Rating: Buy
S&P 500: 1143

Encana Corporation
Bold Moves

Symbol	ECA	*Ebitda Next Twelve Months ending 9/30/05 (US$mm)*	9,100
Rating	Buy	*North American Natural Gas/Ebitda (%)*	68
Price (US$/sh)	49.74	*Natural Gas and Oil Production/Ebitda (%)*	100
Pricing Date	11/3/04	*Adjusted Reserves/Production NTM*	6.5
Shares (mm)	472	*EV/Ebitda*	3.4
Market Capitalization (US$mm)	23,500	*PV/Ebitda*	4.1
Debt (US$mm)	7,900	*Undeveloped Reserves (%)*	36
Enterprise Value (EV) (US$mm)	31,400	*Natural Gas and Oil Ebitda (US$/mcfe)*	5.38
Present Value (PV) (US$mm)	37,600	*Present Value Proven Reserves(US$/boe)*	16.65
Net Present Value (US$/share)	63	*Present Value Proven Reserves(US$/mcfe)*	2.77
Debt/Present Value	0.21	*Earnings Next Twelve Months (US$/sh)*	6.50
McDep Ratio - EV/PV	0.83	*Price/Earnings Next Twelve Months*	8
Dividend Yield (%/year)	0.8	*Indicated Annual Dividend (US$/sh)*	0.40

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.

Summary and Recommendation

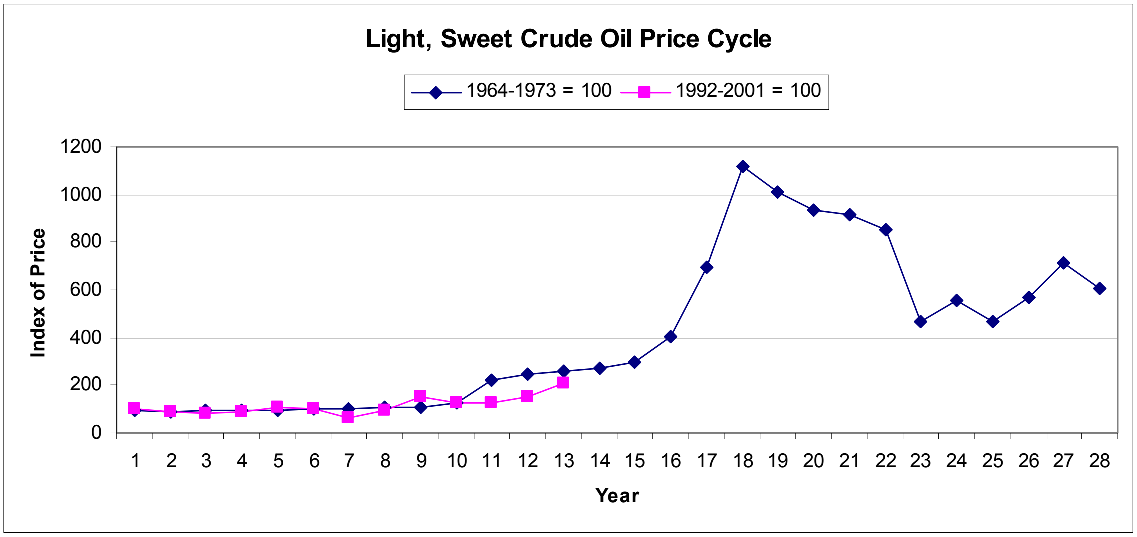
We continue to recommend current purchase of the common shares of **Encana (ECA)** for its concentrated, large cap participation in North American natural gas. The company has been among the most aggressive in developing new supply in Canada and the U.S. The stock becomes more concentrated on the premium energy business with the bold moves to sell North Sea properties and to declare the intention to sell Gulf of Mexico and Ecuador oil properties. Already the largest independent natural gas producer on the continent, the company expects 14% volume growth for 2005 over 2004. The stock has appreciation potential to net present value of $63 a share that relates to a constant real oil price of $35 a barrel.

Oil Price Move Possibly Just Starting

To offset any inclination to underestimate further potential for oil and gas price, we compare the relatively stable price period from 1992 to 2001 to the period from 1964 to 1973. Each was a ten year period that immediately preceded a sharply lower stock market in 2002 and in 1974. After quiescence, oil price started moving up in each case. We may be in the early stages of a new historic move (see chart Light, Sweet Crude Oil Price Cycle).

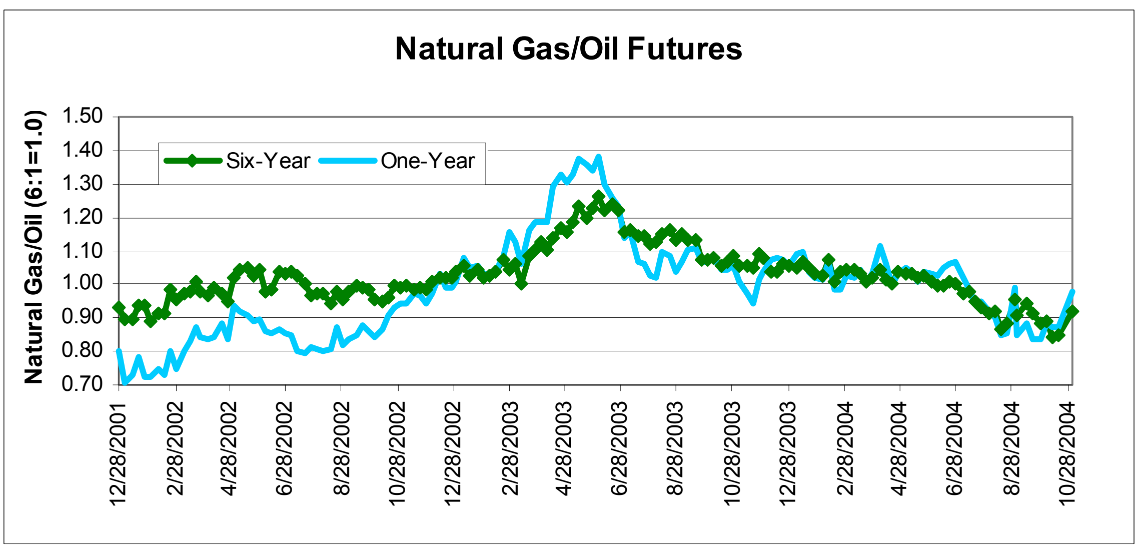
Frankly, few investors would give much weight to the likelihood of continued oil price strength. Contrast that with the growing chorus for a weaker dollar. It may just be that oil price is not high, but the real value of the dollar is low. That, too, is a parallel to historical experience.

Let us imagine how the cycle might unfold. By the way we chose to draw the chart Year 13 corresponds to 1976 and 2004. Once the move got going in the previous cycle, the annual average oil price did not decline until Year 19 (1982). The annual peak of 1100, or 11 times the first ten year average, was too high to be sustained. It might be less disruptive economically if the peak ahead of us were lower and the decline shallower. The end point in Year 28 at 600 implies a tripling over the next 15 years. If higher oil price unfolded gradually it would give everyone time to adjust.



Relative Outlook for Natural Gas Favors Encana

Oil has been stronger than natural gas since the winter of early 2003 (see chart Natural Gas/Oil Futures). We think that the 1.2 premium ratio that natural gas reached in the Spring of 2003 is an indicator of where the cleaner fuel is headed in the future from 0.9 now.



Profit from Oil Success, Concentrate on Natural Gas

The large cap independent producer has about 68% of its value concentrated on natural gas production (see table Functional Cash Flow and Present Value). North American natural gas is the premium energy business where competition is limited and the quality of the product high.

Encana Corporation
Functional Cash Flow and Present Value

	NTM Ebitda	*Adjusted R/P*	*PV/ Ebitda*	*Present Value*	
North American Natural Gas	6,150	6.1	4.1	25,500	
Oil	2,990	7.5	4.0	12,100	
	9,140	6.5	4.1	37,600	
Debt					7,900
Net Present Value ($mm)					29,700
Shares					472
Net Present Value ($/sh)					63

North Sea oil properties, accounting for about 7% of current year oil production have been sold for $2.1 billion. A billion dollar gain will be recognized in the fourth quarter. The price is higher than what the amount of production would indicate because it includes the largely undeveloped "Buzzard" discovery. Buzzard was an exciting discovery by Encana predecessor, PanCanadian Energy when successful drilling results were announced in early 2002. The willingness of Encana to part with it attests to the relative attractiveness of the company's resource opportunities in North American natural gas.

To be sold in 2005, Ecuador accounts for 29% of 2004 oil volume. The oil prospects are also favorable for the Amazon jungle property. We visited those operations in 1997 when being developed by Pacalta Resources, the Canadian company later acquired by Encana predecessor, Alberta Energy. Pacalta's properties were once owned by a favorite exploration company, Supron Energy. Some thirty years ago, the late chief executive of Supron named one of the early discoveries after his wife.

Remaining oil volume, all in North America, is 32% heavy oil, 22% light and medium and 10% natural gas liquids. Heavy oil produced from oil sands offers the most potential for growth.

The company produces heavy oil primarily from its Foster Creek and Christina Lake properties near Imperial's Cold Lake and not far from oil sands mining projects, Syncrude and Suncor. Encana's steam-assisted gravity drainage (SAGD) operations are efficient, but do consume valuable natural gas. Moreover, because Encana does not provide upgrading for the product, its price can be discounted severely at times. Nonetheless growing volume of heavy oil production should be increasingly valuable.

After the sale of the Ecuador oil properties, Encana's resource value concentration on natural gas would increase further. In addition, if we classify natural gas liquids with natural gas rather than oil, the natural gas concentration exceeds 80%. We like near pure plays on North American natural gas.

Track Quarterly Cash Flow and Project It

Quarterly reports are interesting to us not for the bottom line earnings number, but for the operating and cost details that give us a basis for anticipating future performance (see table Next Twelve Months Operating and Financial Estimates). From the base of the latest quarter, cash flow (Ebitda) rises in line with revenue that is driven by futures prices.

Encana Corporation
Next Twelve Months Operating and Financial Estimates

	Q1 3/31/04	*Q2 6/30/04*	*Q3 9/30/04*	*Q4E 12/31/04*	***Year 2004E***	*Q1E 3/31/05*	*Q2E 6/30/05*	*Q3E 9/30/05*	***Next Twelve Months 9/30/05***
Volume									
Natural Gas (mmcfd)	2,712	3,037	3,128	3,128	**3,002**	3,128	3,200	3,400	**3,215**
Oil (mbd)	265	270	259	240	**258**	240	240	240	**240**
Total (bcf)	391	424	431	420	**1,666**	411	422	445	**1,699**
Total (mmcfed)	4,302	4,657	4,682	4,568	**4,553**	4,568	4,640	4,840	**4,655**
Price									
Henry Hub (US$/mmbtu)	5.64	6.10	5.49	7.49	**6.18**	8.62	7.16	7.20	**7.62**
Differential	0.31	0.52	0.18	0.25	**0.29**	0.29	0.24	0.24	**0.27**
Encana ($/mcf)	5.33	5.58	5.31	7.24	**5.89**	8.34	6.93	6.96	**7.35**
WTI Cushing (US$/bbl)	35.23	38.34	43.89	51.67	**42.28**	49.68	48.36	46.96	**49.17**
Differential	4.61	3.65	1.78	2.10	**3.29**	2.02	1.97	1.91	**2.00**
Encana ($/bbl)	30.62	34.69	42.11	49.57	**38.99**	47.66	46.39	45.05	**47.17**
Total ($/bbl)	31.48	33.90	35.26	45.37	**36.57**	49.28	43.06	42.76	**45.06**
Revenue ($mm)									
Natural Gas	1,315	1,542	1,528	2,083	**6,469**	2,347	2,017	2,178	**8,626**
Oil	738	852	1,003	1,094	**3,689**	1,029	1,013	995	**4,132**
Total	2,850	2,718	2,458	3,178	**11,204**	3,377	3,030	3,173	**12,758**
Expense	1,369	1,147	721	901	**4,138**	951	864	900	**3,616**
Ebitda ($mm)	1,481	1,571	1,737	2,276	**7,066**	2,426	2,166	2,273	**9,141**
Deprec., Deplet., & Amort.	624	733	694	694	**2,745**	694	694	694	**2,776**
Hedging	149	234	264	489	**1,136**	294	208	244	**1,235**
Interest	79	96	103	103	**381**	103	103	103	**412**
Ebt	629	508	676	990	**2,803**	1,334	1,161	1,233	**4,719**
Income tax	157	127	110	347	**741**	467	406	431	**1,652**
Net Income ($mm)	472	381	566	644	**2,063**	867	755	801	**3,067**
Per share ($)	1.00	0.81	1.20	1.36	**4.37**	1.84	1.60	1.70	**6.50**
Shares (millions)	472	471	472	472	**472**	472	472	472	**472**
Ebitda margin	52%	58%	71%	72%	**63%**	72%	71%	72%	**72%**
Tax rate	25%	25%	16%	35%	**26%**	35%	35%	35%	**35%**

Our projections boost natural gas volume in 2005 to the low end of management's projection. We have taken North Sea volumes out of 2005 and reduced debt for the proceeds from the North Sea transaction expected to close on December 1.

Earnings are dampened by hedging losses that would reach a record level in the last quarter of 2004 and diminish in 2005. To rein in potential losses, the company has entered into additional transactions that limit the negative potential of previous transactions. The amount of oil and gas hedged for 2005 appears to be about half that for 2004.

Earnings are further dampened by an increasing tax rate. Despite hedging and taxes, earnings may be sharply higher next year with today's commodity price expectations.

Kurt H. Wulff, CFA

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