

Rating: Buy
S&P 500: 1160

Encana Corporation **Natural Gas Leader**

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 3/31/06 (US\$mm)</i>	8,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	80
<i>Price (US\$/sh)</i>	67.23	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/21/05	<i>Adjusted Reserves/Production NTM</i>	7.2
<i>Shares (mm)</i>	471	<i>EV/Ebitda</i>	4.5
<i>Market Capitalization (US\$mm)</i>	31,600	<i>PV/Ebitda</i>	5.1
<i>Debt (US\$mm)</i>	6,900	<i>Undeveloped Reserves (%)</i>	34
<i>Enterprise Value (EV) (US\$mm)</i>	38,600	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	5.42
<i>Present Value (PV) (US\$mm)</i>	43,200	<i>Present Value Proven Reserves(US\$/boe)</i>	19.03
<i>Net Present Value (US\$/share)</i>	77	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.17
<i>Debt/Present Value</i>	0.16	<i>Earnings Next Twelve Months (US\$/sh)</i>	7.31
<i>McDep Ratio - EV/PV</i>	0.89	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	0.6	<i>Indicated Annual Dividend (US\$/sh)</i>	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

Buy-recommended **Encana (ECA)**, already number one in next twelve months cash flow, has pulled within passing range of number one in present value of North American natural gas, **ExxonMobil (XOM)**. Also in 2005, Encana's present value by our estimate passed that for **BP plc (BP)**, successor to Amoco, one of our long-time natural gas favorites. The best days for natural gas lie ahead mainly because we use far too much coal in power generation. Currently, natural gas price lags the gain in oil ahead of the summer air conditioning season. We see 21% appreciation potential to present value and ongoing gains thereafter.

Largest Producer in North American Natural Gas

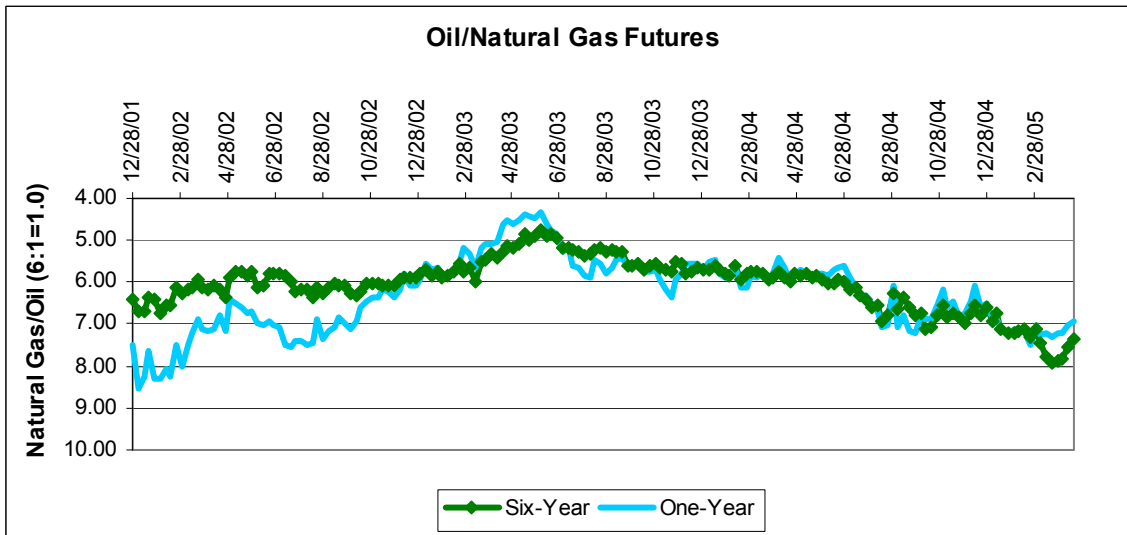
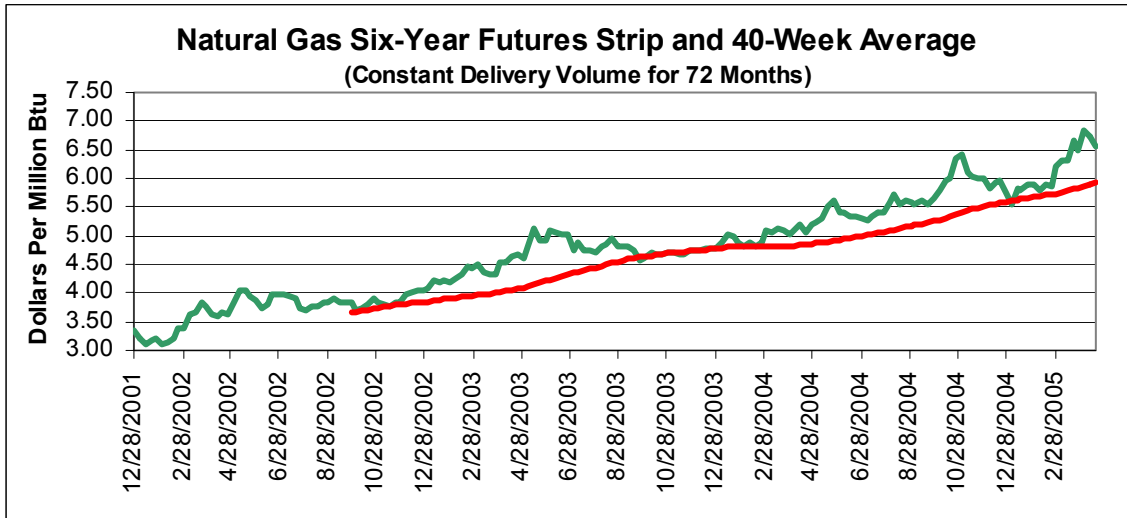
By our projections, Encana would generate more cash flow from North American natural gas production than any other producer in the next twelve months (see table [North American Natural Gas Cash Flow and Present Value](#)). Only **ExxonMobil (XOM)** has more estimated present value in the resource than Encana.

Natural Gas a Contrarian Play?

It may seem far-fetched to suggest that natural gas may be out of favor. Indeed the trend in commodity price for natural gas by itself looks up. The continuation of current long-term quotes above the 40-week average suggests that more and more skeptics are gradually becoming believers (see chart [Natural Gas Six-Year Futures Strip and 40-Week Average](#)).

With respect to oil, natural gas does seem out of favor. The ratio of oil price to gas price has increased from 5 times to about 7 times in the past two years (see chart [Oil/Natural Gas Futures](#)).

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We believe a ratio of 5 is more normal for the future. Natural gas is the cleanest available fuel for electrical generation, the highest and fastest growing form of energy. The most efficient new electric plants use natural gas to power jet turbines. The only alternative fuel is refined oil and that is not clean enough in many cases. Refined oil like jet fuel or diesel costs roughly 20% more than crude oil. The energy equivalent of crude oil is 6 times the price of natural gas. Allow for 20% for refining crude oil and the energy equivalent becomes 5 times. Indeed two winters ago when natural gas supply was tight, its price was the crude oil price divided by 5.

Considering its environmental advantages, the price of natural gas should hardly ever be less than the crude oil price divided by 5. The main reason natural gas remains underpriced is our political reluctance to clamp down on emission from coal burning, our main fuel for electrical generation. Nonetheless with the price of oil, the price of natural gas has gone up rapidly and it takes time for environmental preferences to be enforced politically.

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North American Natural Gas Cash Flow and Present Value

	<i>Ebitda</i>	<i>Adjstd</i>	<i>PV/</i>	<i>Present</i>
	<i>NTM</i>	<i>Resrvs/</i>	<i>Ebitda</i>	<i>Value</i>
	(\$mm)	<i>Prod</i>	<i>NTM</i>	(\$mm)
		<i>NTM</i>		
Encana Corporation	6,780	7.1	5.2	35,000
Exxon Mobil Corporation	4,930	11.9	8.1	40,000
Devon Energy Corporation	4,500	7.7	5.2	23,500
BP plc	3,370	12.9	8.0	27,000
Burlington Resources	3,000	10.2	6.7	20,000
Anadarko Petroleum Corp.	2,830	11.9	6.4	18,000
ChevronTexaco Corporation	2,500	5.3	4.4	11,000
ConocoPhillips	2,330	12.6	6.9	16,000
Royal Dutch/Shell	2,290	4.9	3.9	9,000
XTO Energy Inc.	1,810	11.7	6.6	12,000
Unocal Corporation	1,030	8.0	5.8	6,000
Occidental Petroleum Corp.	910	10.3	6.6	6,000
Petro-Canada	811	8.9	6.2	5,000
Marathon Oil Corporation	790	5.9	4.7	3,700
Cimarex Energy Company	740	6.7	4.6	3,400
Imperial Oil Limited	726	5.2	4.4	3,200
Suncor Energy	220	7.6	5.5	1,200
Energy Partners Ltd.	204	4.7	3.8	780
San Juan Basin Royalty Trust	170	12.1	8.8	1,490
Encore Acquisition Company	92	11.9	7.0	650

The next opportunity for market forces to realign natural gas price may be the summer air conditioning season. Surprising demand for electricity may bring about surprising demand for natural gas. Surprises, by definition, cannot be forecast. Thus, our basic expectations have to be for a gradual gain in gas price relative to oil.

Quarterly Cash Flow Rising

Meanwhile, cash flow (Ebitda) rises in line with revenue that is driven by futures prices (see table [Next Twelve Months Operating and Financial Estimates](#)). Rising expectations of futures investors in the first quarter of 2005 have their greatest impact on future quarters. The release of first quarter results is scheduled for April 27, 2005.

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Encana Corporation
Next Twelve Months Operating and Financial Estimates

	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next Twelve Months</i>
	<i>9/30/04</i>	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>3/31/06</i>
Volume										
Natural Gas (bcf)	288	284	1,095	278	291	313	313	1,195	306	1,223
Natural Gas (mmcf)	3,128	3,087	2,992	3,087	3,200	3,400	3,400	3,273	3,400	3,350
Days	92	92	366	90	91	92	92	365	90	365
Oil (mmb)	23.8	14.6	87	14.3	14.5	14.6	14.6	58	14.3	58
Oil (mbd)	259	159	238	159	159	159	159	159	159	159
Total (bcf)	431	372	1,618	364	378	401	401	1,543	392	1,571
Total (mmcfed)	4,682	4,041	4,420	4,041	4,154	4,354	4,354	4,227	4,354	4,304
Price										
Henry Hub (US\$/mmbtu)	5.75	7.10	6.15	6.27	7.19	7.31	7.80	7.14	8.38	7.67
Differential	0.44	1.02	0.57	0.90	1.03	1.05	1.12	1.00	1.20	1.09
Encana (\$/mcf)	5.31	6.08	5.58	5.37	6.16	6.26	6.68	6.14	7.18	6.57
WTI Cushing (US\$/bbl)	43.89	48.31	41.44	49.65	53.21	56.12	56.33	53.83	55.60	55.32
Differential	1.78	17.57	6.51	18.06	19.35	20.41	20.49	19.56	20.22	20.12
Encana (\$/bbl)	42.11	30.74	34.93	31.59	33.86	35.71	35.85	34.27	35.38	35.20
Total (\$/bbl)	35.26	35.12	33.96	32.07	36.23	37.17	39.16	36.25	41.39	38.50
Revenue (\$mm)										
Natural Gas	1,528	1,727	6,112	1,492	1,793	1,959	2,090	7,334	2,197	8,039
Oil	1,003	450	3,044	452	490	522	524	1,989	506	2,043
Total	2,531	2,176	10,276	1,944	2,282	2,482	2,615	9,322	2,703	10,081
Expense (\$mm)										
	795	306	3,617	248	333	382	416	1,379	438	1,569
Ebitda (\$mm)										
	1,737	1,870	6,659	1,696	1,950	2,099	2,199	7,943	2,265	8,513
Deprec., Deplet., & Amort.	694	641	2,692	641	641	641	641	2,564	641	2,564
Hedging	264	226	873	56	57	58	58	229	28	200
Interest	103	113	391	113	113	113	113	452	113	452
Ebt										
	676	891	2,704	885	1,139	1,287	1,387	4,698	1,483	5,296
Income tax	110	312	706	310	399	451	486	1,644	519	1,854
Net Income (\$mm)										
	566	579	1,998	575	740	837	902	3,054	964	3,443
Per share (\$)	1.20	1.23	4.24	1.22	1.57	1.78	1.92	6.49	2.05	7.31
Shares (millions)										
	472	471	471	471	471	471	471	471	471	471
Ebitda margin	69%	86%	65%	87%	85%	85%	84%	85%	84%	84%
Tax rate	16%	35%	26%	35%	35%	35%	35%	35%	35%	35%

Buy Oil and Gas Producers at Mid Decade

Three to five-fold gain potential for oil and gas price over the next 5 to 13 years justifies investment in recommended oil and gas producers, in our opinion. Supporting improving prospects, the average futures price of oil for continuous delivery over the next six years is in a multi-year uptrend as defined by the current quotes above the 40-week average. The current benchmark oil average futures price for the next six years is about \$51 a barrel. Present value estimates that represent the denominator of the McDep Ratio presume a constant real oil price of \$40 a barrel. Because McDep Ratios are less than 1.0, Encana and peers appear to be priced for less than \$40 a barrel (see table Rank by McDep Ratio).

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Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i> <i>21-Apr</i> <i>2005</i>	<i>Shares</i> <i>(mm)</i>	<i>Market</i> <i>Cap</i> <i>(\$mm)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(\$/sh)</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	31.57	349	11,030	33.80	0.17	0.95
Encana Corporation	ECA	B	67.23	471	31,600	77.00	0.16	0.89
Unocal Corporation	UCL	B	56.27	271	15,200	65.00	0.21	0.89
Occidental Petroleum Corp.	OXY	B	71.22	406	28,900	87.00	0.14	0.84
CNOOC Limited (19%)	CEO	B	53.78	78	4,200	67.00	-	0.80
Burlington Resources	BR	B	50.40	391	19,700	67.00	0.12	0.78
Devon Energy Corporation	DVN	B	45.73	500	22,900	63.00	0.16	0.77
Anadarko Petroleum Corp.	APC	B	74.30	246	18,300	113.00	0.14	0.71
<i>Total or Median</i>					<i>152,000</i>		<i>0.15</i>	<i>0.82</i>

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