



The Window to Buy This Bargain Bin Stock Is Closing Fast

Description

Investors who took my advice to buy **Encana** (TSX: ECA)(NYSE: ECA) last year are up double-digits today, and there's even more upside ahead.

Last year, I highlighted just [how absurdly cheap the natural gas producer was at the time](#). While few believed he could succeed, I thought Chief Executive Doug Suttles' plan to shake up the firm could be a catalyst for the stock.

Today, a turnaround is taking shape. Short-sellers are scrambling to cover their positions. Bay Street is starting to buy into the new plan — and your window to earn a low-risk, triple-digit return is closing fast.

Let me explain...

As regular readers know, times have been turbulent at Encana. After spinning off its oil assets in 2009, the company was left completely exposed when natural gas prices collapsed. The stock was almost abandoned by the investment community.

However, after taking over late last year, Encana's new CEO, Doug Suttles, has taken the tough measures needed to turn the company around. He has sold off dozens of unprofitable properties, laid off thousands of employees, and slashed the dividend to shareholders. Non-core assets, such as the company's Alberta power plant and title royalty lands, have also been spun off or sold.

His ultimate vision is to transition Encana away from producing low-priced dry gas to more profitable oil and natural gas liquids. He wants to whittle down the company's sprawling asset portfolio to five core properties: the Montney, the Duvernay, the DJ Basin, the San Juan Basin, and the Tuscaloosa marine shale. In May, Suttles pushed even deeper into the oil business after he purchased 45,500 net acres of land in the South Texas Eagle Ford for U.S.\$3.1 billion.

After reviewing the company's second-quarter results on Thursday, one thing is clear: This turnaround is playing out far faster than anyone predicted.

Oil production rose 49% to 34,200 barrels per day. Natural gas liquids output climbed 38% to 34,000

barrels per day. After citing strong operating results, management boosted its year-end cash flow and production guidance.

With all of this cash flowing in, the company's biggest problem is what to do with it all. Encana said it had about \$2.7 billion in cash and cash equivalents at quarter-end, bolstered by proceeds from spin-offs, asset sales, and strong free cash flow. During the call Suttles joked, "[Encana's Chief Financial Officer] Sherri [Brillon] is trying to find a bigger closet to put all the money in."

Originally, management was hoping oil and liquids would account for two-thirds of Encana's production mix by 2017, versus only about 25% today. However, Thursday's report will move the timetable on that plan up significantly. Suttles admitted that Encana's makeover is running one or two years ahead of schedule.

If you don't buy this stock now, you'll hate yourself later

For investors who have missed the run, it's still not too late to participate in the company's turnaround. While the easiest gains are over, Encana's shares are still cheap relative to its peers. Higher liquids production and even a possible dividend hike all provide potential catalysts.

However, today's announcement means that the window to purchase the market's last bargain bin stock is closing fast. This turnaround is now going to play out over months, not years as originally expected. In my opinion, the time to buy is now.

CATEGORY

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