



Encana's New Strategy Unveiled

Description

Encana has finally announced their new strategy, and management believes it will result in a 10% CAGR in cash flows from now to 2017. Let's take a look at Encana's plan to get back to being a profitable, growing company with a clear and sustainable business model.

Dividend Cut

Not surprisingly, Encana announced that the dividend will be reduced dramatically in order to keep it in line with cash flow generated. The new dividend is \$0.28/sh, down 65% from the previous dividend of \$0.80/sh. Encana's new dividend yield is 1.5%. The market was expecting this dividend cut. And it was necessary.

More Focused Capital investment

Capital spending for 2014 will be \$2.5 billion versus \$2.7 to \$2.9 billion this year and \$3.5 billion in 2012. This reflects a more focused spend on 5 key areas; namely the Montney, Duvernay, DJ Basin, San Juan Basin, and Tuscaloosa Marine Shale. These are large, complex resource plays that offer Encana the scale to drive down costs and achieve higher returns. This is a significant narrowing of focus, as Encana was previously funding about 30 different plays.

Diversify Production

Encana intends to continue to diversify its production profile by continuing to grow its liquids production. In fact, Encana anticipates that by 2017, 75% of its cash flow will be generated from its liquids production. And Encana will retain significant high quality natural gas resource options, which leaves it well positioned to benefit from a natural gas price recovery, if and when that happens.

Capital Efficiencies and Lowering Cost Structure

Encana's focus on capital efficiencies and lowering cost structures has already shown results in Q3, with \$110 million in cost savings achieved. At mid-year, management was saying that they had already identified \$200 million in cost savings.

In 2014, the company will consolidate its office locations to Calgary and Denver, resulting in the closure of its Texas office and 20% reduction of its workforce.

Divestitures

Encana plans to unlock value through divestitures and an IPO of its Clearwater mineral fee title lands and associated royalty interests.

Bottom Line

Encana's new strategy has so far been well received by the market, as the stock was up over 3% after the announcement was made. With a more focused capital spending program, increased focus on driving efficiencies, and a renewed focus on shareholder value, it looks like Encana has begun to emerge from the doghouse.

More expert advice

Encana remains a heavy-weight in Canada's energy sector. For a profile of 5 more of Canada's corporate power houses and what they can do for your portfolio, [click here now](#) and download our special **FREE** report. One of the company's profiled was recently taken out at a big premium! Find out what might be in store for the remaining 4 by simply [clicking here](#).

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Fool contributor Karen Thomas owns shares of Encana. The Motley Fool has no positions in the stocks mentioned above at this time.

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