



Independent Stock Idea

November 13, 2009

rating: buy
s&p 500: 1093

EnCana Corporation (ECA) Approaching November 30 Split into Two Companies

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 9/30/10 (US\$mm)</i>	6,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	60
<i>Price (US\$/sh)</i>	55.56	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/13/09	<i>Adjusted Reserves/Production NTM</i>	9.2
<i>Shares (mm)</i>	751	<i>EV/Ebitda</i>	8.9
<i>Market Capitalization (US\$mm)</i>	41,700	<i>PV/Ebitda</i>	9.6
<i>Debt (US\$mm)</i>	16,500	<i>Undeveloped Reserves (%)</i>	45
<i>Enterprise Value (EV) (US\$mm)</i>	58,200	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	3.93
<i>Present Value (PV) (US\$mm)</i>	63,000	<i>Present Value Proven Reserves(US\$/boe)</i>	19.17
<i>Net Present Value (US\$/share)</i>	62	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.20
<i>Debt/Present Value</i>	0.26	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.69
<i>McDep Ratio - EV/PV</i>	0.92	<i>Price/Earnings Next Twelve Months</i>	21
<i>Dividend Yield (%/year)</i>	0.7	<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.			
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

Analyzing third quarter results released November 12, we reaffirm estimated Net Present Value (NPV) of US\$62 a share for buy-recommended **EnCana Corporation (ECA)**. On that basis unlevered appreciation potential is 8% to a McDep Ratio of 1.0 where stock price would equal NPV. Unlevered cash flow (Ebitda) met expectations despite voluntarily reduced natural gas volume in response to low demand. Price trends point to rising results in the next several quarters (see table Next Twelve Months Operating and Financial Estimates). Shareholders will most likely approve the spinoff of **Cenovus Energy** to be effective November 30 with the shareholders of EnCana getting one share of Cenovus for each share of EnCana. Cenovus would have an integrated oil business and mature natural gas properties for which we estimate NPV of US\$27 a share (see table Functional Cash Flow and Present Value - Cenovus). The continuing company, EnCana *Pro Forma*, would have NPV of US\$35 a share, concentrated entirely on natural gas with associated liquids (see table Functional Cash Flow and Present Value - EnCana Pro Forma). In each case there is potential for the cash flow prospects to be better understood and for NPV to be enhanced. Meanwhile, the commodity price outlook appears positive with futures prices for the next six years for oil trading above the 40-week average (see chart Six-Year Commodity Price Meter).

Kurt H. Wulff, CFA



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EnCana Corporation									
Next Twelve Months Operating and Financial Estimates									
									Next Twelve Months
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	
	9/30/08	6/30/09	9/30/09	12/31/09	2009E	3/31/10	6/30/10	9/30/10	9/30/10
Volume									
Natural Gas (bcf)	360	345	327	327	1,346	342	346	350	1,364
Natural Gas (mmcf)	3,917	3,788	3,551	3,551	3,688	3,800	3,800	3,800	3,737
Days	92	91	92	92	365	90	91	92	365
Oil (mmb)	12.3	12.4	12.8	12.8	50	12.5	12.6	12.8	51
Oil (mbd)	134	136	139	139	137	139	139	139	139
Total (bcf)	434	419	403	403	1,646	417	422	426	1,669
Total (mmcf)	4,721	4,604	4,385	4,385	4,511	4,634	4,634	4,634	4,571
Price									
Henry Hub (US\$/mmbtu)	10.25	3.50	3.39	4.22	4.00	5.08	5.21	5.49	5.00
Differential	0.71	0.38	0.28	0.35	0.41	0.42	0.54	0.57	0.46
EnCana (\$/mcf)	9.54	3.12	3.11	3.87	3.59	4.66	4.67	4.93	4.54
WTI Cushing (US\$/bbl)	117.99	59.52	68.22	78.10	62.20	80.55	82.48	83.64	81.20
Differential	11.17	10.38	10.82	12.39	10.30	13.34	13.66	13.86	13.31
EnCana (\$/bbl)	106.82	49.14	57.40	65.72	51.90	67.21	68.82	69.79	67.88
Total (\$/bbl)	65.68	24.11	26.03	31.31	27.06	35.02	35.35	36.79	34.66
Revenue (\$mm)									
Natural Gas	3,438	1,075	1,016	1,265	4,829	1,594	1,614	1,722	6,195
Oil	1,317	608	734	840	2,595	841	870	892	3,444
Other	6,011	1,988	2,131	2,131	8,972	2,131	2,131	2,131	8,524
Total	10,766	3,672	3,881	4,236	16,397	4,565	4,616	4,745	18,163
Expense									
	7,035	2,541	2,780	2,803	11,481	2,944	2,871	2,986	11,604
Ebitda (\$mm)									
Natural Gas and Oil	3,571	977	1,015	1,347	4,527	1,558	1,590	1,673	6,169
Other	160	154	86	86	389	63	154	86	389
Total	3,731	1,131	1,101	1,433	4,916	1,621	1,744	1,759	6,558
Deprec., Deplet., & Amort	1,095	999	992	992	3,966	992	992	992	3,968
Hedging and other	271	(996)	(838)	(589)	(3,488)	(220)	(221)	(114)	(1,144)
Interest	147	129	155	155	543	155	155	155	620
Ebt	2,218	998	792	875	3,895	694	818	726	3,114
Income tax	776	82	18	306	690	243	286	254	1,090
Net Income (\$mm)	1,442	916	774	569	3,205	451	532	472	2,024
Per share (\$)	1.92	1.22	1.03	0.76	4.27	0.60	0.71	0.63	2.69
Shares (millions)									
Ebitda margin	75%	58%	58%	64%	61%	64%	64%	64%	64%
Tax rate	35%	8%	2%	35%	18%	35%	35%	35%	35%



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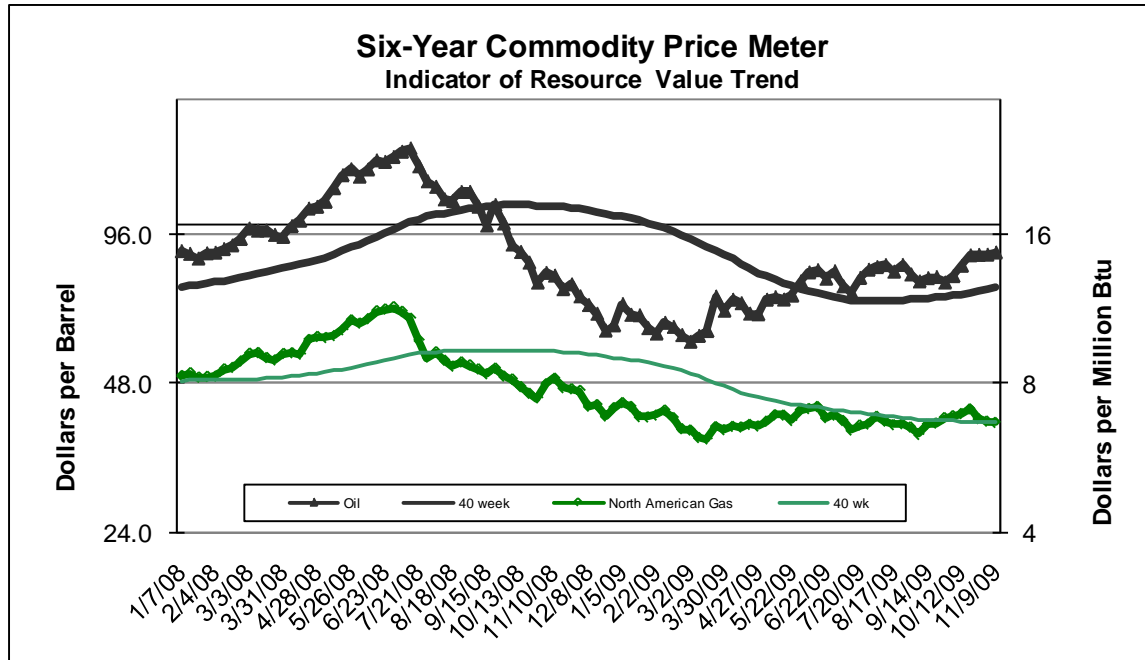
Cenovus Energy Inc.					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>Ebitda</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
North American Natural Gas	780	5.5	8.2	6,400	24%
Oil	1,720	15.2	9.9	17,000	64%
Downstream	430		7.0	3,000	11%
	2,930	10.1	9.0	26,400	100%
Debt					6,100
Net Present Value (\$mm)					20,300
Shares					751
Net Present Value - Standard Estimate (US\$/sh)					27
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					28

EnCana Pro-Forma					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>Ebitda</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
North American Natural Gas	3,210	8.9	10.5	33,600	92%
Oil	460	6.7	6.5	3,000	8%
Downstream					0%
	3,670	8.8	10.0	36,700	100%
Debt					10,400
Net Present Value (\$mm)					26,300
Shares					751
Net Present Value - Standard Estimate (US\$/sh)					35
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					33



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