3 Reasons to Get Excited About Encana Corporation

Description

Few stocks in the energy sector have performed as well as **Encana Corporation** (TSX: ECA)(NYSE: ECA). Shares of the natural gas giant are up 25% for the year to date thanks to a new management team, a winning turnaround strategy, and higher commodity prices.

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It's only natural for prospective shareholders to feel like they've missed the boat. However, these are still the early innings of Encana's turnaround bid, and that means the stock still has plenty of upside potential. Here are three reasons to buy the stock even if you've missed the rally.

1. The turnaround is working

Since taking over at Encana last year, Chief Executive Doug Suttles has prescribed a healthy dose of tough medicine for the hobbling company. Over the past year, he has sold off vast swaths of low-returning assets, slashed the dividend 65%, and laid off over 800 employees. His ultimate vision is to whittle down Encana's sprawling asset portfolio and transition to a more profitable oil and liquids-rich production mix.

This corporate makeover was expected to play out over the next few years. However, last quarter, Encana revealed that this turnaround effort is now one or two years ahead of schedule.

Thanks to a robust mergers and acquisitions market, the company was able to sell off its natural gas properties far faster than anyone anticipated. Also, a big bet on the liquids-rich Texas Eagle Ford has allowed Encana to ramp up higher-margin oil production.

Yet in spite of the progress the company has made, 2014 is only a transition year for Encana. The real excitement doesn't begin until 2015 and beyond when the company hopes to balance its production mix into one third each of natural gas, condensate, and oil. This will produce a huge bump in cash flow at current commodity prices.

2. The company is gushing cash flow

Last quarter, Chief Financial Officer Sherri Brillon also noted that Encana is no longer out spending its cash flow, and expects to generate about $500 million of free cash flow this year. With the company's coffers bulging, investors are asking whether management will make more acquisitions, add to its capital spending budget, or increase the dividend.

"Actually, the first thing Sherri is trying to find is a bigger closet to put all the money in," Suttles joked in the call. However, it's a serious point. Ramping up growth or increasing the dividend could be a new catalyst for the stock .

3. The smart money is moving in

Wall Street is clearly on board with his plan. Since the company announced its turnaround strategy back in November, Encana has added $3.8 billion to its market capitalization.

Some of the world's smartest money managers are also buying. Last quarter, SEC filings revealed that billionaire investor Ken Griffin had accumulated a $263 billion position in Encana common shares and call options. Other notable money managers, including Steven Cohen, Israel Englander, and Daniel Bubis, also initiated or increased the size of their position in the stock.

The bottom line: Don't skip Encana because of the recent rally. There are still a number of catalysts that could drive shares higher.

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Date
2025/07/05
Date Created
2014/08/13
Author
rbaillieul

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