Will Encana's Latest Move Backfire?

Description

Less than five years ago, **Encana** (TSX: ECA)(NYSE: ECA) made the decision that natural gas was the key to fueling its future. That decision meant it would need to shed its boring oil business.

To accomplish that goal, it packaged its integrated oil assets into **Cenovus Energy** (TSX: CVE)(NYSE: CVE) and set it free, leaving Encana to pursue the hot natural gas market. However, with a few years of hindsight we can say that the move really backfired.

Now we're seeing Encana yet again decide that its current path isn't what will fuel returns. Lately the company has focused its attention on exiting some of its massive natural gas position. Most recently it exited its position in the Jonah field in Wyoming while its considering the sale of the recently completed Deep Panuke field.

More sales are likely as Encana has more gas than it thinks it needs. This time the company is looking to become a leader in natural gas liquids and light oil as it focuses on five new core plays. However, one has to wonder if this new strategy won't backfire as well.

Getting back to winning?
Encana's latest strategy is to get back to winning. The only problem with the strategy is it's taking some pretty big risks. The biggest risk is selling off low-decline and, albeit low-margin, natural gas assets like the Jonah field to invest in rapidly declining shale production. Further, many of its new core plays are still just emerging, meaning a lot could go wrong.

For example, while the liquids-rich Duverany Shale looks very promising, it's still in the appraisal phase. There's always a risk that the play won't deliver the repeatable drilling returns that Encana is banking on. The same can be said for the Tuscaloosa Marine Shale, which has proved to be a tough shale play for producers to unlock. While both plays have significant resources in place, neither is a sure bet at this point.

Giving up too early?
Encana's problem has always been that it gave up too early on an asset as it chased returns elsewhere. Take the spin off of Cenovus. Over the next decade, Cenovus Energy will grow its

production by 11% annually. Most of that growth will be oil production as the company's oil sands joint venture with **ConocoPhillips** (NYSE: COP) continues to expand capacity while Cenovus has a few solo projects in the works as well.

Cenovus holds an enormous amount of oil potential and the company now estimates that it holds contingent resources of at least 9.8 billion barrels of bitumen. That's up from 6.1 billion just after the assets were split off. I'd be willing to be that Encana now regrets the decision to separate from these oil-rich growth assets.

Lately we're seeing Encana unload portions of its vast portfolio of natural gas assets in a series of moves that could backfire yet again. Encana is basically trading an income stream for a lump-sum payment. There is of course a case to be made where that lump-sum could be investing into a growth asset like the Duvernay and compound quicker. However, given the risks inherent in its core plays the capital might not compound at all.

Foolish bottom line
Encana's new focus of shedding unwanted natural gas assets to fund high-growth liquids plays is a risky bet. While it could certainly pay off, Encana doesn't exactly have the best track record when it makes a big bet. That being said, it is time for a change as Encana's last plan didn't really work all that well. Investors just need to be aware that a lot can still go wrong.

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