



Independent Stock Idea

July 21, 2010

rating: contrarian buy
s&p 500: 1070

Encana Corporation (ECA) Aggressive Growth at Lower Cost

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 6/30/11 (US\$mm)</i>	3,800
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	91
<i>Price (US\$/sh)</i>	31.36	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/21/10	<i>Adjusted Reserves/Production NTM</i>	16.6
<i>Shares (mm)</i>	738	<i>EV/Ebitda</i>	8.4
<i>Market Capitalization (US\$mm)</i>	23,100	<i>PV/Ebitda</i>	10.5
<i>Debt (US\$mm)</i>	8,700	<i>Undeveloped Reserves (%)</i>	60
<i>Enterprise Value (EV) (US\$mm)</i>	31,800	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	3.08
<i>Present Value (PV) (US\$mm)</i>	39,700	<i>Present Value Proven Reserves(US\$/boe)</i>	8.19
<i>Net Present Value (US\$/share)</i>	42	<i>Present Value Proven Reserves(US\$/mcfe)</i>	1.37
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.00
<i>McDep Ratio - EV/PV</i>	0.80	<i>Price/Earnings Next Twelve Months</i>	31
<i>Dividend Yield (%/year)</i>	2.6	<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 25% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$42 a share. Second quarter results released today matched our estimate for unlevered cash flow (Ebitda) with increased volume offset by lower margin (see table [Next Twelve Months Operating and Financial Estimates](#)). Acknowledging inflation in service costs, Chief Executive Randy Eresman believes that Encana's "gas factory" approach will reduce unit costs as ECA applies the technique more widely. He believes his company can find and develop natural gas supply while earning an acceptable return at a price of \$4 a million btu. In contrast, he pegs the marginal cost for the industry as a whole at \$6. That spread justifies the new corporate strategy to double natural gas production per share over the next five years. Not only has the company already identified the drilling locations to provide that growth, it is regularly uncovering new potential. In the second quarter release, Encana announced the discovery of the Brent Miller field in Texas with a well that initially flowed at 30 million cubic feet daily, extending the Haynesville formation onto 45,000 acres leased by the company. Though there has been no big well yet, Encana disclosed a 250,000 acre position in the Collingwood Shale, a new play in Michigan. Seeking a reward from rapidly growing volume, Encana protects against the risk of low price by striving for low cost.

Kurt H. Wulff, CFA



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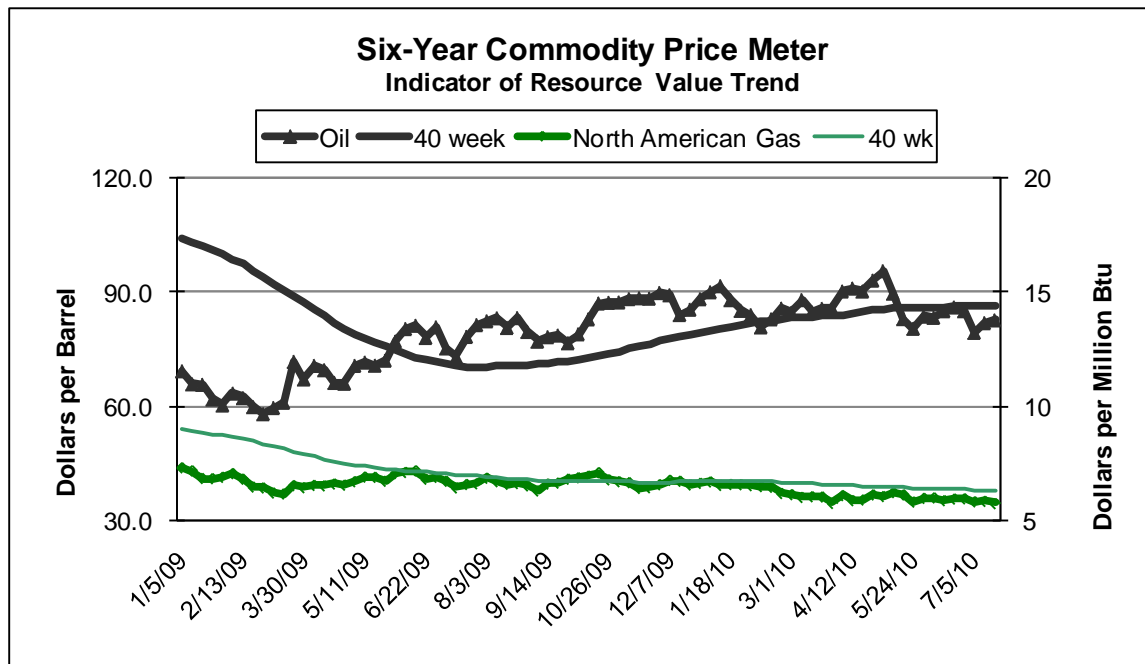
Encana Corporation									
Next Twelve Months Operating and Financial Estimates									
	Pro Forma								Next
	Q4	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Twelve
	12/31/09	3/31/10	6/30/10	9/30/10	12/31/10	2010E	3/31/11	6/30/11	Months
									6/30/11
Volume									
Natural Gas (bcf)	247	281	291	295	295	1,162	288	291	1,169
Natural Gas (mmcf)	2,687	3,123	3,202	3,202	3,202	3,183	3,202	3,202	3,202
Days	92	90	91	92	92	365	90	91	365
Oil (mmb)	2.2	2.2	2.2	2.2	2.2	8.8	2.2	2.2	8.8
Oil (mbd)	24	24	24	24	24	24	24	24	24
Total (bcf)	260	294	304	308	308	1,214	301	304	1,221
Total (mmcf)	2,831	3,267	3,346	3,346	3,346	3,327	3,346	3,346	3,346
Price									
Henry Hub (US\$/mmbtu)	4.16	5.32	4.09	4.58	4.81	4.70	5.12	4.97	4.87
Differential	(0.31)	(0.24)	(0.14)	-	-	(0.09)	-	-	0.00
EnCana (\$/mcf)	4.47	5.56	4.23	4.58	4.81	4.79	5.12	4.97	4.87
WTI Cushing (US\$/bbl)	76.09	78.67	77.85	76.38	77.91	77.71	78.92	80.18	78.35
Differential	13.78	11.19	11.12	10.91	11.13	11.10	11.28	11.46	11.20
EnCana (\$/bbl)	62.31	67.48	66.73	65.47	66.78	66.61	67.64	68.72	67.15
Total (\$/bbl)	28.63	34.86	27.16	29.10	30.47	30.36	32.33	31.48	30.84
Revenue (\$mm)									
Natural Gas	1,105	1,563	1,233	1,349	1,416	5,560	1,476	1,447	5,689
Oil	138	146	146	145	147	584	146	150	588
Other						-			
Total	1,243	1,709	1,378	1,493	1,564	6,143	1,623	1,598	6,277
Expense									
	534	576	604	597	625	2,403	649	639	2,511
Ebitda (\$mm)									
	708	1,132	774	896	938	3,741	974	959	3,766
Deprec., Deplet., & Amort	708	800	814	814	814	3,242	663	663	2,954
Hedging and other	(501)	(217)	(252)	(250)	(216)	(935)	(186)	(201)	(853)
Interest	126	130	131	131	131	523	131	131	524
Ebt									
	376	419	81	201	209	911	366	365	1,141
Income tax				70	73	144	128	128	399
Net Income (\$mm)									
	376	419	81	131	136	767	238	237	742
Per share (\$)	0.50	0.56	0.11	0.18	0.18	1.03	0.32	0.32	1.00
Shares (millions)									
	751	749	738	738	738	744	738	738	738
Ebitda margin									
	57%	66%	56%	60%	60%	61%	60%	60%	60%
Tax rate									
	0%	0%	0%	35%	35%	16%	35%	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	3,420	16.7	10.9	37,300	94%
Oil	350	15.5	6.9	2,400	6%
	3,770	16.6	10.5	39,700	100%
Debt					8,700
Net Present Value (\$mm)					31,000
Shares					738
Net Present Value - Standard Estimate (US\$/sh)					42





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