3 Reasons EnCana Corporation's Stock Could Rise

Description

The future is finally starting to look bright for **EnCana Corporation** (TSX: ECA)(NYSE: ECA). Its new management team has a plan that is starting to turnaround the company's fortunes. The early successes of that plan have pushed the stock up around 40% in the past year. However, as nice as those gains have been, the company could deliver even higher gains in the years ahead. Here's why.

Getting oilier

Earlier this year EnCana acquired **Freeport-McMoRan Inc's** (NYSE: FCX) Eagle Ford Shale assets for US$3.1 billion. It was a deal that made sense for both companies as it enabled Freeport-McMoRan to cash in on assets that didn't fit within its business model. Meanwhile, the deal doubled EnCana's oil production and provided it with a proven oil asset to drive future growth as more than 400 drilling locations remain.

In addition to the Eagle Ford Shale, EnCana has emerging oil positions in the San Juan Basin, DJ Basin and Tuscaloosa Marine Shale. All three have the potential to eventually produce 50,000 barrels of oil equivalent per day and strong rates of return in excess of 40%. As full field development begins in these plays, it could fuel further stock gains as oil production and profit margins should both rise.

Exploration upside

With the addition of the Eagle Ford Shale, EnCana now has six core growth plays. However, the company is still really early in the development of all six plays. That leaves it with the opportunity for future appraisal and exploration drilling to uncover additional upside. For example, producers in the Eagle Ford Shale are testing areas above and below the shale looking for stacked pay zones, which are additional layers of oil and gas saturated rocks. Additional finds within EnCana's acreage would extend the company's growth potential beyond what it currently sees, which could provide a boost to its stock price.

Dividend should start heading higher

The move toward oil and other highly valued liquids is having a noticeable impact on EnCana's bottom line. Because of this EnCana is no longer outspending its cash flow and will actually generate more than $500 million in free cash flow this year. That free cash flow will allow EnCana to finally start to increase its dividend.

In the past, dividend increases had provided EnCana's stock with the fuel it needed to head higher. Look at the stock's early days and notice how each dividend increase seemed to push the stock higher.

EnCana Corporation Dividend Chart

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Future dividend increases could again provide the fuel the stock price needs to head higher.

Investor takeaway

EnCana is beginning to turn around its business as its focus on higher valued liquids is paying off. While EnCana's stock has risen a lot over the past year, it could keep going higher with increased oil production, exploration upside and a rising dividend being the key drivers to push its stock price higher**.**

CATEGORY

1. Dividend Stocks

TICKERS GLOBAL

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

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