



Independent Stock Idea

November 9, 2016

Encana Corporation (ECA) Raise NPV to US\$10 from US\$6

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 9/30/17 (US\$mm)</i>	1,140
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	42
<i>Price (US\$/sh)</i>	10.62	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/9/16	<i>Adjusted Reserves/Production NTM</i>	5.9
<i>Shares (mm)</i>	973	<i>EV/Ebitda</i>	14.8
<i>Market Capitalization (US\$mm)</i>	10,300	<i>PV/Ebitda</i>	14.3
<i>Debt (US\$mm)</i>	6,600	<i>Undeveloped Reserves (%)</i>	33
<i>Enterprise Value (EV) (US\$mm)</i>	16,900	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	10.09
<i>Present Value (PV) (US\$mm)</i>	16,300	<i>Present Value Proven Reserves(US\$/boe)</i>	20.38
<i>Net Present Value (US\$/share)</i>	10	<i>Ebitda Margin NTM (%)</i>	47
<i>Debt/Present Value</i>	0.40	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.05
<i>McDep Ratio - EV/PV</i>	1.04	<i>Price/Earnings Next Twelve Months</i>	211
<i>Dividend Yield (%/year)</i>	0.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.06
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\$70 a barrel and natural gas, \$4.00 a million btu			
For historical analysis of ECA since 2001 see www.mcdep.com/3eca.htm			

Summary and Recommendation

We raise estimated Net Present Value (NPV) for the stock of **Encana Corporation (ECA)** to US\$10 a share from US\$6 on results of reduced cost, lower debt and favorable drilling released on November 3 (see tables Operating and Financial Estimates and Present Value on page 2). Lower fixed costs for transportation and processing reduce the high operating leverage that caused us to reduce NPV at lower oil and gas price in early 2016, even though our long-term price expectation remains \$70 a barrel. Lower debt increases the odds that the company can survive an abnormally low oil price that may occur from time to time. Favorable drilling results in the Permian and the Canadian Montney give management the confidence to project ambitious 30% a year five year growth for those areas (see slide Permian and Montney on page 3). Those projections depend on the outlook for oil and gas price, which depends in part on the outlook for global growth. We like a scenario that has Mr. Trump, the new U.S. president, leading the US to higher growth. The rest of the world may grow better as well while sharing more of the cost. The US appears to bear a disproportionate cost in the form of military expenditures and a trade deficit that have supported unimpeded global transportation and the flourishing of international trade. Our optimistic scenario also has the combination of a higher growth rate and a moderately higher inflation rate exceeding the growth rate of government debt. At the same time, interest rates would remain below the rate of inflation thereby encouraging investment in the stocks of productive companies, including the stocks of oil and gas producers in our research coverage (see Tables 1-4 on pages 4-7).

Kurt H. Wulff, CFA



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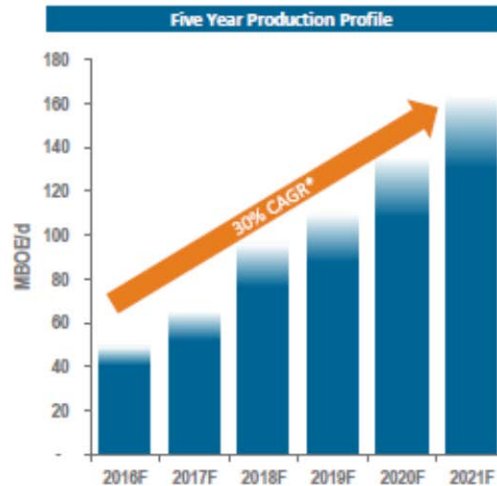
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Encana Corporation										
Next Twelve Months Operating and Financial Estimates										
										<i>Next</i>
	<i>Q3</i>	<i>Year</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Months</i>
	<i>9/30/15</i>	<i>2015</i>	<i>6/30/16</i>	<i>9/30/16</i>	<i>12/31/16</i>	<i>2016E</i>	<i>3/31/17</i>	<i>6/30/17</i>	<i>9/30/17</i>	<i>9/30/17</i>
Volume										
Natural Gas (bcf)	142	597	129	122	117	506	110	107	104	437
Natural Gas (mmcf)	1,547	1,635	1,418	1,326	1,273	1,383	1,222	1,173	1,126	1,199
Days	92	365	91	92	92	366	90	91	92	365
Oil (mmb)	12.9	48.6	12.0	10.8	10.4	45.1	10.2	10.0	9.8	40.4
Oil (mbd)	140	133	132	117	113	123	113	110	106	111
Total (bcf)	220	889	201	187	180	777	171	167	162	680
Total (mmcf)	2,387	2,434	2,210	2,028	1,952	2,122	1,902	1,831	1,763	1,862
Price										
Henry Hub (US\$/mmbtu)	2.76	2.67	1.95	2.81	2.83	2.42	2.95	2.91	2.97	2.92
Differential	0.16	(0.02)	0.60	0.66	0.67	0.59	0.70	0.69	0.30	0.59
EnCana (\$/mcf)	2.60	2.69	1.35	2.15	2.16	1.83	2.26	2.22	2.68	2.32
WTI Cushing (US\$/bbl)	46.39	48.79	45.66	44.91	46.00	42.51	45.28	47.00	48.09	46.59
Differential	11.87	12.99	11.99	9.60	9.83	10.54	11.23	11.66	11.93	11.17
EnCana (\$/bbl)	34.52	35.80	33.67	35.31	36.17	31.96	34.05	35.34	36.16	35.43
Total (\$/bbl)	22.26	22.60	17.26	20.66	21.04	18.31	20.87	21.24	23.32	21.59
Revenue (\$mm)										
Natural Gas	370	1,606	174	262	253	928	248	237	277	1,016
Oil	445	1,741	404	380	377	1,441	347	353	353	1,430
Total	815	3,347	579	642	630	2,370	595	590	630	2,446
Expense										
	576	2,301	440	391	344	1,675	328	319	311	1,303
Ebitda (\$mm)										
	238	1,046	139	251	286	695	267	271	319	1,143
Deprec., Deplet., & Amor	352	1,488	230	184	184	859	184	184	184	736
Hedging and other	(185)	(955)	(311)	(78)	(14)	(578)	(32)	(28)	20	(54)
Interest	105	614	107	99	99	408	99	99	99	396
Ebt										
	(34)	(101)	113	46	17	6	16	16	17	65
Income tax	(8)	(25)	28	11	4	1	4	4	4	16
Net Income (\$mm)										
	(25)	(76)	85	34	13	4	12	12	13	49
Per share (\$)	(0.03)	(0.09)	0.10	0.04	0.01	0.00	0.01	0.01	0.01	0.05
Shares (millions)										
	843	822	850	858	973	883	973	973	973	973
Ebitda margin	29%	31%	24%	39%	45%	29%	45%	46%	51%	47%
Tax rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%

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	470	6.0	14.3	6,700	41%
Oil	670	5.6	14.3	9,600	59%
	1,140	5.9	14.3	16,300	100%
Debt					6,600
Net Present Value (\$mm)					9,700
Shares					973
Net Present Value - Standard Estimate (US\$/sh)					10
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					10

ENCANA PERMIAN 5 Year Growth Profile

- >50% of Encana's capital directed to the Permian
- Permian production expected to grow 3-4x
 - 5 year CAGR* 30%
- Quality inventory with scale
- No infrastructure or midstream limitations
- Minimal vertical program



ENCANA MONTNEY 5 Year Growth Profile

- Development focused in condensate rich areas
- Operating margin[†] increases by >200% by 2021
- Liquids production to >70 Mbbls/d by 2019
 - 50 Mbbls/d of liquids production in 2018
 - Liquid weighting grows to >25% of total production by 2021
 - ~70% condensate
- Liquids handling expansions support growth plans
- Gas production to grow to 1.2 Bcf/d by 2019





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Symbol/Rating	9-Nov 2016	Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)				Dist. Yield	McDep Ratio	
					North Amer.	Rest of World	Oil Prod'n	Down- stream			
											Natural Gas
Global Integrated											
Exxon Mobil Corporation	XOM	86.25	1.26	455,000	10	15	49	26	3.5	0.89	
Chevron Corporation	CVX	107.64	1.34	272,000	3	14	64	20	4.0	0.84	
Royal Dutch Shell	RDS-A	B	50.88	1.70	344,000	2	18	56	24	7.4	0.75
Total S.A.	TOT	B	47.57	1.55	177,000		19	57	24	5.7	0.63
<i>Total or Median</i>				<i>1.44</i>	<i>1,248,000</i>			<i>57</i>	<i>24</i>	<i>4.9</i>	<i>0.79</i>
Large Independent											
EOG Resources, Inc.	EOG	93.43	1.14	58,400	13	1	86		0.7	1.09	
Devon Energy Corporation	DVN	43.62	1.47	33,900	30		60	10	0.6	0.98	
Occidental Petroleum Corp.	OXY	66.90	1.21	61,600	5	2	84	9	4.5	0.91	
Marathon Oil Corporation	MRO	B	14.88	1.65	20,800	10	2	88	1.3	0.83	
ConocoPhillips	COP	B	45.73	1.69	96,000	16	13	71	2.2	0.76	
<i>Total or Median</i>				<i>1.47</i>	<i>271,000</i>	<i>13</i>		<i>84</i>	<i>1.3</i>	<i>0.91</i>	
Small Independent											
Cimarex Energy Company	XEC	125.70	1.11	13,000	38		62		0.3	1.04	
Continental Resources (32%)	CLR	B	47.20	1.39	7,800	29		71	-	0.88	
California Resources	CRC	12.35	12.92	6,700	13		87		-	0.81	
Whiting Petroleum Corporation	WLL	8.80	2.73	6,800	10		90		-	0.72	
Range Resources	RRC	B	33.36	1.53	12,400	76		24	0.2	0.69	
<i>Total or Median</i>				<i>1.53</i>	<i>47,000</i>	<i>29</i>		<i>71</i>	<i>-</i>	<i>0.81</i>	
Income											
San Juan Basin Royalty Trust	SJT	5.77	1.00	270	100		-		8.9	0.72	
Dorchester Minerals, L.P.	DMLP	B	15.35	1.00	470	28		72	6.9	0.64	
Permian Basin RT	PBT	6.97	1.00	330	23		77		8.8	0.63	
Sabine Royalty Trust	SBR	B	36.85	1.00	540	44		56	7.4	0.61	
Cross Timbers Royalty Trust	CRT	17.06	1.00	100	71		29		7.6	0.59	
<i>Total or Median</i>				<i>1.00</i>	<i>1,700</i>	<i>44</i>		<i>56</i>	<i>7.6</i>	<i>0.63</i>	
Canada											
EnCana Corporation	ECA	10.62	1.64	16,900	41		59		0.6	1.03	
Imperial Oil Limited (30%)	IMO	32.83	1.29	10,800	1		62	37	1.4	0.89	
Cenovus Energy Inc.	CVE	14.39	1.33	16,000	10		81	9	1.0	0.77	
Suncor Energy	SU	B	30.48	1.36	69,000	-		86	14	2.8	0.75
Birchcliff Energy Ltd.	BIREF	B	6.65	1.35	2,400	74		26	-	0.73	
<i>Total or Median</i>				<i>1.35</i>	<i>115,000</i>			<i>62</i>	<i>1.0</i>	<i>0.77</i>	
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.											
Estimated present value capped by unlevered cash flow multiple (EV/Ebitda)											
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses											
For historical research see www.mcdep.com											



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			<i>Price</i> <i>(US\$/sh)</i>	<i>Shares</i> <i>(mm)</i>	<i>Market</i> <i>Cap</i> <i>(US\$mm)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(US\$/sh)</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
	<i>Symbol/Rating</i>		<i>9-Nov</i> <i>2016</i>					
	<i>B = Buy</i>							
Global Integrated								
Exxon Mobil Corporation	XOM		86.25	4,178	360,000	100.00	0.19	0.89
Chevron Corporation	CVX		107.64	1,883	203,000	135.00	0.21	0.84
Royal Dutch Shell	RDS-A	B	50.88	3,987	203,000	80.00	0.31	0.75
Total S.A.	TOT	B	47.57	2,404	114,000	90.00	0.22	0.63
	<i>Total or Median</i>				<i>880,000</i>		<i>0.22</i>	<i>0.79</i>
Large Independent								
EOG Resources, Inc.	EOG		93.43	548	51,200	85.00	0.13	1.09
Devon Energy Corporation	DVN		43.62	527	23,000	45.00	0.31	0.98
Occidental Petroleum Corp.	OXY		66.90	764	51,100	75.00	0.15	0.91
Marathon Oil Corporation	MRO	B	14.88	847	12,600	20.00	0.33	0.83
ConocoPhillips	COP	B	45.73	1,246	57,000	70.00	0.31	0.76
	<i>Total or Median</i>				<i>194,900</i>		<i>0.31</i>	<i>0.91</i>
Small Independent								
Cimarex Energy Company	XEC		125.70	93	11,700	120.00	0.10	1.04
Continental Resources (32%)	CLR	B	47.20	118	5,600	56.00	0.25	0.88
California Resources	CRC		12.35	42	500	50.00	0.75	0.81
Whiting Petroleum Corporation	WLL		8.80	281	2,500	18.00	0.46	0.72
Range Resources	RRC	B	33.36	244	8,100	56.00	0.24	0.69
	<i>Total or Median</i>				<i>28,000</i>		<i>0.25</i>	<i>0.81</i>
Income								
San Juan Basin Royalty Trust	SJT		5.77	47	270	8.00	-	0.72
Dorchester Minerals, L.P.	DMLP	B	15.35	31	470	24.00	-	0.64
Permian Basin RT	PBT		6.97	47	330	11.00	-	0.63
Sabine Royalty Trust	SBR	B	36.85	15	540	60.00	-	0.61
Cross Timbers Royalty Trust	CRT		17.06	6	100	29.00	-	0.59
	<i>Total or Median</i>				<i>1,700</i>		<i>-</i>	<i>0.63</i>
Canada								
EnCana Corporation	ECA		10.62	973	10,300	10.00	0.40	1.03
Imperial Oil Limited (30%)	IMO		32.83	255	8,400	38.00	0.20	0.89
Cenovus Energy Inc.	CVE		14.39	833	12,000	20.00	0.19	0.77
Suncor Energy	SU	B	30.48	1,666	50,800	44.00	0.20	0.75
Birchcliff Energy Ltd.	BIREF	B	6.65	263	1,800	10.00	0.19	0.73
	<i>Total or Median</i>				<i>83,000</i>		<i>0.20</i>	<i>0.77</i>
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.								
Estimated present value capped by unlevered cash flow multiple (EV/Ebitda)								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
For historical research see www.mcdep.com								
NPV Change Since October 26: Suncor \$35 to \$44, Whiting \$12 to \$18, Encana \$6 to \$10, EOG \$75 to \$85								



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Table 3							
McDep Energy Stocks							
Value Multiples and Dividend							
Ranked by EV/Ebitda							
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	Dividend NTM
	Symbol/Rating		9-Nov 2016	NTM	NTM	NTM	NTM
	B = Buy						
Global Integrated							
Exxon Mobil Corporation	XOM		86.25	15.0	13.3	11.8	30
Chevron Corporation	CVX		107.64	9.8	12.8	10.8	48
Royal Dutch Shell	RDS-A	B	50.88	9.5	10.3	7.7	22
Total S.A.	TOT	B	47.57	9.9	11.1	7.0	15
	<i>Median</i>			9.8	12.0	9.2	26
Large Independent							
Devon Energy Corporation	DVN		43.62	8.4	18.3	17.9	0.24
EOG Resources, Inc.	EOG		93.43	7.6	14.6	15.8	0.67
Marathon Oil Corporation	MRO	B	14.88	12.6	17.0	14.1	0.20
Occidental Petroleum Corp.	OXY		66.90	8.9	15.0	13.6	3.04
ConocoPhillips	COP	B	45.73	10.9	15.6	11.9	1.00
	<i>Median</i>			8.9	15.6	14.1	
Small Independent							
Cimarex Energy Company	XEC		125.70	7.0	15.4	16.0	0.32
Continental Resources (32%)	CLR	B	47.20	11.4	17.8	15.7	-
Range Resources	RRC	B	33.36	12.2	22.6	15.6	0.08
California Resources	CRC		12.35	11.8	13.6	11.0	-
Whiting Petroleum Corporation	WLL		8.80	9.3	13.9	10.1	-
	<i>Median</i>			11.4	15.4	15.6	
Income							
Sabine Royalty Trust	SBR	B	36.85	9.1	22.0	13.5	13
Dorchester Minerals, L.P.	DMLP	B	15.35	7.4	20.4	13.1	19
Cross Timbers Royalty Trust	CRT		17.06	8.1	20.3	11.9	13
Permian Basin RT	PBT		6.97	8.5	16.9	10.7	11
San Juan Basin Royalty Trust	SJT		5.77	10.4	14.8	10.7	11
	<i>Median</i>			8.5	20.3	11.9	13
Canada							
EnCana Corporation	ECA		10.62	5.9	14.3	14.8	0.06
Cenovus Energy Inc.	CVE		14.39	16.3	14.2	11.0	0.15
Birchcliff Energy Ltd.	BIREF	B	6.65	12.9	14.4	10.5	-
Imperial Oil Limited (30%)	IMO		32.83	32.1	11.1	9.9	0.45
Suncor Energy	SU	B	30.48	20.7	12.9	9.8	0.87
	<i>Median</i>			16.3	14.2	10.5	
	<i>Grand Median</i>			10	15	12	

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2017; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

For historical research see www.mcdep.com



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Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2016										
Ranked by Unlevered Total Return										
			Price (\$/sh)	Price (\$/sh)	Price Change	Cash Distrib. (%)	Equity Total Return (%)	Unlevered Total Return (\$/sh) (%)		McDep Ratio
	Symbol/Rati		9-Nov 2016	31-Dec 2015	(%)	(%)	(%)	(%)	(%)	
Global Integrated										
	Chevron Corporation	CVX	107.64	89.96	20	4	23	37	17	0.84
	Exxon Mobil Corporation	XOM	86.25	77.95	11	3	14	23	10	0.89
	Royal Dutch Shell	RDS-A B	50.88	45.79	11	6	17	35	10	0.75
	Total S.A.	TOT B	47.57	44.95	6	5	10	26	7	0.63
	<i>Median</i>				11		15		10	0.79
Large Independent										
	EOG Resources, Inc.	EOG	93.43	70.79	32	1	33	13	28	1.09
	Devon Energy Corporation	DVN	43.62	32.00	36	1	37	21	23	0.98
	Marathon Oil Corporation	MRO B	14.88	12.58	18	1	19	10	11	0.83
	Occidental Petroleum Corp.	OXY	66.90	67.61	(1)	3	2	14	2	0.91
	ConocoPhillips	COP B	45.73	46.69	(2)	2	(0)	32	(0)	0.76
	<i>Median</i>				18		19		11	0.91
Small Independent										
	Continental Resources (32%)	CLR B	47.20	22.98	105	-	105	18	59	0.88
	Cimarex Energy Company	XEC	125.70	89.38	41	0	41	14	35	1.04
	Range Resources	RRC B	33.36	24.62	35	0	36	18	21	0.69
	Whiting Petroleum Corporation	WLL	8.80	9.44	(7)	-	(7)	15	(3)	0.72
	California Resources	CRC	12.35	23.30	(47)	-	(47)	148	(6)	0.81
	<i>Median</i>				35		36		21	0.81
Income										
	Dorchester Minerals, L.P.	DMLP B	15.35	9.89	55	6	61	-	61	0.64
	Sabine Royalty Trust	SBR B	36.85	26.26	40	6	46	-	46	0.61
	Permian Basin RT	PBT	6.97	5.06	38	6	43	-	43	0.63
	San Juan Basin Royalty Trust	SJT	5.77	4.14	39	4	43	-	43	0.72
	Cross Timbers Royalty Trust	CRT	17.06	13.01	31	7	38	-	38	0.59
	<i>Median</i>				39		43		43	0.63
Canada										
	Birchcliff Energy Ltd.	BIREF B	6.65	2.93	127	-	127	2	71	0.73
	EnCana Corporation	ECA	10.62	5.09	109	1	110	7	47	1.03
	Suncor Energy	SU B	30.48	25.80	18	3	21	11	15	0.75
	Cenovus Energy Inc.	CVE	14.39	12.62	14	1	15	5	11	0.77
	Imperial Oil Limited (30%)	IMO	32.83	32.52	1	1	2	9	2	0.89
	<i>Median</i>				18		21		15	0.77
	<i>Grand Median</i>				25		28		19	0.77
	Natural Gas (\$/mmbtu)		2.70	2.33	16					
	Oil - West Texas Intermediate (\$/bbl)		45.46	37.06	23					
	S&P 500		2,163	2,044	6					

Source: McDep LLC, Yahoo, CME Group, Bloomberg

For historical research see www.mcdep.com



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