



## 3 Reasons to Buy EnCana Corporation

### Description

Investors who took my advice to buy this natural gas stock are up by double digits today, but there's a lot more upside ahead.

Last year, I highlighted the changes that were taking place at **EnCana Corporation** (TSX: ECA)(NYSE: ECA). At the time, I was impressed by CEO Doug Suttles's plan to turn around the struggling energy giant. And since that original piece, the stock is up 40%, more than twice the gain of the **S&P/TSX Composite Index** over the same time.

Yet despite the run higher, it's not too late to buy this stock. EnCana shares could easily deliver another 50%-plus return over the next 12 to 18 months. Here's why.

#### 1. The turnaround is working

Doug Suttles has prescribed a hearty dose of tough medicine. Over the past year, he has slashed the dividend by 65% to conserve cash, sold off vast swaths of land to boost returns, and laid off over 800 employees to improve profitability.

Suttles's ultimate goal: to whittle down EnCana's sprawling asset portfolio and transition to a more profitable liquids-rich production mix. And the effort is already showing up in the company's financial results. During the first quarter, EnCana posted a \$116 million, or \$0.16 per share, profit, versus a \$431 million, or \$0.59 per share, loss during the same time last year.

#### 2. The window to buy is closing fast

Your opportunity to buy this stock at a discount is closing. Last quarter, Suttles revealed that the company's turnaround is expected to be completed one or two years ahead of schedule. Thanks to a strong mergers and acquisitions market, EnCana has been able to easily sell off non-core assets and ramp up oil production.

During the previous conference call, management also noted that EnCana was no longer outspending its cash flow. With its coffers bulging, EnCana could make an acquisition, boost the dividend, or

increase its capital spending. Those would all be big catalysts for the stock.

### 3. The smart money is moving

Bay Street is on board with the plan. Since Suttles announced his turnaround strategy last fall, EnCana has added \$4.6 billion to its total market capitalization. The stock is also starting to close the discount relative to its peers on several financial metrics.

The world's smartest money managers are also backing EnCana's turnaround effort. According to recent SEC filings, a number of respected hedge fund managers, including Steve Cohen, Louis Bacon, and D.E. Shaw, increased the size of their positions in the stock last quarter. And in July, FirstEnergy Capital initiated coverage on the company, highlighting EnCana as its top pick in the oil patch.

What could have all of these Wall Street titans so excited? I'd say it could only mean one thing: They see a lot of upside ahead.

#### CATEGORY

1. Investing

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#### Date

2025/07/05

#### Date Created

2014/09/15

#### Author

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