Encana's Cashing in on Natural Gas; How You Can Benefit Too

Description

Encana's (TSX: ECA)(NYSE: ECA) turnaround plan is focused on one thing: growing its oil and natural gas liquids production. That shift has seen the company spend billions to drill liquid-rich wells. Furthermore, Encana has reshaped its portfolio by jettisoning gas assets in favor of oil assets. That being said, the company's next natural gas asset sale likely won't be about exiting gas. Instead, that sale could see the company cash in on an asset that just hit peak value.

default watermark

Rumours are getting louder

Earlier this year, Encana said it was planning on [jettisoning its Deep Panuke asset] as it didn't fit within its new strategy. The offshore natural gas project had just finally hit full production after three years of delays. At the time it was thought to be worth about a billion dollars. However, the company ended up holding on to Deep Panuke. This turned out to be the best decision, as surging natural gas prices this past winter made Deep Panuke a key asset in fueling Encana's strong first quarter.

During the first quarter, gas from Deep Panuke fetched $19.14 per Mcf as natural gas prices spiked in America's northeast due to the bitterly cold winter. Those surging prices enabled Deep Panuke to contribute more than 30% of Encana's $1.1 billion operating cash flow in the quarter. That's despite the fact that it only represented about 9% of the company's total production.

Needless to say, Deep Panuke has proven to be more valuable than previously thought. Because of that, Encana is again exploring the possibility of cashing in its chips by selling this asset. However, this time the offshore project is now thought to be worth as much as $2 billion. Encana would love to cash in this asset as its value is at its peak right now.

Oil on its mind

Because Encana doesn't see natural gas fueling its future, the company has focused on getting those assets off its books. According to Bloomberg, Encana has announced $7.3 billion in deals so far this year as it reshapes its portfolio. However, these deals haven't been just about cashing out of gas, as Encana has also acquired assets that improve its liquids production profile. That's why its most notable deal so far was the acquisition of oil-rich assets in the Eagle Ford Shale from **Freeport-McMoRan Copper & Gold**

(NYSE: FCX).

The $3.1 billion deal was a good one for both companies, as Freeport-McMoRan was able to cash in on an asset that didn't fit within its portfolio. Going forward, Freeport-McMoRan's main focus will be on long-life, cash-flow-rich assets like deepwater projects in the Gulf of Mexico. On the other hand, the Eagle Ford Shale is exactly the type of asset Encana wants as it can fuel quick oil production growth. In fact, the deal with Freeport-McMoRan doubles Encana's current oil production while also providing the company with a large number of future well locations that it can drill to keep production growing at a healthy clip.

What's next?

Because Encana's future is focused on oil and natural gas liquids, cashing in on Deep Panuke at the height of its value makes a lot of sense. Encana could then use the cash to move the needle to really grow oil production. That could come from another acquisition in an area like the Eagle Ford, or it could use the funds to accelerate its oil production growth by drilling even more wells than are currently in its plans.

CATEGORY

1. Investing

TICKERS GLOBAL

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

default watermark

Category

1. Investing

Date
2025/10/01
Date Created
2014/07/22
Author
mdilallo

default watermark