US\$/sh)					35
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					35





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