

Rating: Buy
S&P 500: 1353

Encana Corporation

Raise Net Present Value to \$65 a Share

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	8,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	75
<i>Price (US\$/sh)</i>	45.96	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/5/06	<i>Adjusted Reserves/Production NTM</i>	8.7
<i>Shares (mm)</i>	845	<i>EV/Ebitda</i>	5.6
<i>Market Capitalization (US\$mm)</i>	38,800	<i>PV/Ebitda</i>	7.5
<i>Debt (US\$mm)</i>	7,700	<i>Undeveloped Reserves (%)</i>	47
<i>Enterprise Value (EV) (US\$mm)</i>	46,600	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	5.34
<i>Present Value (PV) (US\$mm)</i>	62,700	<i>Present Value Proven Reserves(US\$/boe)</i>	21.25
<i>Net Present Value (US\$/share)</i>	65	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.54
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.57
<i>McDep Ratio - EV/PV</i>	0.74	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	0.9	<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)** offers 39% appreciation potential to our estimate of net present value (NPV) of \$65 a share revised from \$60 on the news of a joint venture with buy-recommended **ConocoPhillips (COP)**. ECA contributes its Foster Creek and Christina Lake oil sands properties in Alberta and COP contributes its Wood River, Illinois and Borger, Texas refineries to a 50/50 integrated oil production/refining venture. The partnership intends to expand refining capacity from 450,000 barrels daily to 600,000 and *in situ* oil production from 50,000 barrels daily to 400,000 by 2012 and 2014 respectively. Ascribing a nominal value of \$20,000 a daily barrel to current capacity we add \$4.5 billion to a new downstream line of business for ECA. With more confidence in the value of future oil sands production we can justify nearly the same oil valuation even though Encana's share has been reduced. Finally, the higher NPV prompts us to raise the weighting to double from full for Encana in the illustrative McDep Energy Portfolio.

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Please see disclosures on the final page.

Encana Corporation
Next Twelve Months Operating and Financial Estimates

	<i>Q3</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/05</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>9/30/07</i>
Volume									
Natural Gas (mmcf)	3,222	3,361	3,361	3,361	3,357	3,361	3,361	3,361	3,361
Oil (mbd)	150	153	153	153	155	153	153	153	153
Total (bcf)	379	389	394	394	1,566	385	389	394	1,562
Total (mmcfed)	4,122	4,279	4,279	4,279	4,289	4,279	4,279	4,279	4,279
Price									
Henry Hub (US\$/mmbtu)	8.56	6.81	6.58	6.11	7.12	8.36	7.71	7.91	7.52
Differential	1.27	0.97	0.94	0.87	1.03	1.19	1.10	1.13	1.08
Encana (\$/mcf)	7.29	5.84	5.65	5.24	6.09	7.17	6.61	6.78	6.45
WTI Cushing (US\$/bbl)	62.52	70.47	70.42	60.47	66.17	63.14	64.94	66.05	63.65
Differential	16.36	18.03	18.01	15.47	20.39	16.15	16.61	16.90	16.28
Encana (\$/bbl)	46.16	52.44	52.41	45.00	45.78	46.99	48.33	49.15	47.36
Total (\$/bbl)	44.27	38.77	37.85	34.36	38.56	43.88	41.52	42.51	40.55
Revenue (\$mm)									
Natural Gas	2,161	1,786	1,746	1,621	7,464	2,169	2,021	2,097	7,909
Oil	637	730	738	633	2,598	647	673	692	2,645
Total	2,798	2,516	2,483	2,255	10,062	2,816	2,694	2,789	10,554
Expense									
	690	523	515	458	2,180	598	568	592	2,216
Ebitda (\$mm)									
	2,108	1,993	1,968	1,797	7,881	2,218	2,126	2,198	8,338
Deprec., Deplet., & Amort.	677	790	790	790	3,135	790	790	790	3,160
Hedging	135	(154)	56	56	163	38	55	56	204
Interest	218	83	83	83	337	83	83	83	332
Ebt									
	1,078	1,274	1,040	868	4,246	1,307	1,198	1,269	4,643
Income tax	377	446	364	304	1,486	457	419	444	1,625
Net Income (\$mm)									
	701	828	676	564	2,760	850	779	825	3,018
Per share (\$)	0.80	0.98	0.80	0.67	3.25	1.01	0.92	0.98	3.57
Shares (millions)									
	876	845	845	845	850	845	845	845	845
Ebitda margin	75%	79%	79%	80%	78%	79%	79%	79%	79%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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	6,220	7.8	7.1	44,000	70%
Oil	1,720	12.0	8.2	14,100	23%
Downstream	400		11.3	4,500	7%
	8,340	8.7	7.5	62,600	100%
Debt					7,700
Net Present Value (\$mm)					54,900
Shares					845
Net Present Value - Standard Estimate (US\$/sh)					65
Net Present Value - Approximation by Correlation (US\$/sh)					65

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