



Independent Stock Idea

April 21, 2010

rating: buy
s&p 500: 1206

EnCana Corporation (ECA) New Natural Gas Company Performs Well

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 3/31/11 (US\$mm)</i>	3,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	89
<i>Price (US\$/sh)</i>	31.69	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/21/10	<i>Adjusted Reserves/Production NTM</i>	7.7
<i>Shares (mm)</i>	749	<i>EV/Ebitda</i>	9.3
<i>Market Capitalization (US\$mm)</i>	23,700	<i>PV/Ebitda</i>	11.5
<i>Debt (US\$mm)</i>	8,800	<i>Undeveloped Reserves (%)</i>	41
<i>Enterprise Value (EV) (US\$mm)</i>	32,500	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	2.93
<i>Present Value (PV) (US\$mm)</i>	40,200	<i>Present Value Proven Reserves(US\$/boe)</i>	20.93
<i>Net Present Value (US\$/share)</i>	42	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.49
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.14
<i>McDep Ratio - EV/PV</i>	0.81	<i>Price/Earnings Next Twelve Months</i>	28
<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 www.mcdep.com/3eca.htm			

Summary and Recommendation

Buy-recommended **EnCana Corporation (ECA)** offers unlevered appreciation potential of 24% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$42 a share. Results released today for the first quarter of operations as a new natural gas pure play exceeded our estimate for unlevered cash flow (Ebitda) (see table [Next Twelve Months Operating and Financial Estimates](#)). A premium natural gas price compared to the Henry Hub industry benchmark and higher cash flow margin contributed to the strong performance. The company's low cost natural gas production keeps it near the top of Canadian and U.S. peers (see charts [Ebitda Margin](#)). Combining cash flow with reserve life as a measure of how long cash flow will last leads to estimated NPV concentrated 95% on the clean fuel (see table [Functional Cash Flow and Present Value](#)). Favorable performance helps keep Encana stock price in an uptrend as measured by current quote above the 200-day average of \$31 a share. Yet, the commodity price of natural gas trends down as measured by futures prices for delivery over the next six years at \$6.00 a million btu, which is below the 40-week average of \$6.50 (see chart [Six-Year Commodity Price Meter](#)). Pointing to the longer term potential, six year oil price is in a rising trend and is currently almost three times the natural gas equivalent. Factors that could help the natural gas price trend reverse in the coming months include more demand as a result of economic growth and hot weather as well as less supply induced by the current low price.

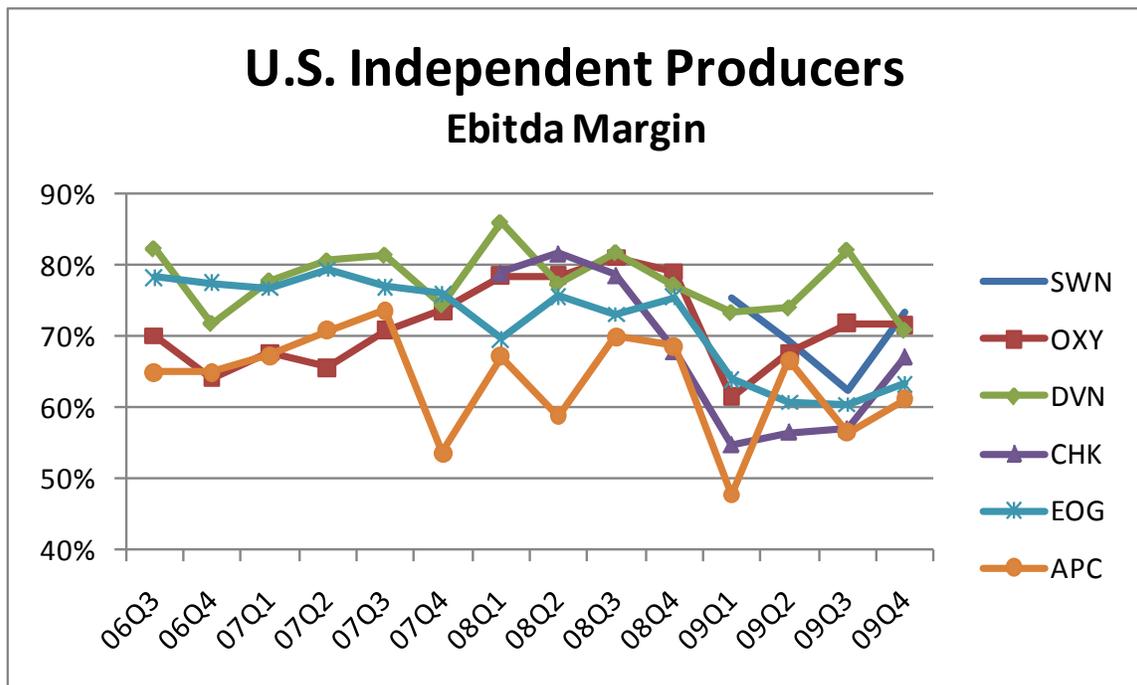
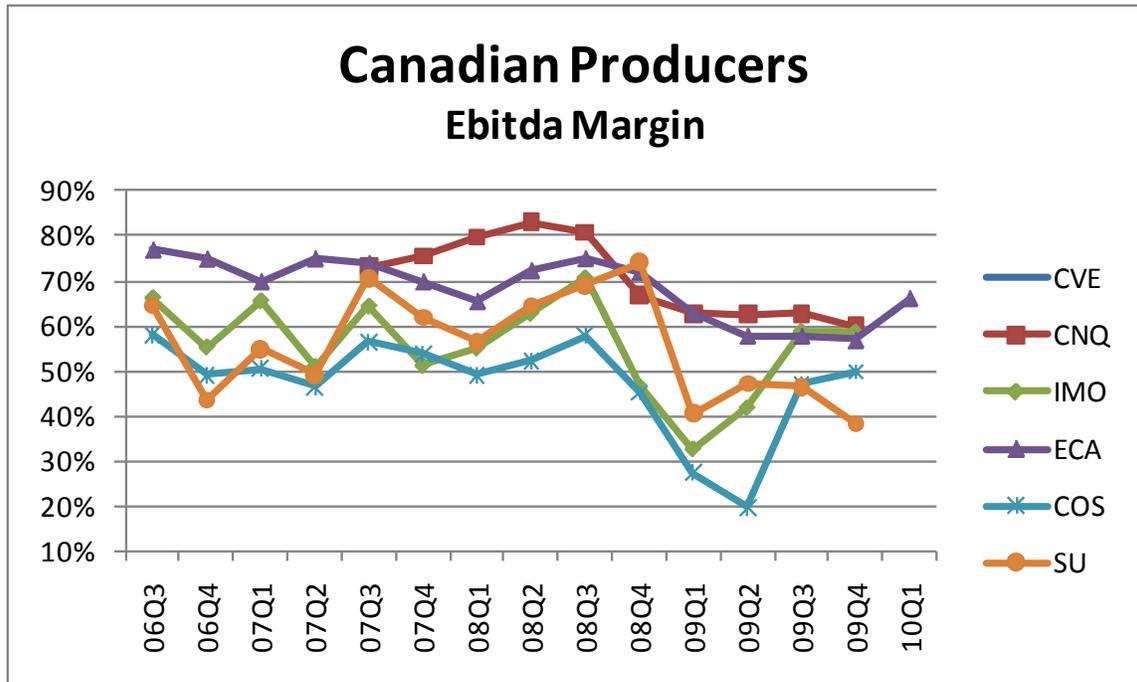
Kurt H. Wulff, CFA



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EnCana Corporation									
Next Twelve Months Operating and Financial Estimates									
		Pro Forma							Next
	Q3	Q4	Q1	Q2E	Q3E	Q4E	Year	Q1E	Twelve
	9/30/09	12/31/09	3/31/10	6/30/10	9/30/10	12/31/10	2010E	3/31/11	Months
									3/31/11
Volume									
Natural Gas (bcf)	327	247	281	284	287	287	1,140	281	1,140
Natural Gas (mmcf)	3,551	2,687	3,123	3,123	3,123	3,123	3,123	3,123	3,123
Days	92	92	90	91	92	92	365	90	365
Oil (mmb)	12.8	2.2	2.2	2.2	2.2	2.2	9	2.2	9
Oil (mbd)	139	24	24	24	24	24	24	24	24
Total (bcf)	403	260	294	297	301	301	1,192	294	1,192
Total (mmcf)	4,385	2,831	3,267	3,267	3,267	3,267	3,267	3,267	3,267
Price									
Henry Hub (US\$/mmbtu)	3.39	4.16	5.32	3.95	4.25	4.80	4.58	5.16	4.54
Differential	0.28	(0.31)	(0.24)	-	-	-	(0.06)	-	0.00
EnCana (\$/mcf)	3.11	4.47	5.56	3.95	4.25	4.80	4.64	5.16	4.54
WTI Cushing (US\$/bbl)	68.22	76.09	78.67	82.68	85.58	87.21	83.54	87.40	85.72
Differential	10.82	13.78	11.19	11.76	12.18	12.41	11.86	12.43	12.20
EnCana (\$/bbl)	57.40	62.31	67.48	70.91	73.40	74.80	71.67	74.96	73.52
Total (\$/bbl)	26.03	28.63	34.86	25.77	27.61	30.85	29.76	32.90	29.27
Revenue (\$mm)									
Natural Gas	1,016	1,105	1,563	1,122	1,221	1,380	5,286	1,451	5,174
Oil	734	138	146	155	162	165	628	162	644
Other	2,131						-		
Total	3,881	1,243	1,709	1,277	1,383	1,545	5,914	1,612	5,818
Expense									
	2,780	534	576	511	553	618	2,258	645	2,327
Ebitda (\$mm)									
Natural Gas and Oil	1,015	708	1,132	766	830	927	3,656	967	3,491
Other	86						-		-
Total	1,101	708	1,132	766	830	927	3,656	967	3,491
Deprec., Deplet., & Amort	992	708	800	800	800	800	3,200	663	3,063
Hedging and other	(838)	(501)	(217)	(437)	(388)	(308)	(1,350)	(273)	(1,406)
Interest	155	126	130	130	130	130	520	130	520
Ebt									
	792	376	419	273	288	305	1,286	448	1,314
Income tax	18			96	101	107	303	157	460
Net Income (\$mm)									
	774	376	419	178	187	199	983	291	854
Per share (\$)	1.03	0.50	0.56	0.24	0.25	0.27	1.31	0.39	1.14
Shares (millions)									
	751	751	749	749	749	749	749	749	749
Ebitda margin	58%	57%	66%	60%	60%	60%	62%	60%	60%
Tax rate	2%	0%	0%	35%	35%	35%	24%	35%	35%

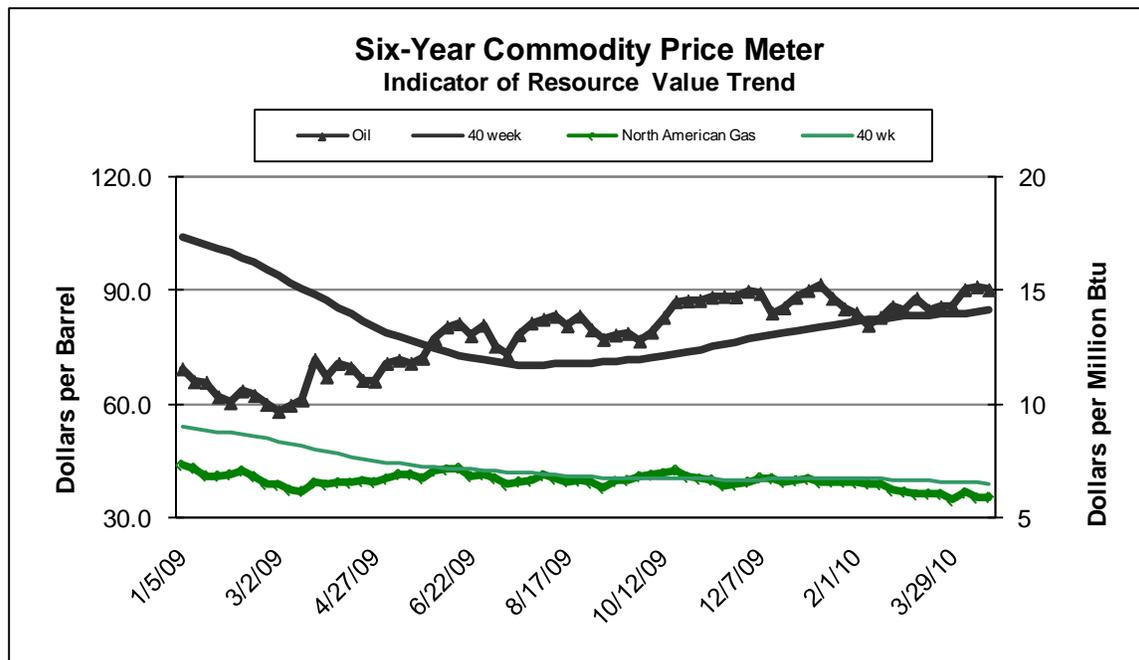




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EnCana Corporation					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	3,100	7.7	9.8	30,300	75%
Oil	390	7.3	5.1	2,000	5%
High-Probability Contingent Resource				8,000	20%
	3,490	7.7	11.5	40,300	100%
Debt					8,800
Net Present Value (\$mm)					31,500
Shares					749
Net Present Value - Standard Estimate (US\$/sh)					42
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					44





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Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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