3 Major Opportunities that Encana Investors Shouldn't Miss

Description

Encana (TSX: ECA) (NYSE: ECA) has a strong foundation. At the same time, it has a few weaknesses that it must overcome in order to pursue the major opportunities that are ahead. I see three major opportunities that could really reward Encana investors over the long-term.

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Natural gas exports
Encana has enough natural gas resource potential to continue producing at its current rate for the next 75 years. The problem with that is natural gas isn't exactly the most profitable commodity to produce these days. Both the U.S. and Canada have more than enough of it, which is why natural gas exports could be a key driver to Encana's future profits.

EnCana actually sold its interest in the proposed Kitimat liquefied natural gas export terminal to **Chevron** (NYSE: CVX) last year. However, that was a good move as Chevron has experience building LNG export terminals in Australia as well as the relationship needed to get deals signed with Asian gas buyers. As this project, and others across North America come online, it should begin to boost the price of natural gas so that EnCana can earn an even better return on the capital it spends drilling new wells.

Duvernay Shale
Low natural gas prices are forcing Encana to look at growing its liquids production. The company has a very large position in the emerging Duvernay Shale. Early tests suggest that this is a world class reservoir and Encana controls about a third of the top tier land in the condensate window. The key to this play is that Encana sees estimated ultimate recoveries of between 700,000 to 1.6 million barrels of oil equivalent per well. That's better per well potential than both the Marcellus and Eagle Ford shale plays.

Encana has an especially strong position in the South Duvernay, which is the portion of the play fellow Canadian producer **Talisman Energy** (TSX: TLM) (NYSE: TLM) likes over the northern portion. Talisman plans to exit its position in the north, which is adjacent to positions held by both Encana and Chevron. The southern portion, according to early tests by Talisman and Encana have confirmed the reservoir has a high liquids yield. The bottom line here, Encana could have something really special on its hands in the Duvernay.

Rightsizing its portfolio
Encana has more resource potential that it can effectively develop. The opportunity here is that its new CEO can extract a lot of value for investors by divesting parts of its portfolio. By exiting some lower return plays the company can bring in capital that could be used to develop its higher return plays like the Duvernay.

For example, this year Encana invested in more than 17 different resources plays. Most of its peers just invested in three or four main plays, with at least one play receiving at a quarter of the total capital budget. By focusing on the best plays, Encana will earn even better returns on the capital it employs in those plays. This is because it will have even greater advantages of scale. This is just one example of why slimming down is such a great opportunity.

Investor takeaway
Encana has the opportunity to really get back to delivering high rates of returns for its investors. It has tremendous optionality as natural gas prices rebound. It has a great position in one of Canada's emerging liquids rich shale plays. Finally, the company has the potential to become so much better at delivering for investors by refocusing on only its best assets. The opportunities are there, now Encana just needs to seize them.

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mdilallo

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