



Independent Stock Idea

July 23, 2009

rating: buy
s&p 500: 954

Encana Corporation (ECA) Hedges Helping in 2009

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	5,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	63
<i>Price (US\$/sh)</i>	52.57	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/22/09	<i>Adjusted Reserves/Production NTM</i>	9.1
<i>Shares (mm)</i>	751	<i>EV/Ebitda</i>	9.3
<i>Market Capitalization (US\$mm)</i>	39,500	<i>PV/Ebitda</i>	10.6
<i>Debt (US\$mm)</i>	12,700	<i>Undeveloped Reserves (%)</i>	45
<i>Enterprise Value (EV) (US\$mm)</i>	52,200	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	3.33
<i>Present Value (PV) (US\$mm)</i>	59,300	<i>Present Value Proven Reserves(US\$/boe)</i>	18.05
<i>Net Present Value (US\$/share)</i>	62	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.01
<i>Debt/Present Value</i>	0.21	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.80
<i>McDep Ratio - EV/PV</i>	0.88	<i>Price/Earnings Next Twelve Months</i>	19
<i>Dividend Yield (%/year)</i>	3.0	<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, \$8 a million btu.			
For historical analysis of ECA since 2001 see www.mcdep.com/3eca.htm			

Summary and Recommendation

Buy-recommended **Encana Corporation (ECA)** offers unlevered appreciation potential of 14% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$62 a share. On July 14 we reduced NPV from \$75 when we reduced estimated Present Value of North American Natural Gas (NANG) by 20%. Second quarter results released today disclosed unlevered cash flow (Ebitda) of \$1.1 billion that was in line with our estimate from three months ago. Earnings were higher than estimated. Hedging gains continue to mitigate low cash flow in 2009 while recent terms agreed to for 2010 are at lower assured price than in 2009. Natural gas price may be low for another quarter before gaining seasonally and cyclically (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](#)). Considering Encana's leadership in developing new, unconventional resources, there may be more potential for growth not recognized in our quantitative assessment. Meanwhile, futures prices for the next six years for oil crossed the 40-week average into an uptrend at the end of May. More important for Encana, we are optimistic that natural gas will change to a similar uptrend before long (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)).

Kurt H. Wulff, CFA



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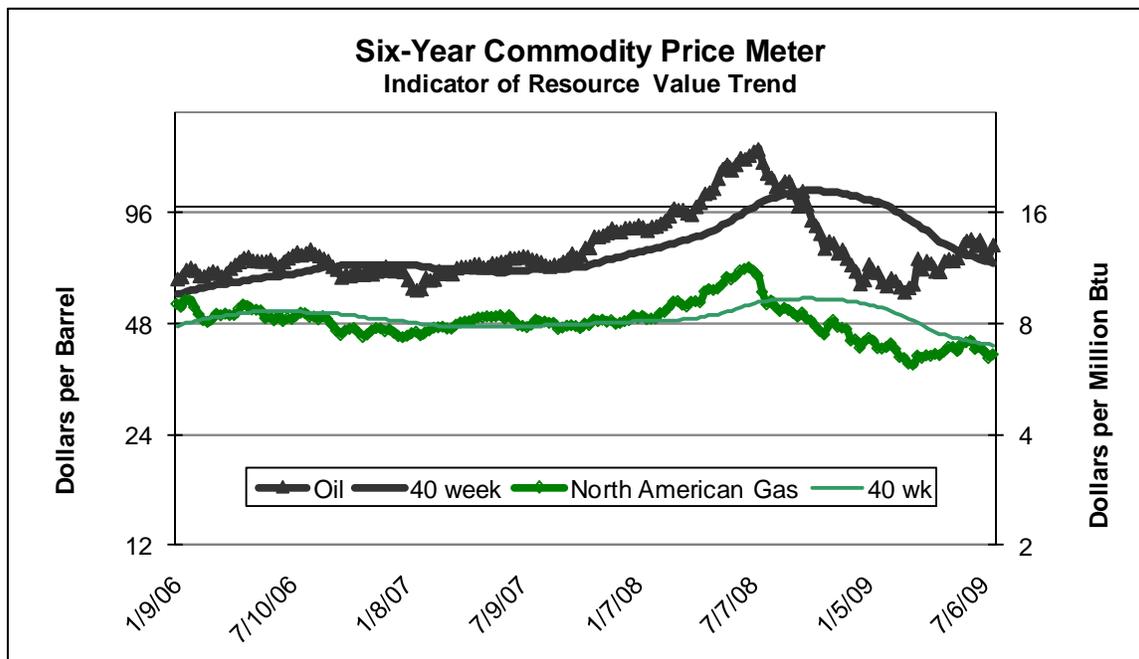
Encana Corporation									
Next Twelve Months Operating and Financial Estimates									
									<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	
	<i>6/30/08</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>6/30/10</i>
Volume									
Natural Gas (bcf)	350	348	345	348	348	1,390	341	345	1,383
Natural Gas (mmcf)	3,841	3,869	3,788	3,788	3,788	3,808	3,788	3,788	3,788
Days	91	90	91	92	92	365	90	91	365
Oil (mmb)	11.6	12.1	12.4	12.5	12.5	49	12.2	12.4	50
Oil (mbd)	128	134	136	136	136	136	136	136	136
Total (bcf)	419	421	419	424	424	1,687	414	419	1,680
Total (mmcf)	4,609	4,673	4,604	4,604	4,604	4,621	4,604	4,604	4,604
Price									
Henry Hub (US\$/mmbtu)	10.93	4.90	3.50	3.54	4.29	4.06	5.27	5.26	4.59
Differential	1.04	0.67	0.38	0.38	0.46	0.47	0.57	0.61	0.51
Encana (\$/mcf)	9.90	4.23	3.12	3.16	3.83	3.59	4.70	4.65	4.08
WTI Cushing (US\$/bbl)	123.97	42.96	59.52	61.12	62.53	56.53	64.78	66.32	63.69
Differential	21.35	8.72	10.38	10.66	10.90	10.06	11.53	11.81	11.24
Encana (\$/bbl)	102.62	34.23	49.14	50.46	51.63	46.47	53.25	54.51	52.45
Total (\$/bbl)	66.58	26.90	24.11	24.54	28.06	25.91	32.64	32.60	29.44
Revenue (\$mm)									
Natural Gas	3,459	1,473	1,075	1,101	1,335	4,985	1,603	1,602	5,641
Oil	1,195	413	608	631	646	2,298	652	675	2,604
Other	2,667	2,722	1,988	1,988	1,988	8,687	1,988	1,988	7,953
Total	7,321	4,608	3,672	3,721	3,970	15,971	4,243	4,265	16,198
Expense									
	3,398	3,357	2,541	2,609	2,595	11,102	2,737	2,654	10,594
Ebitda (\$mm)									
Natural Gas and Oil	3,371	1,188	977	1,005	1,268	4,437	1,443	1,457	5,173
Other	553	63	154	107	107	431	63	154	431
Total	3,923	1,251	1,131	1,112	1,375	4,869	1,506	1,611	5,604
Deprec., Deplet., & Amort	1,097	983	999	999	999	3,980	999	999	3,996
Hedging and other	615	(1,066)	(996)	(970)	(736)	(3,767)	(213)	(224)	(2,143)
Interest	147	104	129	129	129	491	129	129	516
Ebt	2,064	1,230	998	954	983	4,165	591	707	3,235
Income tax	592	284	82	334	344	1,044	207	247	1,132
Net Income (\$mm)	1,472	946	916	620	639	3,121	384	459	2,103
Per share (\$)	1.96	1.26	1.22	0.83	0.85	4.16	0.51	0.61	2.80
Shares (millions)									
Ebitda margin	72%	63%	58%	58%	64%	61%	64%	64%	63%
Tax rate	29%	23%	8%	35%	35%	25%	35%	35%	35%



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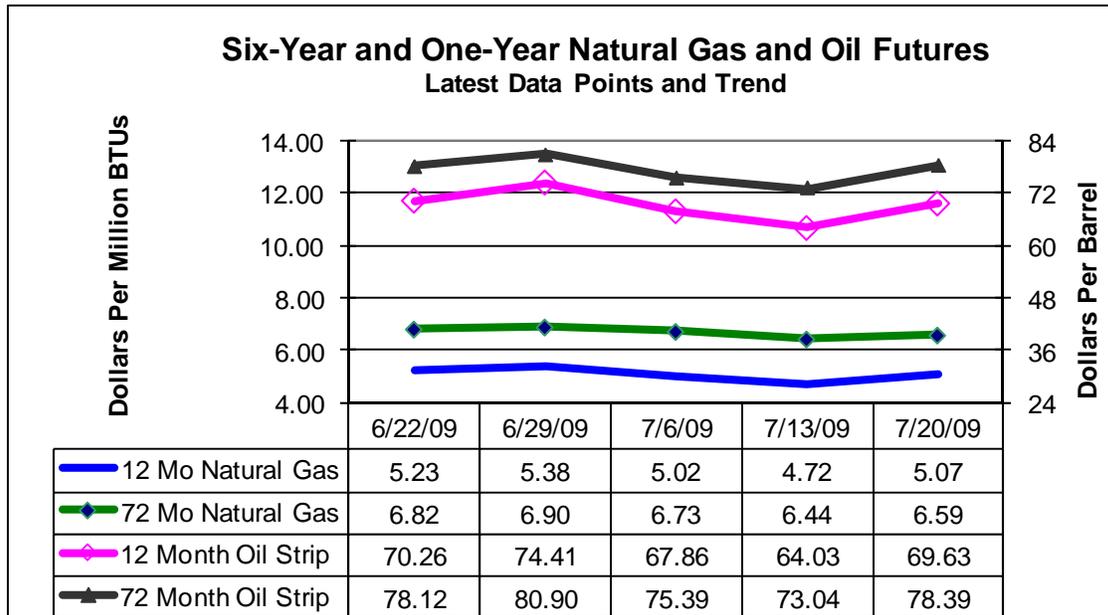
Encana Corporation					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	3,540	8.1	10.8	38,300	65%
Oil	1,629	13.8	11.1	18,000	30%
Downstream	431		7.0	3,000	5%
	5,600	9.1	10.6	59,300	100%
Debt					12,700
Net Present Value (\$mm)					46,600
Shares					751
Net Present Value - Standard Estimate (US\$/sh)					62
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					64





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