



Independent Stock Idea

April 21, 2011

rating: buy
s&p 500: 1330

Encana Corporation (ECA) North America's Natural Gas Pure Play

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 3/31/12 (US\$mm)</i>	3,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	87
<i>Price (US\$/sh)</i>	32.78	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/20/11	<i>Adjusted Reserves/Production NTM</i>	12.7
<i>Shares (mm)</i>	738	<i>EV/Ebitda</i>	9.8
<i>Market Capitalization (US\$mm)</i>	24,200	<i>PV/Ebitda</i>	13.6
<i>Debt (US\$mm)</i>	10,700	<i>Probable Reserves (%)</i>	38
<i>Enterprise Value (EV) (US\$mm)</i>	34,900	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	2.67
<i>Present Value (PV) (US\$mm)</i>	48,300	<i>Present Value Proven and Probable Reserves(US\$/boe)</i>	12.61
<i>Net Present Value (US\$/share)</i>	51	<i>Present Value Proven and Probable Reserves(US\$/mcf)</i>	2.10
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.72
<i>McDep Ratio - EV/PV</i>	0.72	<i>Price/Earnings Next Twelve Months</i>	46
<i>Dividend Yield (%/year)</i>	2.4	<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\$100 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

We recommend current purchase of the common shares of **Encana Corporation (ECA)** because the company's concentrated exposure to natural gas helps diversify a portfolio of large cap buy recommendations mostly concentrated on oil. Natural gas has underperformed oil by an extreme degree the past few years to the point where the latest quote of \$111 a barrel for West Texas crude oil is more than 4 times the latest quote of \$4.31 a million btu for Louisiana natural gas (\$111 a barrel is about \$18.50 a million btu (111/6)). Because we can't be sure when the trend will turn, we rely on the time-tested strategy of maintaining some investment in each fuel. Encana is a top quality company with historic legacy lands and a management with a long-term record of making money for shareholders. First quarter results reported April 20 scored lower cash flow margin than in our projections (see table Next Twelve Months Operating and Financial Estimates on page 2). Estimated Net Present Value (NPV) remains \$51 a share, supported by long resource life (see table Functional Cash and Present Value on page 3). Coping with low natural gas price, management is reducing costs to the point where it believes it can make a minimal return at \$3.70 a million btu. At the same time, the company sees its new technology for shale gas also working for oil and has accumulated new lands to pursue shale oil in Alberta and Colorado. To take advantage of expanding demand for low-priced clean fuel, Encana is investing in infrastructure to market natural gas for automobiles and trucks. Finally, a 2.5% annual dividend yield helps compensate investors while natural gas price advances slowly.

Kurt H. Wulff, CFA



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Encana Corporation									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</i>
	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Twelve</i>
	<i>3/31/10</i>	<i>12/31/10</i>	<i>2010</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>12/31/11</i>	<i>2011E</i>	<i>Months</i>
									<i>3/31/12</i>
Volume									
Natural Gas (bcf)	281	297	1,162	288	301	315	326	1,230	1,276
Natural Gas (mmcf)	3,123	3,230	3,184	3,196	3,308	3,424	3,543	3,369	3,486
Days	90	92	365	90	91	92	92	365	366
Oil (mmb)	2.2	1.9	8.3	2.1	2.2	2.3	2.3	8.8	9.2
Oil (mbd)	24	21	23	23	24	25	26	24	25
Total (bcf)	294	308	1,212	300	314	329	340	1,283	1,331
Total (mmcfed)	3,267	3,353	3,321	3,334	3,451	3,571	3,696	3,514	3,636
Price									
Henry Hub (US\$/mmbtu)	5.32	3.80	4.40	4.11	4.19	4.29	4.56	4.29	4.32
Differential	(0.24)	(0.13)	(0.07)	(0.15)	(0.15)	(0.16)	(0.17)	(0.16)	(0.16)
EnCana (\$/mcf)	5.56	3.93	4.46	4.26	4.34	4.45	4.73	4.45	4.48
WTI Cushing (US\$/bbl)	78.67	85.10	79.43	94.10	107.68	108.41	108.69	104.72	108.23
Differential	11.19	14.05	12.69	13.40	15.33	15.44	15.48	14.71	15.40
EnCana (\$/bbl)	67.48	71.05	66.74	80.70	92.35	92.97	93.22	90.01	92.82
Total (\$/bbl)	34.86	25.32	28.44	27.84	28.77	29.42	31.07	29.33	29.63
Revenue (\$mm)									
Natural Gas	1,563	1,168	5,189	1,225	1,306	1,401	1,542	5,474	5,720
Oil	146	134	557	167	200	211	219	797	852
Other			-					-	
Total	1,709	1,302	5,746	1,392	1,506	1,611	1,761	6,270	6,572
Expense									
	576	619	2,366	706	693	741	810	2,950	3,023
Ebitda (\$mm)									
	1,132	682	3,381	686	813	870	951	3,320	3,549
Deprec., Deplet., & Amor	800	818	3,242	827	827	827	827	3,308	3,144
Hedging and other	(397)	(351)	(1,309)	(281)	(241)	(250)	(179)	(951)	(885)
Interest	130	121	501	119	119	119	119	476	476
Ebt									
	599	95	947	21	108	174	184	487	813
Income tax	180	28	284	6	38	61	64	169	285
Net Income (\$mm)									
	419	66	663	15	70	113	120	318	529
Per share (\$)	0.56	0.09	0.89	0.02	0.09	0.15	0.16	0.43	0.72
Shares (millions)									
	749	736	744	738	738	738	738	738	738
Ebitda margin	66%	52%	59%	49%	54%	54%	54%	53%	54%
Tax rate	30%	30%	30%	30%	35%	35%	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>	
	<u>Ebitda</u>	<u>R/P</u>	<u>Ebitda</u>	<u>Value</u>	
North American Natural Gas	3,090	12.8	14.2	44,000	91%
Oil	460	11.6	9.3	4,300	9%
	3,550	12.7	13.6	48,300	100%
Debt					10,700
Net Present Value (\$mm)					37,600
Shares					738
Net Present Value - Standard Estimate (US\$/sh)					51
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					45

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