

Rating: Buy
 S&P 500: 1199

Encana Corporation **Clean Fuel Supplier**

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$m)</i>	7,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	82
<i>Price (US\$/sh)</i>	35.43	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/27/05	<i>Adjusted Reserves/Production NTM</i>	7.2
<i>Shares (mm)</i>	909	<i>EV/Ebitda</i>	5.4
<i>Market Capitalization (US\$m)</i>	32,200	<i>PV/Ebitda</i>	5.7
<i>Debt (US\$m)</i>	8,400	<i>Undeveloped Reserves (%)</i>	34
<i>Enterprise Value (EV) (US\$m)</i>	40,600	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	4.85
<i>Present Value (PV) (US\$m)</i>	43,400	<i>Present Value Proven Reserves(US\$/boe)</i>	19.12
<i>Net Present Value (US\$/share)</i>	39	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.19
<i>Debt/Present Value</i>	0.19	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.04
<i>McDep Ratio - EV/PV</i>	0.94	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	1.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.60

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

Encana Corporation (ECA) has the boldest natural gas expansion strategy among buy-recommended large independent natural gas producers. After a pullback from recent stock price highs, natural gas producers appear timely as the clean commodity has lagged oil price for two years. A hot summer or recent action in European natural gas markets could spark a change to more realistic commodity price. We see potential appreciation of 9% to our estimate of net present value subject to normal risk.

Present Value Low Relative to Cash Flow

Estimated originally on a discounted cash flow basis assuming \$40 oil, present value looks low relative to next twelve months cash flow (see table [Functional Cash Flow and Present Value](#)). The company's cash flow multiple for North American Natural Gas equals that indicated by our current correlation with adjusted reserve life index for thirty producers. The company's cash flow multiple for the Oil segment is higher than that indicated by our current correlation with adjusted reserve life index for thirty producers by about 1.3.

Cash Flow Rising with Commodity Price

A dynamic measure, projected cash flow is updated frequently with latest futures quotes (see table [Next Twelve Months Operating and Financial Estimates](#)). Recent quarterly results also influence projections. Volume changes have muted impact on valuation if reserves do not change.

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Encana Corporation
Functional Cash Flow and Present Value

	<i>NTM</i> <i>Ebitda</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i>	
North American Natural Gas	6,210	7.1	5.6	35,000	81%
Oil	1,380	7.6	6.1	8,400	19%
	7,590	7.2	5.7	43,400	100%
Debt					8,400
Net Present Value (\$mm)					35,000
Shares					909
Net Present Value (\$/sh)					39

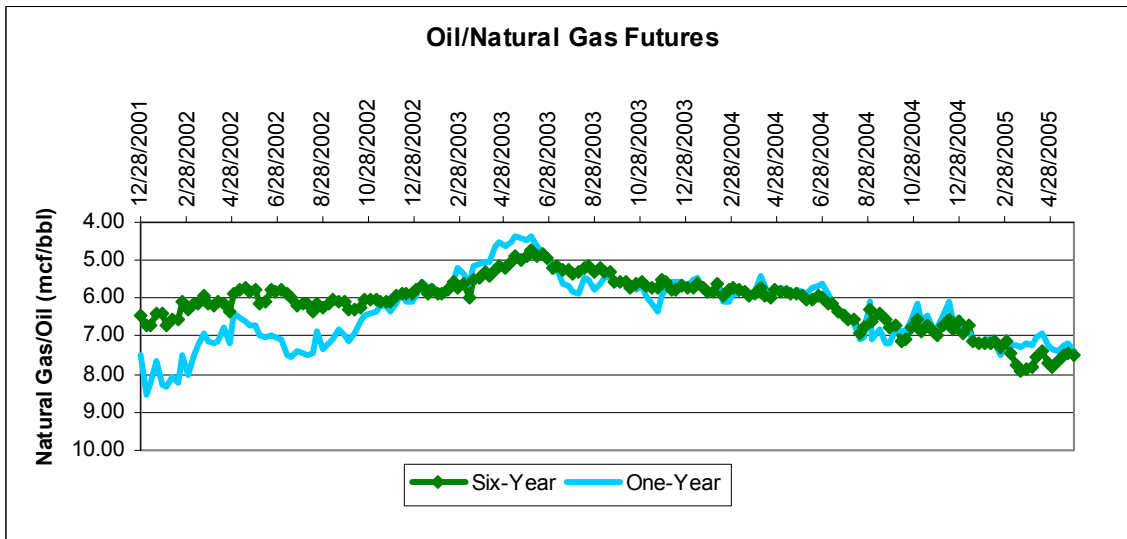
Encana Corporation
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i> <i>12/31/04</i>	<i>Year</i> <i>2004</i>	<i>Q1</i> <i>3/31/05</i>	<i>Q2E</i> <i>6/30/05</i>	<i>Q3E</i> <i>9/30/05</i>	<i>Q4E</i> <i>12/31/05</i>	<i>Year</i> <i>2005E</i>	<i>Q1E</i> <i>3/31/06</i>	<i>Q2E</i> <i>6/30/06</i>	<i>Next</i> <i>Twelve</i> <i>Months</i> <i>6/30/06</i>
Volume										
Natural Gas (mmcf)	3,087	2,992	3,146	3,200	3,400	3,400	3,288	3,400	3,200	3,350
Oil (mbd)	159	238	157	157	157	157	157	157	157	157
Total (bcf)	372	1,618	368	377	399	399	1,544	391	377	1,567
Total (mmcfed)	4,041	4,420	4,088	4,142	4,342	4,342	4,230	4,342	4,142	4,292
Price										
Henry Hub (US\$/mmbtu)	7.10	6.15	6.27	6.83	6.43	7.11	6.66	7.94	6.84	7.08
Differential	1.02	0.57	0.46	0.50	0.47	0.52	0.48	0.58	0.50	0.52
Encana (\$/mcf)	6.08	5.58	5.81	6.34	5.96	6.59	6.18	7.36	6.34	6.56
WTI Cushing (US\$/bbl)	48.31	41.44	49.65	51.05	51.57	52.68	51.24	52.78	52.47	52.38
Differential	17.57	6.51	19.88	20.44	20.65	21.09	20.51	21.13	21.01	20.97
Encana (\$/bbl)	30.74	34.93	29.77	30.61	30.92	31.59	30.73	31.65	31.46	31.40
Total (\$/bbl)	35.12	33.96	33.69	36.33	34.73	37.81	35.67	41.47	36.56	37.63
Revenue (\$mm)										
Natural Gas	1,727	6,112	1,645	1,845	1,865	2,061	7,416	2,253	1,847	8,027
Oil	450	3,044	421	437	447	456	1,761	447	449	1,800
Total	2,176	10,276	2,066	2,282	2,312	2,517	9,177	2,701	2,296	9,826
Expense (\$mm)										
Ebitda (\$mm)	1,860	6,630	1,605	1,768	1,790	1,944	7,107	2,081	1,778	7,594
Deprec., Deplet., & Amort.	641	2,692	686	686	686	686	2,744	686	686	2,744
Hedging	226	873	22	56	57	57	192	24	56	194
Interest	113	391	100	100	100	100	400	100	100	400
Ebt (\$mm)	880	2,675	797	925	947	1,101	3,770	1,271	936	4,255
Income tax	308	699	279	324	331	385	1,320	445	328	1,489
Net Income (\$mm)	572	1,975	518	601	616	716	2,451	826	608	2,766
Per share (\$)	0.62	2.12	0.57	0.66	0.68	0.79	2.70	0.91	0.67	3.04
Shares (millions)	930	932	909	909	909	909	909	909	909	909
Ebitda margin	85%	65%	78%	77%	77%	77%	77%	77%	77%	77%
Tax rate	35%	26%	35%	35%	35%	35%	35%	35%	35%	35%

Commodity Price Discount Spells Opportunity

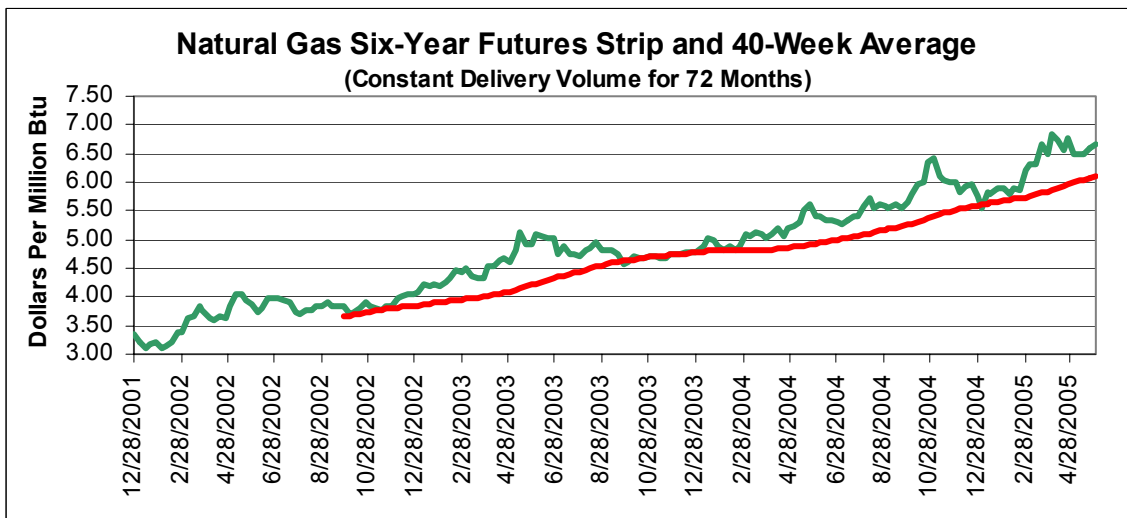
Oil price has increased to more than 7 times natural gas price. We expect the ratio for the next decade to average 5 times as was signaled briefly two years ago (see chart Oil/Natural Gas Futures).

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Rising futures prices for natural gas in Europe dramatize unrecognized value in the natural gas resources of buy-recommended producers. Futures prices at the U.K. National Balancing Point are setting new records exceeding \$12 a million btu for first quarter 2006, 58% more than for the U.S. We believe that level would be more realistic for the U.S. as well, and we note that Atlantic gas markets are newly linked through liquefied natural gas trading.

Despite not keeping up with oil, U.S. natural gas has been rising on a well-defined trend underway for at least the past 4½ years (see chart Natural Gas Six-Year Futures Strip and 40-Week Average). Whether the trend continues at the same rate or it quickens, buy-recommended natural gas producers are likely to continue their favorable stock price trend as well.



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Buy Oil and Gas Producers at Mid Decade

Multi-fold gain potential for oil and gas price over the years ahead justifies investment in recommended oil and gas producers, in our opinion. A McDep Ratio of 1.0 implies that a stock would be priced at present value assuming a constant real oil price of US\$40 (see table Rank by McDep Ratio).

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

	Symbol/ Rating		Price (\$/sh) 27-May 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	35.43	909	32,200	38.50	0.19	0.94
Unocal Corporation	UCL	B	57.56	273	15,700	65.00	0.19	0.91
XTO Energy Inc.	XTO	B	30.94	366	11,330	36.00	0.19	0.89
Occidental Petroleum Corp.	OXY	B	73.52	406	29,900	87.00	0.14	0.87
CNOOC Limited (19%)	CEO	B	54.29	78	4,240	67.00	-	0.81
Burlington Resources	BR	B	51.43	389	20,000	67.00	0.12	0.79
Devon Energy Corporation	DVN	B	46.55	496	23,100	63.00	0.16	0.78
Anadarko Petroleum Corp.	APC	B	76.09	239	18,200	113.00	0.14	0.72
<i>Total or Median</i>						<i>155,000</i>	<i>0.15</i>	<i>0.84</i>

Kurt H. Wulff, CFA

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