The Secret to EnCana Corporation's First Quarter Success

Description

EnCana (TSX: ECA)(NYSE: ECA) recently reported strong first-quarter results. A 56% jump in the company's liquids production provided a big boost in earnings. However, one of the secrets to EnCana's success was actually its natural gas business. Here's why.

Know when to hold 'em
On the surface it would seem that EnCana's natural gas business is declining. The company allowed its natural gas production to slip by 2% over last year's first quarter, while it sold several U.S. natural gas assets. That being said, the assets it held on to really delivered in the first quarter as natural gas prices were up 37% over the past year.

The company's natural gas business was strongest at the company's Deep Panuke platform offshore Nova Scotia. This was an asset that the company was rumored to be selling, however, it chose to keep it for the time being. That move paid off big time last quarter.

Thanks to the brutally cold winter weather, natural gas prices surged. Deep Danuke was uniquely positioned to benefit from that surge as it received strong regional pricing from the U.S. northeast market. It's a market that paid EnCana an average of $19 per Mcf of natural gas from Deep Panuke. That's well above the average price of just under $5 that gas sold on the exchanges last quarter.

Taking a deeper dive into liquids
While Deep Panuke and higher gas prices had a big impact on EnCana's first quarter, it's something that will be difficult for the company to repeat. That's why EnCana's main focus continues to be on growing its higher margin liquids production. That part of the company's turnaround plan is definitely heading in the right direction after last quarter's surge in production.

It's a plan that also got a nice shot in the arm after EnCana acquired **Freeport-McMoRan's** (NYSE: FCX) Eagle Ford Shale business last week. The $3.1 billion deal will basically double EnCana's oil production, while enabling Freeport-McMoRan to cash in on an asset that wasn't as strategic a fit for its portfolio. The oil-rich asset is currently self-funding and free cash flow positive, which enables it to fuel both oil production growth as well as earnings growth for EnCana. It's a nice fit within an already compelling liquids-rich portfolio.

EnCana is finally turning the corner. While higher natural gas prices helped last quarter's results, surging liquids production is what will drive EnCana higher. That drive took a nice turn last week thanks to the acquisition of Freeport-McMoRan's oil and gas business. EnCana looks like it is finally headed in the right direction, which is very good news for its investors.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:FCX (Freeport-McMoRan Inc.)

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