Encana Has Lots To Look Forward To In 2014

Description

Encana's (TSX:ECA, NYSE:ECA) New Year's resolution: slim down and get into shape.

After betting big and losing on higher natural gas prices, Encana is undertaking a major turnaround effort in the upcoming year. New Chief Executive Officer Doug Suttles plans to trim the company's unwieldy asset portfolio while transitioning to more profitable production mix. And this strategy could provide plenty of share prices catalysts in 2014.

The game plan
Years of aggressive expansion have finally caught up to Encana.

The business is a mess. The company involved in over two dozen major energy plays and enough inventory to drill for a century. Low gas prices have also left the energy giant saddled with a big debt load and weak cash flow.

New Chief Executive Officer Doug Suttles will be tasked with righting Encana's financial ship. His vision: a smaller company focused on natural gas liquids and oil.

Suttles will need to whittle down Encana's asset portfolio into something a little more manageable. This will be accomplished in two steps.

First, Encana will spin off five million acres of its mineral fee title land in Alberta. The company has started leasing out these properties to junior prospectors. This allows Encana to earn a revenue stream from an asset that would otherwise sit idle on the company's books without any upfront investment.

The company is planning to spin off this business this summer. The fat distribution will make an attractive investment for income hungry investors. Many analysts suspects that this land will sport a higher valuation as a separate company than if it was held inside Encana.

Second, Encana also plans to put most of its natural gas assets on the chopping block. Jettisoning these low return assets will provide a quick boost to profitability. And with growth hungry Asian majors expanding their presence in North America, these properties will likely secure a decent price.

However, Suttle's biggest challenge will be ramping up liquids production. In December, the company announced that it intends to spend roughly three quarters of its capital budget on five oil and liquids rich plays including the Montney, the Duvernay, the DJ Basin, the San Juan basin, and the Tuscaloosa Marine Shale.

Encana expects to increase liquids production by roughly 30%. And over the long term, the company hopes to generate over 70% of its cash flow from oil and natural gas liquids by 2017.

Can it work?
Of course, investors only want to know if this strategy could lift the company's share price. Fortunately, we've seen other companies in the oil patch deploy these tactics successfully with great results for shareholders.

Chesapeake Energy (NYSE:CHK), one of America's largest natural gas producers, embarked on a similar path early last year. Under the leadership of CEO Doug Lawler the company sold off its low-return dry gas assets, cut spending, and begun a transition to liquids and oil. Chesapeake shares were one of the energy industry's top performers in 2014.

Calgary based **Enerplus** (TSX:ERF, NYSE:ERF) has also found success with this tighter approach to business. Over the past year the company is transforming itself from a natural gas focused income trust into a more growth oriented oil company. Given that the stock is trading near its 52- week high, it's apparent that investors are buying into this strategy.

Encana investors should be cheering the company's new found restraint. No longer is management ploughing investor capital into low return dry gas projects. Rather the company has finally accepted the reality that low commodity prices are here to stay and is adapting accordingly.

Foolish bottom line
By now I'm sure most of us have given up on our New Year's resolutions. But Encana is still on track. The new company is going to look a lot smaller and oiler than its predecessor. And with many improvements on the way, there're plenty of catalysts to send Encana shares higher in 2014.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ENB (Enbridge Inc.)
2. TSX:ERF (Enerplus)

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