3 Reasons to Buy Encana (Even at This Price)

Description

Gosh darn it. I missed it!

I think that's how a lot of energy investors feel about **Encana** (TSX:ECA)(NYSE:ECA). Over the past five months, the stock is up 22%, rewarding investors who got in on the ground floor of the company's turnaround effort.

However, we may only be in the early innings of the company's transformation and there are still plenty of catalysts that could send Encana shares higher in 2014. Here are three reasons to add this stock to your portfolio, even after the recent rally.

1. The smart money is moving in

In school, you would get in trouble for looking at the tests of the smartest students in the class. But when it comes to investing, taking a peek over the shoulder of the world's greatest investors is usually a good idea.

Lots of smart money is moving into Encana. Third Avenue Management, founded by famed value investor Martin Whitman, holds a large ownership stake in the company. Citadel Investment Group, managed by billionaire Ken Griffin, has also been accumulating a position in the natural gas firm.

However, other hedge fund managers are nibbling at the stock. Other notable investors, including Steven Cohen, D.E. Shaw, and Ray Dalio, either initiated or increased their investment stakes in the company last quarter.

2. The turnaround is taking shape

Encana is getting its act together.

Under the leadership of new Chief Executive Doug Suttles, the company is embarking on a major shift in strategy. Late last year management announced a restructuring plan that would see the firm transition production away from low price natural gas and into more profitable oil and natural gas liquids.

Encana is boosting efficiency and tightening its capital spending discipline. Its plan calls for spending 75% of its development budget on its five highest returning oil and liquids rich plays rather than spreading its investment dollars out across 30 different fields.

More importantly there is a change in philosophy at Encana. The focus today is on growing shareholder value rather than increasing production at any cost.

These results are starting to pay off already. Suttles has overseen more than 1,000 job reductions, which has already provided a quick boost to the bottom line. And over the past two years, higher-yielding liquids production has more than doubled.

However, this reorganization is far from complete. Encana's transition to liquids won't be completed until at least 2017. So while investors may have missed their chance to get in on the ground floor of this turnaround effort, there is still plenty of room for operational improvements for the company.

3. Lots of catalysts

In a big, unwieldy company like Encana the market sometimes forgets to account for everything. Trimming down the firm's asset portfolio will be key to unlocking shareholder value

This summer Encana intends to spin off about 5 million acres in southern Alberta, known as the Clearwater area, through a public offering. The land has valuable rights, which generate royalty interests. Early estimates suggested that the new entity could command an enterprise value between $1 billion to $1.5 billion.

However, some are even more optimistic. Earlier this week FirstEnergy Capital raised its valuation of Encana Clearwater royalty business by half a billion dollars. Analysts there believe that the market could value Encana's Clearwater business in the $2 billion to $2.5 billion range.

Regardless, there are a number of hidden assets that has been sitting idle on Encana's balance sheet. A number of spin-offs and asset sales could be a catalyst for the stock.

Foolish bottom line

Investors who have watched Encana's recent rally from the sidelines shouldn't worry. The company's turnaround effort is just beginning and there are still has plenty of catalysts that could lift the share price higher in the coming months. Combined with endorsements from some of the worlds smartest investors, and there's good reason to believe Encana could be a breakout performer in 2014.

CATEGORY

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