



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

February 19, 2013

## Encana (ECA)

### Survived the Downside, Ready for the Upside

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 3/31/14 (US\$mm)</i>	2,600
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	68
<i>Price (US\$/sh)</i>	17.95	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/15/13	<i>Adjusted Reserves/Production NTM</i>	8.4
<i>Shares (mm)</i>	736	<i>EV/Ebitda</i>	8.3
<i>Market Capitalization (US\$mm)</i>	13,200	<i>PV/Ebitda</i>	11.6
<i>Debt (US\$mm)</i>	8,600	<i>Undeveloped Reserves (%)</i>	40
<i>Enterprise Value (EV) (US\$mm)</i>	21,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	13.25
<i>Present Value (PV) (US\$mm)</i>	30,700	<i>Present Value Proven Reserves(US\$/boe)</i>	14.74
<i>Net Present Value (US\$/share)</i>	30	<i>Ebitda Margin NTM (%)</i>	47
<i>Debt/Present Value</i>	0.28	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.73
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	24
<i>Dividend Yield (%/year)</i>	4.5	<i>Indicated Annual Dividend (US\$/sh)</i>	0.80
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\$100 a barrel and natural gas, \$6 a million bu.			
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

Hold-rated **Encana (ECA)** survived the past downcycle in natural gas price in good financial condition and is well-positioned to thrive in the new upcycle with a new chief executive directing growth from a base Net Present Value (NPV) of \$30 a share. Tied primarily to proven reserves, NPV could multiply with the exploitation of a rich, 79 trillion cubic feet (13.2 billion barrels) equivalent of reserves and resources in the U.S and Canada reported on February 14 (see chart [Reserves and Resources](#) on page 2). Contingent resources grew 11% in 2012, more than offsetting a decline in proven reserves of 8%. While drilling expanded reserves, sales to new joint venture partners reduced reserves as did accounting-induced write-downs as a result of low natural gas price. Resource plays in Texas and other areas of the U.S. expanded while resource plays in Canada were most affected by joint venture deals (see chart [Resource Plays](#) on page 3). Resources that are converted to reserves and cash flow generate NPV (see table [Present Value](#) on page 3). Our estimate of NPV was challenged last year when cash flow (Ebitda) margin, before hedging, averaged below 38% until recovering to 47% in the fourth quarter (see table [Operating and Financial Estimates](#) on page 4). Rich resources are also an attraction to a large corporate acquirer. Depressed recent natural gas pricing, management turmoil and abundant global financial liquidity are signs that timing could be good for the buyer. When asked on the earnings call whether new Canadian government guidelines on takeovers precluded a large non-Canadian company from acquiring Encana, chief executive Clayton Woitas gave an emphatic, unqualified answer, “No”. In any case, at a McDep Ratio of 0.71, stock price for Encana is low relative to estimated value of oil and gas resources as it is for well-managed, financially strong oil and gas companies (see [Table 1](#) through [Table 4](#) on pages 5-8).

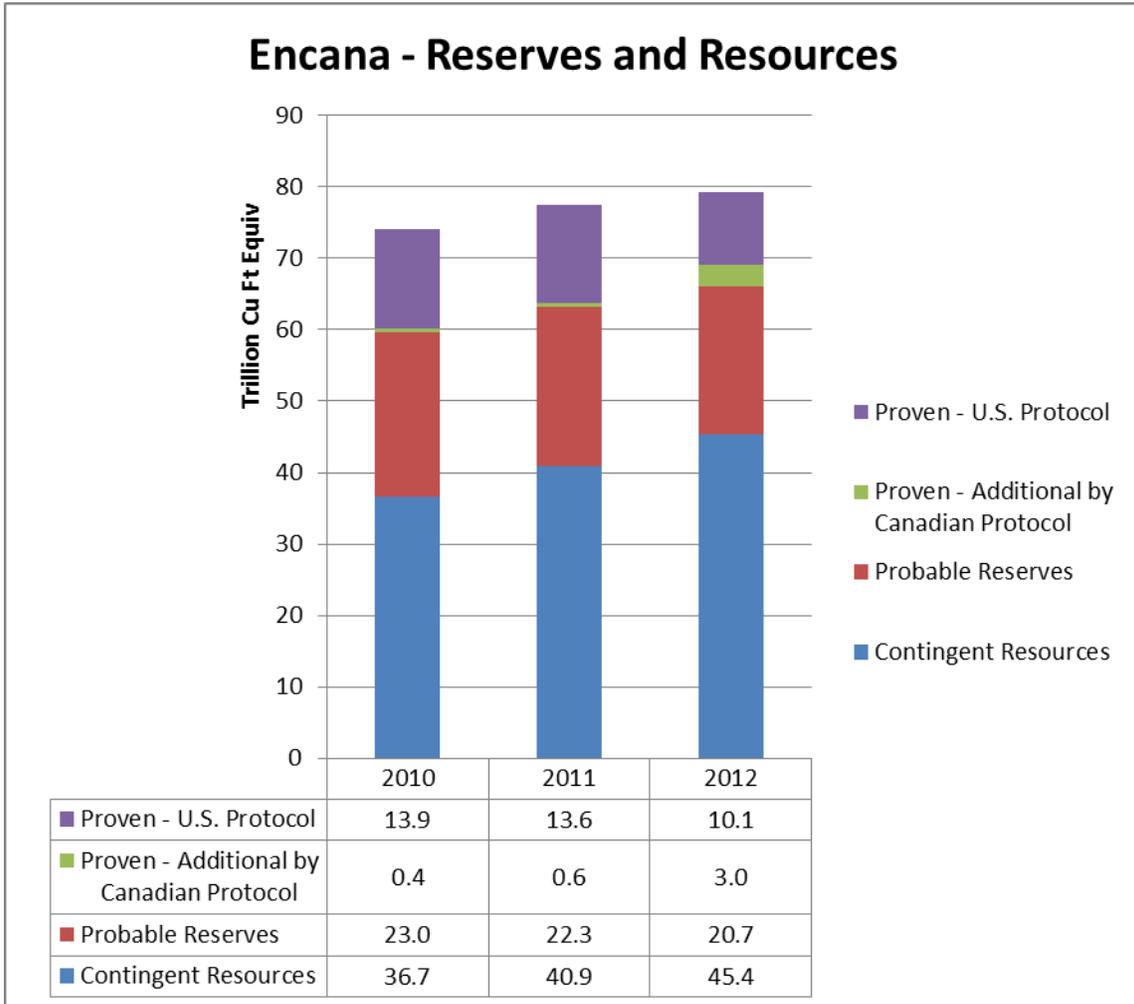
Kurt H. Wulff, CFA



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

February 19, 2013

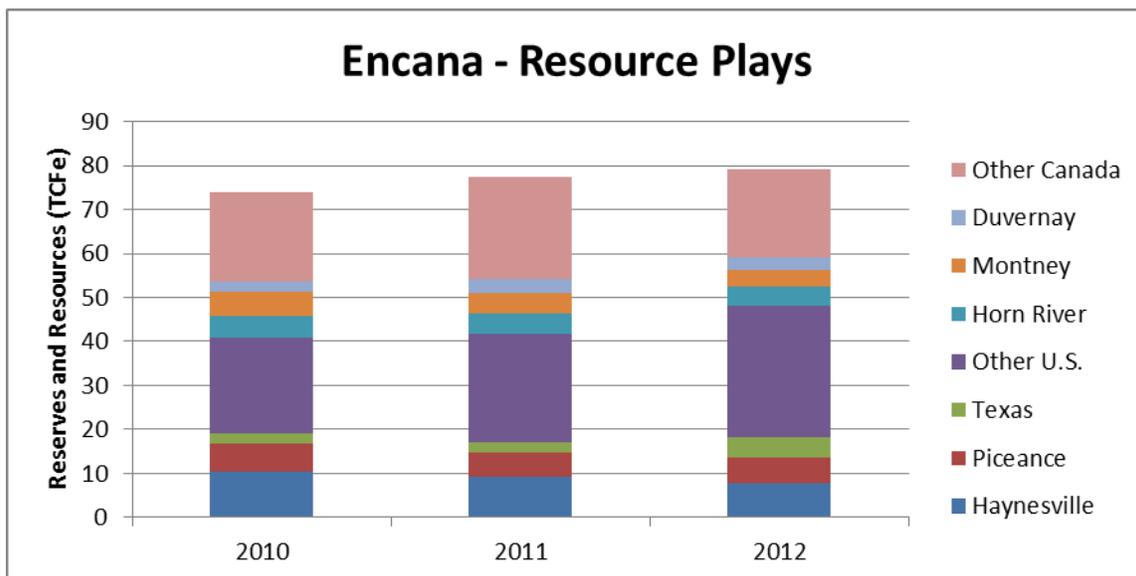




# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

February 19, 2013



<b>Encana Corporation</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u>Ebitda</u>	<u>R/P</u>	<u>Ebitda</u>	<u>Value</u>	
North American Natural Gas	1,790	8.5	14.1	25,200	82%
Oil	850	7.2	6.5	5,500	18%
	2,640	8.4	11.6	30,700	100%
Debt					8,600
Net Present Value (\$mm)					22,100
Shares					736
Net Present Value - Standard Estimate (US\$/sh)					30
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					30



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

February 19, 2013

Encana Corporation										
Next Twelve Months Operating and Financial Estimates										
										Next Twelve Months
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Q1E	
	12/31/11	9/30/12	12/31/12	2012	3/31/13	6/30/13	9/30/13	12/31/13	3/31/14	3/31/14
<b>Volume</b>										
Natural Gas (mmcf)	3,459	2,905	2,948	<b>2,981</b>	2,900	2,900	2,900	2,900	2,850	<b>2,888</b>
Oil (mbd)	24	30	36	<b>31</b>	42	50	58	68	79	<b>64</b>
Total (bcf)	331	284	291	<b>1,159</b>	284	291	299	304	299	<b>1,193</b>
Total (mmcf)	3,602	3,087	3,165	<b>3,168</b>	3,154	3,197	3,248	3,307	3,326	<b>3,269</b>
<b>Price</b>										
Henry Hub (US\$/mmbtu)	3.55	2.80	3.40	<b>2.79</b>	3.25	3.30	3.44	3.63	3.90	<b>3.57</b>
Differential	(0.18)	0.03	(0.05)	<b>(0.04)</b>	(0.04)	(0.05)	(0.05)	(0.05)	(0.05)	<b>(0.05)</b>
EnCana (\$/mcf)	3.73	2.77	3.45	<b>2.83</b>	3.29	3.34	3.48	3.68	3.96	<b>3.61</b>
WTI Cushing (US\$/bbl)	94.06	92.22	88.18	<b>94.16</b>	95.76	96.94	97.77	97.40	96.44	<b>97.14</b>
Differential	8.62	20.05	21.53	<b>19.04</b>	19.37	19.61	19.77	19.70	19.41	<b>19.65</b>
EnCana (\$/bbl)	85.44	72.17	66.65	<b>75.12</b>	76.40	77.33	78.00	77.70	77.02	<b>77.49</b>
Total (\$/bbl)	24.89	19.89	23.85	<b>20.37</b>	24.32	25.39	27.01	28.92	31.38	<b>28.20</b>
<b>Revenue (\$mm)</b>										
Natural Gas	1,187	740	936	<b>3,083</b>	860	882	929	982	1,015	<b>3,809</b>
Oil	188	201	222	<b>853</b>	291	349	416	485	550	<b>1,800</b>
Other				-						
Total	1,375	941	1,158	<b>3,936</b>	1,151	1,231	1,345	1,466	1,566	<b>5,609</b>
<b>Expense</b>	656	612	608	<b>2,451</b>	610	653	713	777	830	<b>2,973</b>
<b>Ebitda (\$mm)</b>	719	329	549	<b>1,485</b>	541	579	632	689	736	<b>2,636</b>
Deprec., Deplet., & Amor	881	452	445	<b>1,956</b>	445	445	445	445	445	<b>1,780</b>
Hedging and other	(347)	(606)	(422)	<b>(2,328)</b>	(100)	(100)	(100)	(100)	(100)	<b>(400)</b>
Interest	122	130	134	<b>522</b>	134	134	134	134	134	<b>536</b>
<b>Ebt</b>	63	353	393	<b>1,335</b>	62	100	153	210	257	<b>720</b>
Income tax	19	88	98	<b>334</b>	15	25	38	53	64	<b>180</b>
<b>Net Income (\$mm)</b>	44	265	294	<b>1,001</b>	46	75	115	158	193	<b>540</b>
Per share (\$)	0.06	0.36	0.40	<b>1.36</b>	0.06	0.10	0.16	0.21	0.26	<b>0.73</b>
<b>Shares (millions)</b>	739	736	736	<b>736</b>	736	736	736	736	736	<b>736</b>
Ebitda margin	52%	35%	47%	<b>38%</b>	47%	47%	47%	47%	47%	<b>47%</b>
Tax rate	30%	25%	25%	<b>25%</b>	25%	25%	25%	25%	25%	<b>25%</b>





# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

February 19, 2013

Table 2								
McDep Large Cap Energy Stocks								
Net Present Value and McDep Ratio								
			Price			Net		
			(US\$/sh)		Market	Present	Debt/	
	Symbol/Rating		15-Feb	Shares	Cap	Value	Present	McDep
	B = Buy, CB (see below)		2013	(mm)	(US\$mm)	(US\$/sh)	Value	Ratio
<b>Global Integrated</b>								
Exxon Mobil Corporation	XOM	B	88.36	4,541	401,000	110.00	0.12	0.83
PetroChina Company Ltd (14%)	PTR	H	136.86	256	35,100	210.00	0.21	0.72
Chevron Corporation	CVX	H	114.96	1,953	225,000	170.00	0.08	0.70
Royal Dutch Shell plc	RDS-A	H	65.62	3,145	206,000	102.00	0.16	0.70
Petrobras	PBR	H	15.96	6,522	104,100	35.00	0.29	0.61
Total S.A.	TOT	H	49.99	2,261	113,000	100.00	0.16	0.58
Gazprom (50%)	OGZPY	H	8.85	5,735	50,800	23.00	0.14	0.47
Lukoil Oil Company	LUKOY	B	66.54	775	51,600	150.00	0.01	0.45
<i>Total or Median</i>					<i>1,187,000</i>		<i>0.15</i>	<i>0.66</i>
<b>U.S. Independent</b>								
EOG Resources, Inc.	EOG	H	129.19	271	35,000	145.00	0.14	0.91
Occidental Petroleum Corp.	OXY	H	84.71	808	68,500	120.00	0.09	0.73
Marathon Oil Corporation	MRO	B	34.66	711	24,640	60.00	0.19	0.66
Devon Energy Corporation	DVN	B	59.25	405	24,000	102.00	0.18	0.66
ConocoPhillips	COP	H	57.02	1,216	69,000	105.00	0.24	0.65
<i>Total or Median</i>					<i>221,100</i>		<i>0.18</i>	<i>0.66</i>
<b>Canada/Norway/Australia</b>								
Woodside Petroleum Ltd.	WOPEY	H	37.90	808	30,600	45.00	0.17	0.87
Cenovus Energy Inc.	CVE	H	31.95	758	24,200	48.00	0.17	0.72
Imperial Oil Limited (30%)	IMO	CB	42.12	255	10,700	62.00	0.12	0.72
EnCana Corporation	ECA	H	17.95	736	13,200	30.00	0.28	0.71
Statoil ASA (33%)	STO	H	25.70	1,050	27,000	44.00	0.23	0.68
Suncor Energy	SU	B	31.59	1,529	48,300	64.00	0.13	0.56
Canadian Oil Sands Limited	COSWF	H	21.40	485	10,400	45.00	0.10	0.53
<i>Total or Median</i>					<i>164,000</i>		<i>0.17</i>	<i>0.71</i>
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average. H = Hold								
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$6 a million btu.								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

February 19, 2013

Table 3								
McDep Large Cap Energy Stocks								
Value Multiples and Dividend Yield								
			Price	Adjustd				
			(US\$/sh)	Resrvs/	PV/	EV/		Dividend
	Symbol/Rating		15-Feb	Prod	Ebitda	Ebitda	P/E	NTM
	B = Buy, CB (see below)		2013	NTM	NTM	NTM	NTM	(%)
<b>Global Integrated</b>								
Exxon Mobil Corporation	XOM	B	88.36	13.4	7.7	6.4	11	2.6
PetroChina Company Ltd (14%)	PTR	H	136.86	12.7	7.4	5.3	10	3.7
Petrobras	PBR	H	15.96	12.9	7.8	4.8	5	3.0
Chevron Corporation	CVX	H	114.96	9.0	6.8	4.8	9	3.1
Royal Dutch Shell plc	RDS-A	H	65.62	9.9	6.4	4.5	8	5.2
Total S.A.	TOT	H	49.99	10.3	7.7	4.5	8	6.3
Lukoil Oil Company	LUKOY	B	66.54	16.4	6.2	2.8	5	3.7
Gazprom (50%)	OGZPY	H	8.85	31.2	4.5	2.1	3	6.7
	<i>Median</i>			12.8	7.1	4.6	8	3.7
<b>U.S. Independent</b>								
Devon Energy Corporation	DVN	B	59.25	10.7	9.9	6.5	15	1.4
EOG Resources, Inc.	EOG	H	129.19	8.4	6.8	6.2	20	0.5
ConocoPhillips	COP	H	57.02	13.1	8.3	5.4	9	4.6
Occidental Petroleum Corp.	OXY	H	84.71	9.8	7.1	5.2	11	2.5
Marathon Oil Corporation	MRO	B	34.66	8.9	7.0	4.6	9	2.0
	<i>Median</i>			9.8	7.1	5.4	11	2.0
<b>Canada/Norway/Australia</b>								
EnCana Corporation	ECA	H	17.95	8.4	11.6	8.3		4.5
Imperial Oil Limited (30%)	IMO	CB	42.12	19.1	11.1	7.9	10	1.1
Woodside Petroleum Ltd.	WOPEY	H	37.90	13.4	9.1	7.9	13	3.4
Cenovus Energy Inc.	CVE	H	31.95	12.2	9.0	6.5	15	2.7
Canadian Oil Sands Limited	COSWF	H	21.40	21.8	12.2	6.4	10	6.5
Suncor Energy	SU	B	31.59	15.8	9.1	5.1	9	1.6
Statoil ASA (33%)	STO	H	25.70	6.3	6.2	4.2	8	4.4
	<i>Median</i>			13.4	9.1	6.5	10	3.4
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average. H = Hold								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation								
and amortization; NTM = Next Twelve Months Ended March 31, 2014; P/E = Stock Price to								
Earnings; PV = Present Value of oil and gas and other businesses								



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

February 19, 2013

Table 4									
McDep Large Cap Energy Stocks									
Total Return and Enterprise Value Momentum									
				Equity					
			Price	Total					
			(\$/sh)	Return	Enterprise Value/				
	Symbol		15-Feb	YTD	52Wk	52Wk	50 Day	200 Day	McDep
	Rating		2013	(%)	High	Low	Avg.	Avg.	Ratio
<b>Global Integrated</b>									
Lukoil Oil Company	LUKOY	B	66.54	(1)	0.98	1.31	1.01	1.10	0.45
Chevron Corporation	CVX	H	114.96	7	0.97	1.17	1.03	1.05	0.70
PetroChina Company Ltd (14%)	PTR	H	136.86	(5)	0.92	1.12	0.98	1.02	0.72
Total S.A.	TOT	H	49.99	(4)	0.91	1.13	0.97	1.02	0.58
Exxon Mobil Corporation	XOM	B	88.36	3	0.95	1.12	0.99	1.01	0.83
Royal Dutch Shell plc	RDS-A	H	65.62	(4)	0.91	1.06	0.96	0.97	0.70
Gazprom (50%)	OGZPY	H	8.85	(9)	0.73	1.02	0.96	0.95	0.47
Petrobras	PBR	H	15.96	(18)	0.67	1.01	0.91	0.87	0.61
	<i>Median</i>			(4)	0.92	1.12	0.98	1.01	0.66
<b>U.S. Independent</b>									
EOG Resources, Inc.	EOG	H	129.19	7	0.94	1.44	1.03	1.14	0.91
Marathon Oil Corporation	MRO	B	34.66	14	0.98	1.31	1.05	1.14	0.66
Devon Energy Corporation	DVN	B	59.25	14	0.83	1.11	1.06	1.02	0.66
Occidental Petroleum Corp.	OXY	H	84.71	11	0.81	1.15	1.04	1.02	0.73
ConocoPhillips	COP	H	57.02	(1)	0.95	1.08	0.98	1.01	0.65
	<i>Median</i>			11	0.94	1.15	1.04	1.02	0.66
<b>Canada/Norway/Australia</b>									
Woodside Petroleum Ltd.	WOPEY	H	37.90	6	0.94	1.21	1.03	1.07	0.87
Canadian Oil Sands Limited	COSWF	H	21.44	5	0.90	1.16	1.03	1.03	0.53
Statoil ASA (33%)	STO	H	25.70	3	0.92	1.11	1.01	1.02	0.68
Suncor Energy	SU	B	31.59	(4)	0.88	1.16	0.96	1.00	0.56
Cenovus Energy Inc.	CVE	H	31.95	(5)	0.84	1.08	0.96	0.97	0.72
Imperial Oil Limited (30%)	IMO	CB	42.12	(2)	0.86	1.09	0.97	0.97	0.72
EnCana Corporation	ECA	H	17.95	(9)	0.82	1.02	0.94	0.91	0.71
	<i>Median</i>			(2)	0.88	1.11	0.97	1.00	0.71

CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average. H = Hold



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

February 19, 2013

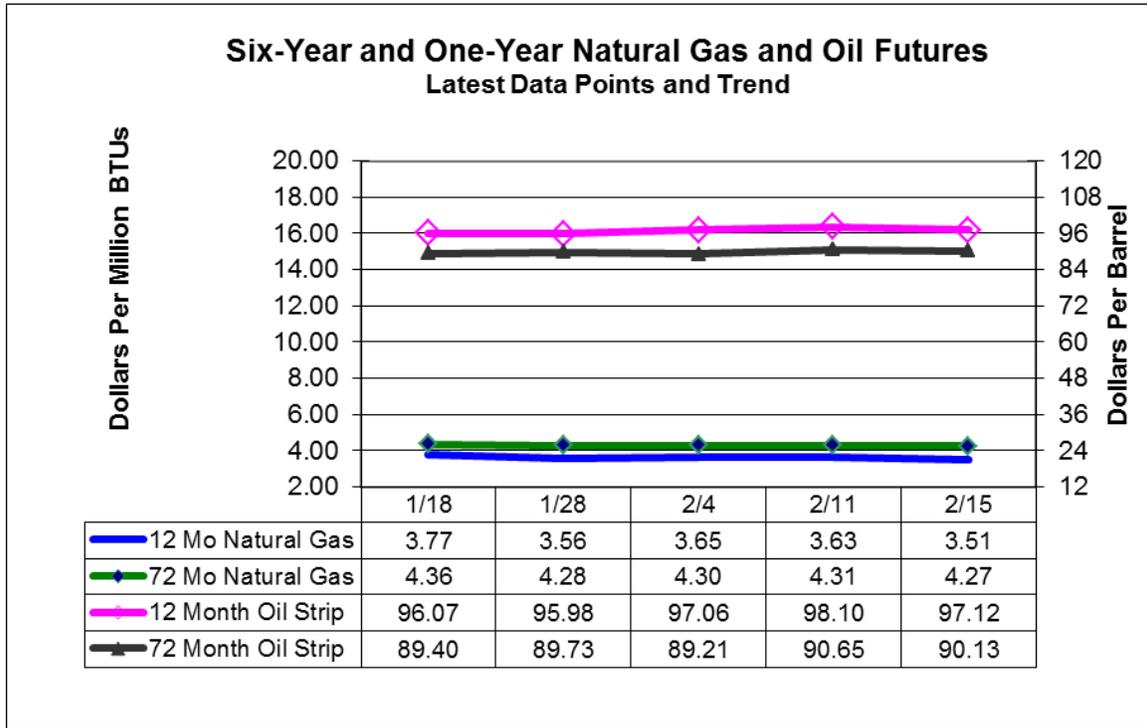
<b>Index of Recent Research</b>			
<b>Stock Ideas</b>			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
15-Feb	BIREF	Birchcliff Energy	Production Up 26% in 2012 (Income and Small Cap Weekly)
12-Feb	IMO	Imperial Oil	New Volume Imminent (Meter Reader)
8-Feb	WLL	Whiting Petroleum	Low McDep Ratio Shale Oil (Inc and Small Cap Wkly)
5-Feb	COP	ConocoPhillips	Raise NPV to \$105 from \$96 on Performance (Meter Reader)
1-Feb	SJT	San Juan Basin Royalty Trust	Horizontal Mancos Well Apparently Successful (ISCW)
25-Jan	CLR	Continental Resources	Bakken Reserves Exceed a Half-Billion Barrels (ISCW)
22-Jan	WOPEY	Woodside Petroleum, Ltd.	Politically-Secure, Clean Fuel Supplier (Meter Reader)
18-Jan	DMLP	Dorchester Minerals, L.P.	Distribution Swings Up (Income and Small Cap Weekly)
17-Jan	SJT	San Juan Basin Royalty Trust	7.7% Holder Disclosed
15-Jan	ECA	Encana Corporation	Eresman Exits (Meter Reader)
11-Jan	PDCE	PDC Energy	Mancos (Niobrara) Winner (Income and Small Cap Weekly)
8-Jan	DVN	Devon Energy	Quality North American Oil and Gas Supplier (Meter Reader)
28-Dec	FRHLF	Freehold Royalties Ltd.	Advantaged Ride on North American Oil Growth (ISCW)
18-Dec	STO	Statoil	Profitable Reinvestment (Meter Reader)
11-Dec	CVE	Cenovus	Canada Approves CNOOC and Petronas Deals (Meter Reader)
7-Dec	PBT	Permian Basin Royalty Trust	New Volume from Horizontal Fracking (ISCW)
27-Nov	XOM	Exxon Mobil	Making Money One Way or Another (Meter Reader)
20-Nov	MRO	Marathon Oil	Raise NPV to \$60 from \$54 on Volume (Meter Reader)
16-Nov	ERF	Enerplus Corporation	Bakken Sleeper (Income and Small Cap Weekly)
13-Nov	EOG	EOG Resources	Raise NPV to \$145 from \$130 on Eagle Ford Monster Wells (MR)
9-Nov	HK	Halcón Resources	Growing at Hawk Speed (Income and Small Cap Weekly)
6-Nov	HGT	Hugoton Royalty Trust	Interim Legal Ruling in Favor of Trust
2-Nov	RRC	Range Resources	Natural Gas Comeback Amplifies Volume Growth (ISCW)
30-Oct	COSWF	Canadian Oil Sands Limited	Discounted Pure Play on North American Oil with Income (MR)
23-Oct	PBR	Petrobras	Stock Price Recovering (Meter Reader)
16-Oct	RDS	Royal Dutch Shell	Clean Energy for Global Growth (Meter Reader)
2-Oct	CVX	Chevron	Top Performer Shows Further Promise (Meter Reader)
7-Sep	PEYUF	Peyto Exploration and Development	Canada Deep Basin Fracker (Income and Small Cap Weekly)
4-Sep	LUKOY	Lukoil	Proven Competitor, Uncommon Value (Meter Reader)
28-Aug	PTR	PetroChina	Pent-Up Profits (Meter Reader)
21-Aug	TOT	Total	Buy \$100 NPV for \$50 Stock Price (Meter Reader)
14-Aug	APC	Anadarko Petroleum	Raise NPV to \$100 as Growth Trumps Legal Issues (Meter Reader)
7-Aug	SU	Suncor Energy	New CEO, New Focus on Shareholder Return (Meter Reader)
3-Aug	XEC	Cimarex Energy	West Texas Wolfcamp Shale Oil (ISCW)
31-Jul	OXY	Occidental Petroleum	California Oil Growth Accelerates (Meter Reader)
For historical research by stock, go to <a href="http://mcdep.com">mcdep.com</a> , click on <a href="#">Stock Ideas</a> , click on stock by name.			
<b>Meter Reader</b>			
12-Feb	IMO	Imperial Oil	New Volume Imminent
5-Feb	COP	ConocoPhillips	Raise NPV to \$105 from \$96 on Performance
29-Jan			Crude Oil Price - North American Advantage
22-Jan	WOPEY	Woodside Petroleum, Ltd.	Politically-Secure, Clean Fuel Supplier
For earlier editions, go to <a href="http://mcdep.com">mcdep.com</a> , click on <a href="#">Meter Reader</a> .			
<b>Income and Small Cap Weekly</b>			
15-Feb	BIREF	Birchcliff Energy	Production Up 26% in 2012
8-Feb	WLL	Whiting Petroleum	Low McDep Ratio Shale Oil
1-Feb	SJT	San Juan Basin Royalty Trust	Horizontal Mancos Well Apparently Successful
25-Jan	CLR	Continental Resources	Bakken Reserves Exceed a Half-Billion Barrels
For earlier editions, go to <a href="http://mcdep.com">mcdep.com</a> , click on <a href="#">Energy Income</a> .			



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

February 19, 2013



**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

**Certification:** I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

**Research Methodology/Ratings Description:** McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.