What to Expect When Encana Reports Next Week

Description

Next Wednesday, **Encana** (TSX: ECA, NYSE: ECA) will report its third quarter results. The key to success during earnings season is to prepare *before* the company reports. That way the actual results won't bias your assessment.

It's been a tough go for Canada's largest natural gas producer. Encana has been hammered by low commodity prices and a sprawling patch work of assets. Now former **BP** executive Doug Suttles has been tasked with turning around the troubled company. Let's take a look at what's been happening to the company over the past quarter and what investors can expect when the company reports this week.

Encana by the numbers

Metric	
Analyst EPS Estimate	
Year-Over-Year EPS Change	
Revenue Estimate	
Year-Over-Year Revenue Change	
Earnings Beats in Past Year	

Source: Yahoo! Finance

What will the new Encana look like?

It was a tough quarter for Encana. Canadian natural gas prices fell sharply in July after **TransCanada** raised short-term tolls on the company's cross-country natural gas mainline. By September, gas shipped from the Alberta AECO hub traded $1.59/mmbtu below the U.S. benchmark Henry Hub price. Fortunately, Encana has hedged some of its commodity price exposure, but expect to see this impact results.

Then last month, heavy flooding in Colorado shut down large parts of the company's operations in the state. Not a serious concern, but another line item that could negatively impact results.

Of course, these are just short term hiccups for the struggling natural gas company. Last month, Chief Executive Doug Suttles made it clear that big changes are coming at Encana and this quarter could provide our clearest glimpse yet of the company's future.

Earlier this month, Suttles announced a major corporate reorganization. Five senior executives with over 100 years of combined experience at Encana and its predecessor companies are leaving. Additionally, there will no longer be any separation between U.S. and Canadian assets but rather one Chief Operating Officer overlooking the entire business.

Change is coming

Encana's real problem, however, is that its balance sheet is structured for higher commodity prices. But with no end in sight to the gas glut, the company is going to have to revamp its operations and pare down debt in order to return to profitability. Encana has already slashed 7% of its workforce during the first half 2013, and Suttles has hinted that move layoffs are coming.

In September, Suttles also highlighted the company's sprawling asset base as a serious concern. Encana is currently funding 28 different plays which is hardly the most efficient allocation of capital. Management is reviewing operations and is expected to disclose its full strategic plan either this quarter or later this year.

What will the new Encana look like? Suttles didn't explain exactly what projects will be scrapped or sold. However, he did highlight the Alberta Duvernay and the Louisiana Tuscaloosa Marine Shale as holding promise. These two formations are liquids and condensate rich which is particularly profitable to exploit at the moment.

While a shift to a more liquid production mix is a positive development for shareholders, Encana's dividend could be the first casualty of any strategic revamp. Today, the company's $588 million payout is being financed largely by debt. A dividend cut would allow Encana to devote more resources to higher-yielding assets and repair its balance sheet.

Foolish bottom line

Big changes are coming at Encana. No one is doubting that. The question is what, will the new company look like under Doug Suttles' leadership. We could have a better idea next Wednesday.

Similar to Encana, uranium – the key ingredient in nuclear energy – could be on the verge of turning a corner. **Click here now** to learn more about uranium's prospects, as well as two ways to play this potential revolution.

The Motley Fool's purpose is to help the world invest, better. ***Click here now*** *for your free subscription to* ***Take Stock****, The Motley Fool Canada's free investing newsletter. Packed with stock ideas and investing advice, it is essential reading for anyone looking to build and grow their wealth in the years ahead.*

Fool contributor Robert Baillieul does not currently own shares in any of the companies mentioned. The Motley Fool does not own any of the companies mentioned.

CATEGORY

1. Investing

Category

1. Investing

Date
2025/07/06
Date Created
2013/10/18
Author
rbaillieul