3 Reasons to Buy EnCana

Description

images (5) Image not found or type unknown Few names in the oil patch have performed as well as **EnCana** (TSX: ECA)(NYSE: ECA). The stock is up more than 30% year-to-date thanks to higher commodity prices, a new management team, and a winning turnaround strategy. It's only natural to think that the train has already left the station.

However, EnCana's turnaround effort is still a long way from completion … and that leaves shares with plenty of untapped upside. Here are three reasons to buy the stock even if you've missed the rally.

1. The turnaround is picking up momentum…

Since taking the helm of the company last year, CEO Doug Suttles has prescribed a healthy dose of tough medicine for the struggling company. In the nine months since, EnCana has announced massive job cuts, slashed its dividend, and sold off assets.

In an effort to become a leaner operation, EnCana laid off about 20% of its workforce, consolidating offices in Calgary and Denver while closing its Texas branch. Altogether the company has cut 800 jobs this year as part of its restructuring plan. Shareholders have been forced to share in the pain as well after the company slashed the dividend 65% in a bid to conserve cash.

Suttles has also sold off vast swaths of low-returning natural gas assets in a bid to boost profitability. In recent months, EnCana has disposed of its properties in Wyoming's Jonah field for $1.8 billion and some in Texas for $530 million. EnCana may sell more natural gas assets as it attempts to further transition its portfolio into oil and liquids plays.

Bay Street is obviously on board with the plan. Since Suttles announced the turnaround strategy in November, EnCana has added $4.75 billion to its market capitalization. And with a little help from higher natural gas prices, those results are starting to show up on the bottom line. The company swung back into the black during the first quarter, posting a $116 million profit, or $0.16 per share, versus a loss of $431 million, or $0.59 per share, during the same period last year.

2. …but there’s plenty of work left to do

However, we’re still in the early stages of EnCana’s turnaround effort. Suttles’ new plan involves whittling down the company’s sprawling asset portfolio to just six liquids-rich plays — namely the Texas Eagle Ford, the Alberta Duvernay, the British Columbia Montney, the Colorado DJ Basin, the New Mexico San Juan Basin, and the Tuscaloosa Marine shale in Louisiana.

This plan calls for boosting production of more profitable oil and natural gas liquids by 30% in 2014. EnCana is aiming to have 20% of its overall production mix from oil and liquids by the end of the year. Natural gas will make up the remaining 80%.

Yet despite all of the progress EnCana has made, 2014 is only a transition year. The real excitement doesn’t begin until 2015 and beyond. By 2017, the company is hoping that these numbers will look a lot more balanced, with one third of its production from oil, one third from natural gas liquids, and the remaining third from natural gas. This means the stock still has lots of untapped potential.

3. Energy mergers and acquisitions are heating up

Thanks to a surge in energy prices, Calgary investment bankers are once again busy. The total enterprise value of all M&A transactions during the first quarter totalled $8.6 billion, up 70% from $5 billion during the same time last year.

This couldn’t come at a better time for EnCana shareholders. The company still has to unload vast swaths of natural gas assets in order to complete its turnaround effort. A strong M&A market ensures that these deals will be completed in a timely fashion and will secure the top price for shareholders.

That should also allow EnCana to score big with its **PrairieSky** initial public offering. Last week, the company boosted the IPO value by as much as $600 million to $1.46 billion, suggesting that there’s plenty of interest amongst investors. The deal, slated to close by the end of May, is now expected to be the largest Canadian IPO in 14 years.

The bottom line: Don’t let EnCana’s recent rally dissuade you from buying the stock. The company still has plenty of potential catalysts that could continue to send shares higher.

CATEGORY

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