Is Jettisoning This Billion Dollar Asset the Right Move for Encana?

Description

At a recent investor conference, **EnCana** (TSX: ECA) (NYSE: ECA) said that it is willing to sell its billion dollar Deep Panuke gas project. That sale would be part of the company's shift to focus on just five core areas of production. While focus is a good idea, is jettisoning this billion dollar asset the right move for Encana's investors?

A deeper look at Deep Panuke
Encana's Deep Panuke natural gas project is located 250 kilometers southwest of Halifax. The billion dollar project just finally hit full production last month of 300 million cubic feet of natural gas per day. It took Encana longer to get to full capacity as the project is a few years behind schedule. It was expected to reach full production in 2010.

Now that the company is finally enjoying the cash flows from the project, it's considering getting rid of the asset. The company's Chief Financial Officer, Sherri Brillion, said that Deep Panuke, "doesn't really fit our portfolio," and that, "it isn't really sort of our main strategy to keep Panuke around."

The problem for Encana is that Deep Panuke produces natural gas, which isn't as highly valued as the oil and natural gas liquids it can produce elsewhere. Further, Encana has such a vast resource position that it has too many opportunities and not enough resources. That's why the company is refocusing its efforts on just five core plays. So, while Deep Panuke will fuel some near-term cash flow, it won't produce the long-term, liquids-rich growth as some of its core assets will.

Drilling down into the core
If Encana and peers like **Talisman Energy** (TSX: TLM) (NYSE: TLM) and **Chevron** (NYSE: CVX) are right, emerging plays like the Duvernay in Alberta could have needle moving potential. Encana believes it's sitting on a premier position in this world class reservoir. While it only plans to drill about 15 to 20 wells in 2014, it could really ramp up its development of the play in the future if those wells produce at the levels Encana and others believe is possible.

The play is starting to generate a lot of industry activity with Chevron announcing that its exploration in the region had uncovered a recoverable resource in the Duvernay. Because of this, the global energy giant sees the Duvernay "creating a foundation of future growth in Canada." Chevron's results exceeded its expectations, which is why it's moving forward to develop the play.

Talisman is also encouraged by its position, however, it is planning on selling a portion of it. That sale, however, is less about resource quality and more about bolstering the company's balance sheet so that it can fund the development of the rest of its assets in the Duvernay.

Investor takeaway
The Duvernay is just one of the five core growth assets that Encana possesses. That's why the company is looking to seize on the opportunity to trade a no growth asset for the cash it can use to invest in what appear to be top-tier growth assets. When seen in that light, the move really does make a lot of sense for the company, and its investors.

CATEGORY

1. Investing

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