Is Now the Time to Sell Encana?

Description

It looks like natural gas producer **Encana** (TSX: ECA)(NYSE: ECA) is finally getting some traction. Natural gas prices are up, the company is simplifying itself, and as a result the share price has finally started to recover. After languishing below $20 for most of the last two years, the shares now trade close to $25. So is now the time to sell?

A rising tide lifts all boats

It's no secret why Encana's stock price has done so well – natural gas prices have surged. This has been caused mainly by a ferociously cold winter and resulting low storage levels. One only has to go back a couple of years to remember when gas traded below $2. Last year, prices averaged $3, and so far this year they have averaged $4.50.

As a result, other gas producers have fared even better. Shares of **Birchcliff Energy** have surged about 75% this year, and **Crew Energy** shares have nearly doubled.

Trimming down

The story is a little more nuanced for Encana. Ever since the company spun out its oil assets in 2009, it has struggled with the sagging gas price and a mountainous debt load. When new CEO Doug Suttles took over in June 2013, the company had a load of U.S. $7.7 billion, more than $10 per share.

To get back on sounder financial footing, Mr. Suttles has been selling noncore assets such as dry gas plays and LNG operations and focusing more on liquids-rich areas. His problem, until more recently, was that there were very few buyers for these assets. Now, with the gas market in full recovery mode, his job becomes much easier.

Encana's long-term debt still exceeded $7 billion as of the end of 2013. But with all the asset trimming that Mr. Suttles has done, especially this year, the company is on much sounder financial footing.

So is now the time to sell?

Just like any other stock, “I don’t know” is the most truthful answer to that question. But there is one strong argument why Encana shares still have plenty of room to run.

Encana has had such a bad run over the past three years that it will take it a long time to win investors back. So even well after the company’s recovery is under way, it will likely take the stock price a while to reflect that. This should give early movers a reason to buy the stock after the recovery has begun but before the stock price fully reflects that.

These can be called “show me” stocks, or “penalty box” stocks. We’ve seen big returns come from these types of situations before, and it can happen again.

For those of you who managed to buy some Encana stock at the bottom, congratulations. You have done very well, especially in 2014. But while it’s surely tempting to cash in some of your profits, it may be too soon to do so. And for those of you who’ve missed out, it may not be too late.

CATEGORY

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