



Encana to Provide First Glimpse of Turnaround Effort

Description

Encana (TSX:ECA, NYSE:ECA) is due to post its year-end results on Thursday. Last quarter Canada's largest natural gas producer cut its dividend in half, slashed about 20% of its workforce, and vowed to transition to a more profitable oil and liquids rich production mix. And this week will be investors first peak into how the company's turnaround is progressing under the leadership of Doug Suttles.

Stats on Encana

| | |
|-----------------------------------|----------------|
| Analyst EPS Estimate | \$0.18 |
| Change From Year-Ago EPS | (55%) |
| Revenue Estimate | \$1.54 billion |
| Change From Year-Ago Revenue | (3.8%) |
| Earnings Beats in Past 4 Quarters | 4 |

Source: Yahoo! Finance

Which way will Encana's earnings move this quarter?

Analysts have cut their views recently on Encana's earnings, with a \$0.06 per-share drop in December-quarter estimates. However, a cold winter incoming has put a bid underneath the stock. Share are up 8% since the company last reported earnings in early November.

Thanks to plunging dry gas prices, Encana has been forced to completely overhaul its operations. Chief Executive Doug Suttles' first order of business will be to simplify the company's sprawling asset portfolio which consists of some 25 plays across North America. The company intends to spend three-quarters of its 2014 capital budget on five oil and liquids-rich assets including the Montney, Duvernay, DJ basin, San Juan basin and the Tuscaloosa marine shale.

Of course, this leave the fate of some two dozen properties up in the air.

In January, Encana admitted that it is open to selling its Deep Panuke natural gas project offshore Nova Scotia. The project, located roughly 250 kilometres off the coast of Nova Scotia, reached full

production of 300 million cubic feet of gas a day from four wells in December. But while the play now provides a nice stream of cashflow, it doesn't really fit into Encana's new business strategy.

However, this leaves the fate of more than a dozen other projects still up in the air. Investors should be listening to hear what other assets could be on the chopping block during the conference call.

Investors will be watching the company's oil and liquids production figures closely. According to Encana's 2014 budget, the company is looking to increase oil and liquids production by 30% next year targeting a combined total of between 70,000 and 75,000 barrels a day of oil, condensate and natural gas liquids – compared to 50,000 to 60,000 barrels of these liquid products in 2013.

By 2017, Encana wants liquids to make up 75% of its cash flow. This is a critical piece of the company's turnaround effort. But if Encana is going to hit those targets, the company is going to have to ramp up liquids production quickly and investors will want to watch this number quarter by quarter.

Foolish bottom line

Since taking over as CEO, Mr. Suttles has been working hard to make Encana a smaller and more efficient business. The company has the right strategy. Now investors just have to watch to see if management can execute on their plan.

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1. Investing

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