



EnCana Corporation Is Selling PrairieSky Royalty Ltd.; Here's What It Could Buy in Its Place

Description

EnCana Corporation (TSX: ECA)(NYSE: ECA) recently announced that it plans to unload its entire stake in recent spinoff **PrairieSky Royalty Ltd.** ([TSX: PSK](#)). It's a move that could net the company over \$2.6 billion. Once that sale is complete, it plans to put its multibillion-dollar war chest to good use by acquiring additional oil-rich assets. Let's take a closer look at what it might buy.

EnCana's plan

According to a report in Bloomberg, EnCana plans to be "opportunistic" in acquiring new assets or adding to existing ones following the sale of its interest in PrairieSky Royalty. The cash infusion from the sale will give it flexibility to either acquire bolt-on assets to bolster one or more of its six core operating areas or even the ability to add a new core area to its portfolio. One thing is certain: It will have quite the war chest to really move the needle of the company.

We saw what it can do with its balance sheet flexibility with the **Freeport-McMoRan Inc.** ([NYSE: FCX](#)) deal earlier this year that added the Eagle Ford Shale to EnCana's portfolio. The company spent US\$3.1 billion for the position and was able to basically double its oil production overnight. While it likely won't be able to find another deal to double its oil production again, that doesn't mean it won't be able to really move the needle toward higher-margin liquids.

Options galore

EnCana's best option would be to bolster its position in core basins that it already knows well. Topping the list would be to expand upon its position in the oil-rich Eagle Ford Shale. It certainly has the capital to make a large strategic deal in the play, and there are a couple of notable assets that could be had for the right price. For example, **Pioneer Natural Resources** ([NYSE: PXD](#)) is open to selling its Eagle Ford Shale assets if it received a compelling offer. Meanwhile, small Eagle Ford Shale-focused driller **Penn Virginia Corporation** (NYSE: PVA) is being pushed by activist investors to sell itself to the highest bidder. Either deal would make an ideal addition to EnCana's Eagle Ford Shale position.

Another option it could consider is adding another new core position in case one of its emerging assets doesn't turn out to be as good as expected. If EnCana chooses this path, it could consider entering the Permian Basin in Texas. The legacy oil basin has already pumped out over 29 billion barrels of oil in the past century, but it could still hold 75 billion barrels of additional recoverable oil according to Pioneer Natural Resources. The basin is also filled with private operators that are looking to cash in on the switch to horizontal drilling there, so EnCana should have no shortage of acquisition opportunities if it chooses to expand into the Permian.

Investor takeaway

EnCana is in a really good spot right now. Its turnaround is starting to bear fruit as it's expected to be cash flow positive by the end of the year. After completing the sale of its interest in PrairieSky Royalty, its balance sheet will soon be flush with cash, enabling EnCana to take its growth to another level. This certainly makes it an exciting time for its investors.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:FCX (Freeport-McMoRan Inc.)
2. NYSE:PXD (Pioneer Natural Resources Company)

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