



# Independent Stock Idea

April 22, 2009

rating: buy  
s&p 500: 855, intraday

## Encana Corporation (ECA) Billion Dollar Hedge Gain

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$m)</i>	5,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	69
<i>Price (US\$/sh)</i>	44.30	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/22/09	<i>Adjusted Reserves/Production NTM</i>	9.0
<i>Shares (mm)</i>	751	<i>EV/Ebitda</i>	8.4
<i>Market Capitalization (US\$m)</i>	33,300	<i>PV/Ebitda</i>	12.6
<i>Debt (US\$m)</i>	12,100	<i>Undeveloped Reserves (%)</i>	45
<i>Enterprise Value (EV) (US\$m)</i>	45,400	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	3.17
<i>Present Value (PV) (US\$m)</i>	68,400	<i>Present Value Proven Reserves(US\$/boe)</i>	20.82
<i>Net Present Value (US\$/share)</i>	75	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.47
<i>Debt/Present Value</i>	0.18	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.00
<i>McDep Ratio - EV/PV</i>	0.66	<i>Price/Earnings Next Twelve Months</i>	15
<i>Dividend Yield (%/year)</i>	3.6	<i>Indicated Annual Dividend (US\$/sh)</i>	1.60
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.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$10 a million btu.			
For historical analysis of ECA since 2001 see <a href="http://www.mcdep.com/3eca.htm">www.mcdep.com/3eca.htm</a>			

### Summary and Recommendation

Buy-recommended **Encana Corporation (ECA)** offers unlevered appreciation potential of 51% to a McDep Ratio of 1.0 and levered appreciation potential of 70% to Net Present Value (NPV) of \$75 a share. Released today, first quarter results were boosted by hedging which paid Encana a natural gas price of \$7.22 a thousand cubic feet instead of \$4.23 without hedging. Though positive today, the benefits of hedging are not assured on a long-term basis. Because we use cash flow for comparative valuation purposes, we project unlevered cash flow (Ebitda) without hedging (see table Next Twelve Months Operating and Financial Estimates). Our valuation capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil (see table Functional Cash Flow and Present Value). Pointing to expected oil price recovery, futures prices for the next six years averaged US\$66 a barrel recently (see charts Six-Year Commodity Price Meter and Six-Year and One-Year Natural Gas and Oil Futures). The largest independent natural gas producer in North America, Encana is a leader in most of the major unconventional resource areas. During the latest quarter the company tested a natural gas flow rate of more than 50 million cubic feet daily from a single new well in the Amoruso Field in the Deep Bossier play in East Texas.

Kurt H. Wulff, CFA



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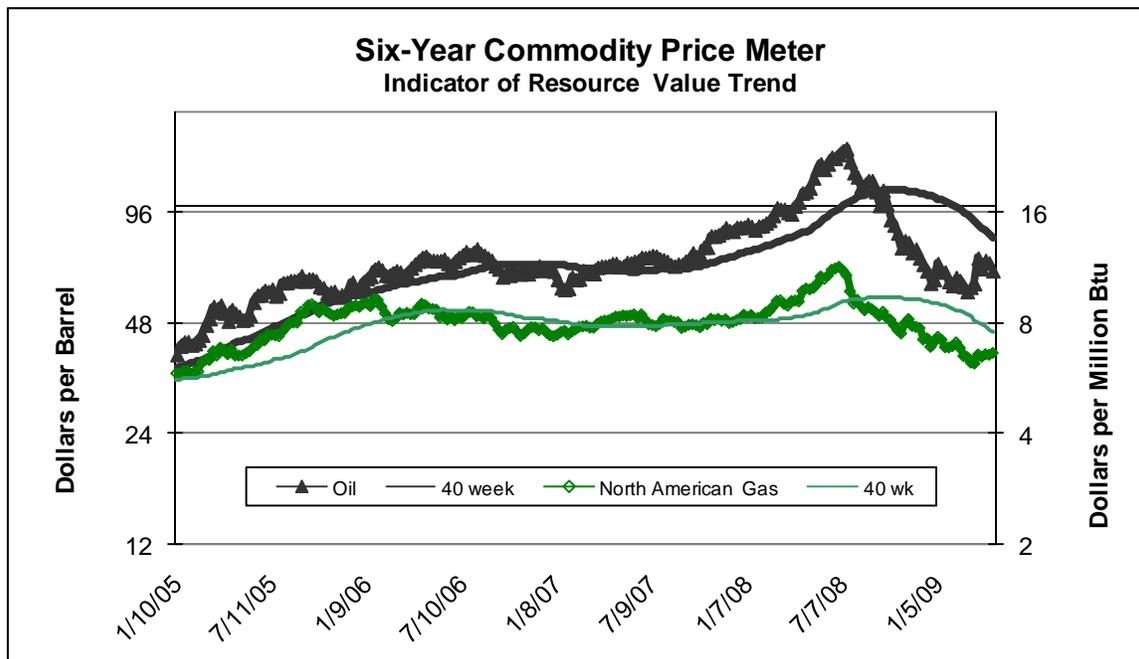
Encana Corporation									
Next Twelve Months Operating and Financial Estimates									
									Next
	Q1	Q4	Year	Q1	Q2E	Q3E	Q4E	Year	Twelve
	3/31/08	12/31/08	2008	3/31/09	6/30/09	9/30/09	12/31/09	2009E	Months
									3/31/10
<b>Volume</b>									
Natural Gas (bcf)	340	355	<b>1,405</b>	348	352	356	356	<b>1,412</b>	<b>1,412</b>
Natural Gas (mmcf)	3,733	3,858	<b>3,838</b>	3,869	3,869	3,869	3,869	<b>3,869</b>	<b>3,869</b>
Days	91	92	<b>366</b>	90	91	92	92	<b>365</b>	<b>365</b>
Oil (mmb)	12.5	12.5	<b>49</b>	12.1	12.2	12.3	12.3	<b>49</b>	<b>49</b>
Oil (mbd)	137	136	<b>134</b>	134	134	134	134	<b>134</b>	<b>134</b>
Total (bcf)	415	430	<b>1,698</b>	421	425	430	430	<b>1,706</b>	<b>1,706</b>
Total (mmcf)	4,555	4,674	<b>4,640</b>	4,673	4,673	4,673	4,673	<b>4,673</b>	<b>4,673</b>
<b>Price</b>									
Henry Hub (US\$/mmbtu)	8.02	6.95	<b>9.04</b>	4.90	3.61	3.94	4.85	<b>4.32</b>	<b>4.55</b>
Differential	0.18	1.51	<b>0.86</b>	0.67	0.34	0.37	0.46	<b>0.46</b>	<b>0.44</b>
Encana (\$/mcf)	7.84	5.44	<b>8.18</b>	4.23	3.27	3.56	4.39	<b>3.86</b>	<b>4.12</b>
WTI Cushing (US\$/bbl)	97.94	58.45	<b>99.59</b>	42.96	47.65	52.28	55.61	<b>49.62</b>	<b>53.40</b>
Differential	23.78	24.64	<b>20.74</b>	8.72	9.68	10.62	11.29	<b>10.04</b>	<b>10.84</b>
Encana (\$/bbl)	74.16	33.81	<b>78.84</b>	34.23	37.97	41.67	44.32	<b>39.58</b>	<b>42.56</b>
Total (\$/bbl)	51.93	32.84	<b>54.23</b>	26.90	22.78	24.87	29.44	<b>26.00</b>	<b>27.78</b>
<b>Revenue (\$mm)</b>									
Natural Gas	2,663	1,931	<b>11,491</b>	1,473	1,151	1,268	1,563	<b>5,455</b>	<b>5,816</b>
Oil	925	423	<b>3,860</b>	413	463	514	546	<b>1,936</b>	<b>2,082</b>
Other	1,754	4,005	<b>14,437</b>	2,722	2,722	2,722	2,722	<b>10,889</b>	<b>10,889</b>
Total	5,342	6,359	<b>29,788</b>	4,608	4,337	4,504	4,831	<b>18,280</b>	<b>18,787</b>
<b>Expense</b>									
	2,841	4,662	<b>17,935</b>	3,357	3,213	3,274	3,392	<b>13,235</b>	<b>13,372</b>
<b>Ebitda (\$mm)</b>									
Natural Gas and Oil	2,354	1,697	<b>10,994</b>	1,188	1,033	1,140	1,350	<b>4,711</b>	<b>5,055</b>
Other	146	-	<b>859</b>	63	90	90	90	<b>333</b>	<b>360</b>
Total	2,501	1,697	<b>11,853</b>	1,251	1,123	1,230	1,440	<b>5,045</b>	<b>5,415</b>
Deprec., Deplet., & Amort	1,035	996	<b>4,223</b>	983	983	983	983	<b>3,932</b>	<b>3,932</b>
Hedging and other		(150)	<b>736</b>	(1,066)	(1,000)	(800)	(300)	<b>(3,166)</b>	<b>(2,400)</b>
Interest	134	158	<b>586</b>	104	104	104	104	<b>416</b>	<b>416</b>
<b>Ebt</b>									
	1,332	693	<b>6,307</b>	1,230	1,036	943	653	<b>3,863</b>	<b>3,467</b>
Income tax	285	243	<b>1,896</b>	284	363	330	228	<b>1,205</b>	<b>1,213</b>
<b>Net Income (\$mm)</b>									
	1,047	451	<b>4,411</b>	946	674	613	424	<b>2,657</b>	<b>2,253</b>
Per share (\$)	1.39	0.60	<b>5.87</b>	1.26	0.90	0.82	0.57	<b>3.54</b>	<b>3.00</b>
<b>Shares (millions)</b>									
	753	751	<b>751</b>	751	751	751	751	<b>751</b>	<b>751</b>
Ebitda margin	66%	72%	<b>72%</b>	63%	64%	64%	64%	<b>64%</b>	<b>64%</b>
Tax rate	21%	35%	<b>30%</b>	23%	35%	35%	35%	<b>31%</b>	<b>35%</b>



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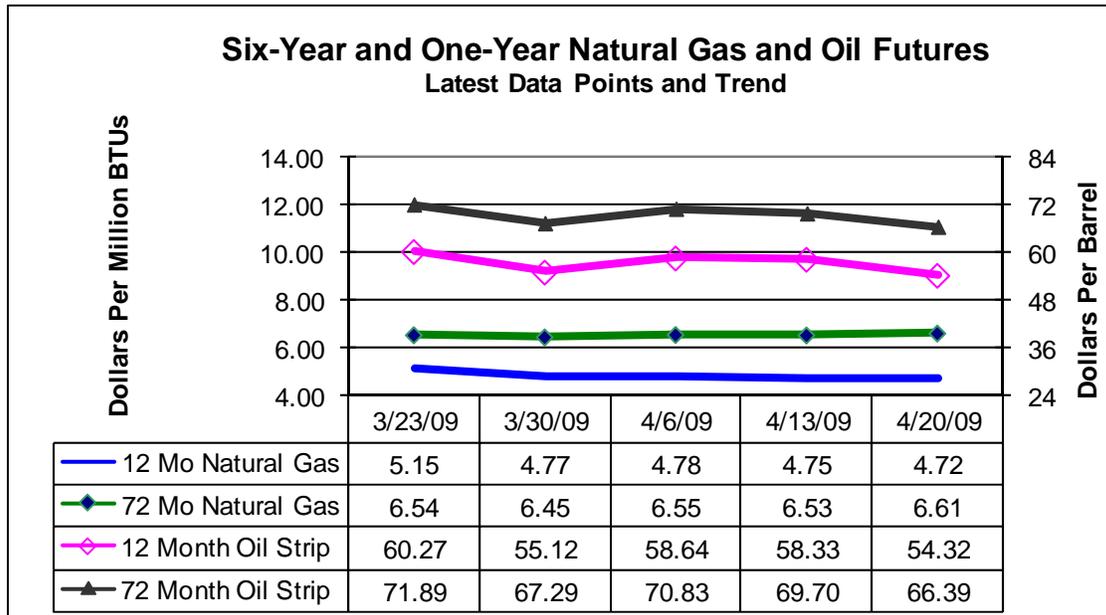
Encana Corporation					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	3,710	7.9	12.8	47,400	69%
Oil	1,340	14.0	13.4	18,000	26%
Downstream	360		8.3	3,000	4%
	5,410	9.0	12.6	68,400	100%
Debt					12,100
Net Present Value (\$mm)					56,300
Shares					751
Net Present Value - Standard Estimate (US\$/sh)					75
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					77





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